

New
Philanthropy
Capital

A funder journey

**Scaling up the Stone
Family Foundation**

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Executive summary

Experienced funders often grapple with the question of what is 'effective' or 'strategic' funding. For new philanthropists starting out on their journey, these questions can be even more daunting. New funders setting up a foundation are also confronted by an extra set of questions on what areas to fund, what kind of grants to give, and how to structure and deliver their funding. Unfortunately, there is no standard set of answers to these questions. Each funder will be influenced and shaped by their different resources, size, priorities and objectives, and by how these then relate to external opportunities and needs.

When the Stone Family Foundation was set up in 2005, with an endowment of just under £50m, the Stone family approached New Philanthropy Capital (NPC) for help in developing the foundation's strategy and managing its grant-giving. Since then, NPC has worked with the family to help identify the areas they want to support and the way they want to fund. This has led to a significant scaling-up of the foundation's funding to a target of £5m each year and a strategic focus on market-based solutions in the water and sanitation sector.

While the exact journey may be specific to the Stone Family Foundation, the general process it took—starting out, planning, delivering, learning and then adapting—will be relevant to other funders grappling with some of the same questions about how to become an effective funder.

Starting out

At the start of their journey, funders benefit from taking time to identify their main interests and priorities and having a clear sense of what resources they have at their disposal. This does not just mean money, but also skills and time. It is also useful to get a sense of whether there are any particular areas where funding can have most impact. To help the Stone Family Foundation explore these questions, NPC put together a learning portfolio of different organisations that spanned a number of themes and geographies, which the foundation funded over three years. This experience fed into a 2010 strategy review that established an annual spending target of £5m, focused international funding on water, sanitation and hygiene (WSH), and committed the foundation to take an engaged and strategic approach.

Planning

Once the general parameters are set, funders can benefit from setting out an explicit strategic direction to focus attention on high-impact areas, as well as a specific plan to help structure how they deliver their funding and select grantees. In WSH, the Stone Family Foundation decided to focus on innovative and entrepreneurial 'market-based solutions', supporting them to improve and grow their work. The potential impact of these approaches is high, and there is a clear need for grant-funding to help promising initiatives refine their model and scale. It is also a strong fit with the resources, interests and skills of the trustee board. As a first step towards developing the foundation's funding in this area, NPC designed a 'major-grants programme', targeted on three countries, which would carry out in-depth analysis of different funding options and ultimately award six grants of £1m.

Delivering

Delivering a funding programme provides the opportunity to test hypotheses, put plans into action, and build up a portfolio of grantees and experience. From November 2010, NPC helped the foundation's trustees to identify and select five core grantees across Cambodia, Zambia and Tanzania. For each grantee, the foundation put in place monitoring and evaluation systems to ensure that it could monitor and learn from the progress of its funding.

Learning and adapting

Even when funders have started to implement and deliver their funding, it is still important to continue learning and refining their approach. This allows them to adapt and improve the way that they fund, responding to their deeper experience and any changes in the funding environment. For the Stone Foundation, the lessons learnt from implementing the major grants programme influenced the shape of its subsequent WSH funding. So while it maintains its focus on market-based solutions, it is developing two further grant programmes: one focused on early stage innovation; and the second exploring ways to increase access to business skills and sustainable finance for organisations looking to develop and scale their models. It is also experimenting with different ways to structure and deliver its grant programmes—including setting up an international prize scheme to award up to five prizes of £100,000 to innovative and entrepreneurial drinking water schemes.

The foundation's scale-up is still in its early stages. By no means has NPC and the foundation got everything right, but we are developing an approach which works for us, and we believe it makes the foundation more effective. It is not a template for everyone, but by setting out our journey and some of the questions and challenges we have addressed, we hope it will help more people think strategically about their giving and the impact they can have, and also encourage them to share their experiences.

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Introduction

This report is part narrative, part guide and part toolkit. It tells the story of the first stages of the Stone Family Foundation, a UK-based family foundation that has scaled up its funding to almost £5m each year and built up a portfolio of grantees around the world in three thematic areas: mental health, disadvantaged youth and water and sanitation. This report sets out the strategic development of the foundation's thinking (focusing on water, sanitation and hygiene) and explains how NPC has helped carry out the day-to-day management of the foundation.

The main aim of this report is not just to tell an interesting story, but to provide an insight into some of the thinking and the process that have gone into the work of the foundation in the hope that it will help other funders and non-profits on their journey. Funders face common challenges and opportunities across different sectors and geographies, grappling with questions about how to develop their strategy or identify charities to support. By setting out the main issues we have come up against, the process and the thinking that the Stone Family Foundation trustees and NPC have used, and the lessons that we have learnt, we hope to provide a useful guide for others—particularly small to medium-sized funders.

Where possible, this report also includes tools and resources that we have used at NPC to inform and develop the foundation's funding—such as the analytical frameworks we have used, and examples of template documents. These should provide practical and concrete help for other funders.

The four sections of this report set out the key stages of the foundation's journey:

- **Starting out:** Section 1 explains how the foundation used a 'learning portfolio' to identify passions, develop funding priorities and find out more about the funding environment.
- **Planning:** In Section 2, we set out the research and analysis that helped to set the strategic direction of the foundation, and explain how it built up its initial grant programme.
- **Delivering:** Section 3 looks at how the foundation implemented its first grant programme, identifying potential candidates, analysing them, and then deciding on a final portfolio. It also describes the foundation's monitoring and evaluation frameworks.
- **Learning and adapting:** Section 4 looks at what the foundation has learnt about its role and its funding, and how this has helped it to adapt its funding strategy and grant programmes.

These four sections tell the story of the foundation's journey to date, roughly in chronological order. In each section we set out some of the main questions the foundation has considered when developing its approach. The reality was not quite as smooth and structured, and the story continues. Funding streams are still being developed and strategy is being refined and improved as the foundation learns more and as the wider environment continues to change.

The Stone Family Foundation's approach is not the only model of philanthropy or necessarily the best. Each funder will be influenced and shaped by their different resources, size, priorities and objectives. If all funders funded in exactly the same way, we would lose the richness that a variety of approaches brings. Yet hopefully the way that the foundation has addressed certain core questions around strategic philanthropy, and the lessons it has learnt will prove useful for other funders that are setting out on their journey, and for those that are well on their way.

1. Starting out

For new philanthropists, thinking about their giving or setting up a foundation can be a daunting process. It is often a completely new terrain for them, filled with jargon, acronyms and unfamiliar concepts. And while inspired by a desire to give and improve people's lives, new funders can lack a clear idea of what they want to fund and how they want to fund. Answering these initial questions can be important in setting the tone and the direction for funding.

This initial uncertainty was true for the Stone Family Foundation, which was set up at the beginning of 2005 by John Stone and his wife, Vanessa. John is a serial entrepreneur and businessman. When he sold his company Lombards, he decided to put around £50m into a new family foundation, based at Coutts Private Bank.

Like many donors, the Stone family had no strong idea of how to focus and structure their funding. They just knew that they wanted to have the greatest impact they could on people's lives to relieve deprivation. They had a general sense that they primarily wanted to fund internationally, to get the most 'bang for their buck', but they had no specific ties to a particular country or issue.

John and Vanessa asked NPC to help them start out on their funding journey by providing strategic advice and supporting them with the day-to-day management of the foundation. This relationship continues in 2012: the trustee board sets the foundation's strategic direction and vision, while NPC provides input, advice and operational support to put the strategy into place and run the work of the foundation. Coutts manages the finances of the foundation, and sits on the trustee board to provide extra input and advice.

Key questions to ask

1. **What are your main interests, passions and motivations?** This can include a particular issue, or geography, type of intervention, or combination of all.
2. **What are the main resources you have?** This is not just financial resources, but also the foundation and trustees' skills, time and wider contacts.
3. **What do you want to achieve?** Do you want to focus on supporting individuals and communities, or maybe influence government policy, or support innovation?
4. **What kind of funder do you want to be?** This cuts across a number of axes, such as: level of engagement with grantees, breadth of focus, structure of grants.
5. **Can you see any areas where you feel your money can have most impact?** At a high level, are there any particular areas that seem to stand out from others in terms of the severity of need, and opportunities for funding?

Starting from a blank sheet

When developing a funding strategy, it is useful to think about **external factors** (such as need, other funding and opportunities) and **internal factors** (such as available money, passions, knowledge and non-financial resources). These factors often intersect at the most productive and effective area of philanthropy.

In many cases, these factors are not immediately obvious, emerging instead through a process of testing and experimentation. So we began working with the family by putting together a

learning portfolio of charities, designing a process to engage the trustees, and learning from this process to inform the foundation's future strategy.

A learning portfolio

Drawing on our networks and recommendations from experts, we identified a group of potential grantees for the Stone family to consider. We carried out initial due diligence on each NGO and the specific funding opportunity for the foundation, and from this pool, the trustees selected an initial 'learning portfolio' of ten NGOs to support. An emphasis was placed on ensuring the diversity of this portfolio to provide multiple opportunities to learn.

Between 2006–2010, the foundation supported a broad range of initiatives, including education projects in Laos, microfinance in Malawi, water in Bangladesh, mental health in the UK, and livelihoods in Cambodia. The types of work included direct service delivery, capacity building and advocacy, and partners ranged from large international NGOs to local outfits.

As this was the foundation's first step into funding, grant sizes were relatively small at around £50,000 to £100,000 over two or three years. This gave the family time to see how the projects developed. Over time, they added more projects and in some cases, provided follow-on grants, often at a significantly larger scale.

A learning approach

Once the portfolio was in place, the priority was to build up the trustees' experience and get them to a place where they could identify a strategic direction for the foundation and work out what kind of funders they wanted to be. Simply writing cheques was not going to be enough. Instead, the foundation aimed to engage as much as possible with its grantees, and to learn from other experts and funders.

Learning from grantees

The foundation asked its grantees for monitoring reports every six months, and it used annual milestones to track progress. These reports and milestones were discussed at trustee meetings and gave the trustees an opportunity to understand the development of each project in more detail. Where possible, each trustee meeting was attended by at least one person from a grantee organisation, in order to answer questions and update the foundation on progress or problems.

One of the most successful aspects of the foundation's engagement with its grantees was when trustees were able to carry out field visits. Over the foundation's first four years, the trustees visited every project they funded. These visits involved meeting staff, management, and the people involved in the projects, and generally gaining a deeper appreciation of the context and the landscape.

Learning from experts and funders

As well as learning from their first grantees, the Stone family also learnt from sessions that NPC and Coutts ran on various topics, such as microfinance and water and sanitation. This included introducing them to experts in the field to discuss particular issues and interventions.

The trustees were particularly interested in exploring the idea of funding in partnership with other foundations, thinking about the extra leverage and efficiency that such a partnership could bring to their funding, as well as learning from another funder's methodology and approach. So the trustees also experimented with a co-funding arrangement with a major international funder, the Children's Investment Fund Foundation (CIFF).

Lessons learnt

Running the learning portfolio provided a valuable way for trustees to build up a perspective on the types of areas they wanted to fund, and the type of funder they wanted to be. It also gave a deeper and more textured picture about some of the challenges and opportunities in funding.

From this experience, it is possible to highlight four key areas of learning.

- Several themes and interests recurred across the portfolio.
- The strongest relationships with grantees were based on a shared vision and an open partnership.
- A lack of data made it difficult to assess projects and develop funding relationships.
- It took a lot of time and energy to manage a complex portfolio.

Recurring themes and interests

Across the diverse portfolio, a number of issues and interests consistently emerged—either through the reports from grantees, or as particular interests for members of the trustee board.

- **Water, sanitation and hygiene:** Projects working in girls' education spoke of how poor latrine facilities at schools reduced attendance, and health projects flagged up the high-incidence of waterborne diseases. When trustees visited projects, the lack of clean water and sanitation made a particularly strong impression.
- **Microfinance:** This was an area of particular initial interest given the trustees' experience in business. One grant focused purely on microfinance, and other grants included some microfinance components. The potential of microfinance seemed clear, at least when judged on the criteria of financial inclusion, but the lack of evidence of its wider social impacts, and the danger of extending credit to low-income households, posed recurrent questions for the trustees.
- **Sustainability and scalability:** Sustainability was a recurring issue in that it was rarely mentioned, beyond asking for more funding. When it was referenced, explanations lacked a clear and detailed model of how this sustainability was going to be achieved. Data was often missing to help back up arguments, and grantees rarely had a strong track record in assessing the sustainability of their own projects. Questions about sustainability raised issues of scale, and many of the NGOs did not feel very ambitious about growth.
- **Government:** Grantees regularly spoke of the importance of government—particularly local government—and the significant influence that governments have on projects. With one education project, the government banned the NGO from accessing schools as its model was seen as a direct competitor to the national curriculum.

Shared vision and an open partnership

It also became clear that the trustees gained the most value and felt most involved when grantees shared their vision, ambition and approach, and where relationships were open and transparent. While the foundation was keen not to be directive, it felt more comfortable when there was strong engagement and a sense of partnership.

The trustees were looking to support strong organisations that had an ambitious, dynamic and rigorous approach, were well managed and strategic, and could communicate their vision and work clearly. In many cases, it was easier to find this within smaller organisations, where trustees could feel a greater sense of involvement and feel like they were supporting an organisation on its journey.

The trustees felt much more involved and engaged when grantees were open about their work, flagging up problems as well as highlighting what was going well. This meant that the trustees could build trust in the organisation and be more confident in their decisions.

Building relationships was challenging at times, particularly for overseas organisations. Often, the foundation's main point of contact was a fundraiser, and this could be a bottle-neck of information: many fundraisers either did not know the details of the project, or were reluctant to convey information that might reflect badly on the project's success.

There were sometimes delays when it came to accessing information and data, and part of this was due to grantees' limited capacity, so the foundation tried to be proportionate in its requests. However, even larger international NGOs—with more developed systems and greater resources—found it challenging to deal with a private funder that wanted to engage on a more practical and granular level.

Lack of data for assessment and decision-making

The foundation found that there was a general lack of information available to help them track the progress of their grants. Monitoring documents were often sparsely populated, and proposed milestones were minimal. Part of this was due to the foundation not setting rigorous monitoring requirements, but it also reflected the fact that often organisations were collecting little data beyond that which would meet funders' needs.

Some could not fully demonstrate what their projects were doing and achieving, and could not explain the efficiency and costs of different aspects of their projects, such as financial data in microfinance work. One organisation even produced fraudulent data.

This lack of information not only affected the foundation's ability to assess the impact of their funding, but it also raised questions about some grantees' ability to manage their own activities efficiently. What is more, the lack of information went beyond individual grantees—it was difficult to find data in the sector more broadly, making it difficult to discuss the relative merits and impact of each project.

Time and energy

Over these first few years, NPC and the foundation's trustees learnt a lot about the time and energy required to manage, govern and run the foundation and its large, diverse portfolio. We met around once a month to review and monitor grantees. Yet as the portfolio grew, this became more challenging, and a three-hour meeting would be taken up just reviewing update reports since the last meeting.

There was therefore little time for trustees to engage with the wealth of information they were faced with. And as their funding spanned multiple countries and themes, it became difficult to develop their expertise and feel as if they could properly understand and assess the different grants, and make informed decisions on new grantees.

Developing a new approach

In the summer of 2010, the trustees asked NPC to review the foundation, both to get a clearer idea of what it had achieved, and to help set a strategic direction for the future. The 'learning portfolio' approach had brought value to the foundation, but it had run its course, and there was a general sense from John, Vanessa and their children, Charles and Sophie, that it was time to move on to the next stage of the foundation's development.

NPC analysed the data and records of the portfolio and the foundation, and interviewed the trustees and their advisors. We also reviewed the work of similar foundations. This resulted in a series of overlapping strategic decisions to increase the impact of the foundation.

Increasing impact

The trustees were clear that their primary goal for the foundation was to achieve the most impact possible, and they also wanted to identify more clearly their passions and interests. Other concerns, such as building an external profile and strengthening family ties, did not feature heavily at all. To achieve greater impact, the trustees decided to increase their annual spend, focus on fewer topics, become more strategic, and scale up and streamline their work.

Increase annual spend to £5m a year

The trustees were keen to set an annual spending target of £5m. This was a significant increase from the £1.2m allocated in 2010, but not unrealistic given the size of the foundation's endowment. The trustees were prepared to run down the endowment slightly over the following three years to create a strong funding programme, with the expectation that more assets would be added to the foundation over time. Over time, the foundation is likely to grow to £100m.

At the same time, the trustees did not want to increase significantly the number of NGOs that they supported. Instead, they wanted to give larger grants, potentially up to £1m each. This again was a significant change for the foundation, which had historically given much smaller grant sizes. This was partly because trustees were more comfortable giving smaller amounts early on when they felt less experienced. It was also because trustees felt a stronger connection with smaller NGOs, and so were limited by the amount of funding that these grantees could safely absorb.

Focus on fewer issues

The Stone family appreciated the benefits of specialising in a few issues, so they wanted to identify a smaller number of thematic areas to focus on. In this way, they could develop their experience, expertise and networks, which in turn would make it easier to find NGOs, analyse candidates, and ultimately help the trustees to feel more knowledgeable and confident when making decisions and assessing progress. Having a more coherent portfolio of grantees could also help to develop links between NGOs and develop the foundation's links with other funders.

The trustees identified four initial priority areas and allocated a targeted spend against each:

- **water and sanitation in developing countries:** £3.5m a year;
- **adult mental health in the UK:** £600,000 a year;
- **disadvantaged youth in the UK:** £400,000 a year; and
- **other causes:** £500,000 a year.

Be more strategic and targeted in each focus area

The trustees were keen to take a more strategic and targeted approach within each focus area. By analysing factors such as levels of need, the wider funding environment, and the foundation's own capabilities, they could identify areas where they could have more impact, and work more efficiently when identifying NGOs to support.

Scale up and streamline the foundation's work

The Stone family wanted to scale up the work of the foundation and run it more efficiently. They increased the level of support they received from NPC, which built up its day-to-day management of the foundation. This included a range of activities, such as inputting into discussions about strategy, sourcing and analysing potential grantees, networking with other stakeholders, and generally fulfilling the role of a foundation's staff.

The trustees did consider hiring their own staff but decided in the end to continue to outsource their grant-making to NPC. They believed that this provided a more flexible and efficient option because it meant that they did not have to worry about hiring or firing staff or the practical aspects of setting up and overseeing an office. It also meant that they could draw on NPC's expertise, including knowledge of working with other funders and drawing on multiple areas of sector expertise.

The trustees also made some changes to streamline their work. They delegated most of the ongoing monitoring of each grantee to NPC, and asked NPC to flag up issues when they emerged. This freed up time during trustee meetings and reduced the material that trustees had to read.

Individual trustees also took responsibility for certain priority areas. This meant that it did not require the whole trustee board to be present when making decisions or meeting experts or charities. John Stone was responsible for the water, sanitation and hygiene portfolio, Vanessa was responsible for mental health, and Charlie was responsible for disadvantaged youth.

2. Planning

Funders that want their giving to be strategic and effective need to take time to develop their approach. This can be frustrating if you are keen to start supporting organisations, but the rewards are considerable. By taking the time to build a detailed picture of the sector you are interested in, understanding how your funding fits within the wider landscape, and identifying promising opportunities, you can help ensure your money will go to areas and organisations where it can have most impact. This background work also helps to build a web of contacts and networks that are invaluable as you start finding charities, giving out money and sharing knowledge.

Part of being a strategic funder means developing a clear sense of what your grant programme will look like, including the size and number of grants, criteria and focus for funding, and the process that you will use to identify and analyse candidates.

For the Stone Family Foundation's water, sanitation and hygiene (WSH) programme, the planning stage involved two main components, which lasted roughly three months. The first stage involved setting a clear strategic direction for the foundation to identify an area where it could make most impact. The second stage comprised of designing and structuring the first WSH grant programme, looking at what kind of grants the foundation wanted to make, and the process it would use—from identifying candidates to in-depth analysis and decision-making.

Some key questions to ask

1. **How strategic do you want to be?** Funders range from being highly strategic with clearly set objectives that they proactively follow, to those who take a more reactive approach and assess applications as they come in.
2. **What are the most potentially high-impact areas?** In your areas of interest, are there any particularly high areas of need where there are also promising initiatives that can make a difference?
3. **Where is there need for your funding?** What will be the marginal impact of your funding—is there already a lot of funding going to these areas, and is your funding the right 'type'? Could other sources of finance—like social investment—be more appropriate?
4. **What is the overlap of these areas with your interests and skills?** Do your interests and skills overlap with any of these areas? Is the type of funder you want to be appropriate in these contexts?
5. **What is the best way to design and structure your grant giving?** Based on your strategic focus and resources, there will be different models of grant giving to explore, for example, reactive vs. proactive or structured vs. rolling programmes.

Setting the strategic direction

The Stone family were not looking for a complicated strategy with clearly defined objectives for the WSH programme. They wanted to remain flexible and responsive. However, it was important to identify an overall strategic direction that would help orientate and focus the work of the foundation and ensure its funding is targeted at high-impact areas.

Our research suggested that the most appropriate focus for the foundation's WSH programme was to support innovative and entrepreneurial approaches that harnessed the power of the private sector. This was based on three hypotheses: firstly, that these market-based approaches had the potential to create a significant impact; secondly, that there was need for philanthropic funding to help promising initiatives to develop and scale; and thirdly, that this area fitted well with the interests and resources of the foundation.

Potential for impact

Market-based solutions to water and sanitation issues have been an emerging area of activity in WSH and in the development space more generally. By trying to establish viable markets for goods and services that have a social good, it is hoped that some of the challenges that plague traditional WSH activities will be overcome. And in turn WSH services will become sustainable, efficient and scalable—making sure that more people have access to better WSH provision and for longer.

Instead of being recipients of charity, poor households become active consumers. More effort has to be put into persuading them to purchase goods and services, with the knock-on benefit that they might actually use them instead of having subsidised toilets that are built and then turned into tool sheds. Overall, communities and individuals who pay will have a greater investment in any scheme. Charging brings in an extra source of income; overall, more attention is placed on the on-going financial model to ensure its sustainability. Clear incentives exist to prioritise efficiency and to keep costs down so that poor households are not priced out.

Establishing a sustainable business model will help to ensure ongoing activity, and hopefully attract other players into the market or help organisations to scale. Depending on the profit line, extra commercial capital or social investment could also be attracted into the market to support growth. Once a market has been proven in urban water purification or latrine emptying there is also the potential for other parties to get involved.

Despite this potential, there are also strong risks and concerns to this approach. Setting up new businesses is hard enough in itself, let alone when those businesses are trying to create new markets in challenging conditions. There are valid concerns that market-based systems will overlook the poorest of the poor, who will always need some kind of subsidy. In an area such as water, there is a difficult argument about the dividing line between public good and commercial commodity.

Need for grant-funding to support growth

The second finding to emerge was that there is an apparent need in the sector for grant-funding for these market-based solutions to help them to refine their model and scale, particularly where these solutions are neither brand new nor well established.

While there was a fair amount of funding available for pilots and innovation, this dropped off sharply when these pilots then sought to refine their model and grow. One phrase we kept on hearing was that *'pilots never fail and never scale'*.

At the other end of the scale, there is funding available for well-established, large-scale initiatives that can absorb significant financing. Large-scale grant-funders, such as the Bill and Melinda Gates Foundation (BMGF), and government development agencies, such as the UK's Department of International Development, can offer significant support. However, the barriers to access this funding can be similarly high, with organisations having to meet certain levels of capacity, size and evidence.

While social investment provides a growing source of finance in the sector, it is also limited by the amount of risk it can take on. There is therefore a distinct role and need for grant-funding to take successful pilots and help them to grow, by developing their evidence base, financial

model and capacity and moving them to a place where they can access large-scale support or social investment.

Good fit with foundation's resources and interests

Providing seed funding to helping market-based solutions grow and scale also fitted well with the resources and interests of the Stone Family Foundation. While £3.5m a year is a significant amount, it would be quickly soaked up by funding piped water systems, or other large-scale infrastructure. Yet it is large enough to help catalyse promising initiatives and take them to the next stage of their development—and hopefully set the scene for large-scale and sustained impact in the future.

What is more, the Stone family have strong business backgrounds, which provide a valuable perspective for analysing and selecting NGOs. It also allows them to support these NGOs with further advice, expertise and contacts.

Designing the grant programme

With the strategic direction set, we turned our attention to the design and format of the first WSH grant programme: the core features, the geographical scope and the NGO selection process.

Core features

The size and number of grants

For the first phase of the WSH funding, the foundation decided to make a target of six grants of £1m each—spread over two or three years. This would be a manageable number of grantees and would provide enough capital to help projects move to their next stage of development. Funding at this scale would also establish the foundation as a credible and valued partner—and justify a level of engagement that would provide opportunities to learn. By the end of the process, £2m of the £3.5m annual budget would be committed, providing a strong core for the whole portfolio, but also leaving some funding remaining to develop further grant programmes.

Alongside the discussion on the size and number of grants, the decision was taken to adopt a structured and in-depth approach to grantees selection that would involve significant levels of due diligence. This was both to ensure that the significant levels of funding were entrusted to strong organisations and to provide another way for the foundation to learn and develop its contacts in the sector.

Type of organisation

The foundation wanted its grantees to be large enough to be able to successfully absorb around £1m over three years. To ensure this, NPC advised that the grant should not amount to more than 30% of the NGO's total income. We did not want the grant to destabilise or overwhelm the organisation's financial management.

On top of these more practical concerns, the foundation was keen to build on the experiences of its learning portfolio and partner with people and organisations that shared its approach and focus, and were entrepreneurial and innovative in their thinking.

Geographical focus

When it came to geography, we had to decide whether to go for breadth (spreading grants across as many countries as possible) or depth (focusing on one region, or a small number of countries). We decided to split the six grants between three or four countries, for several reasons:

- **Local knowledge:** focusing on a small number of countries enables us to get to know local needs, the cultural and social context, and political frameworks—and then keep up-to-date with them over the life-cycle of the grants.
- **Targeted networks:** the foundation benefits from building lasting and solid relationships with other funders, umbrella organisations and experts that work in those countries.
- **Portfolio benefits:** having grantees in the same country has the potential for them to learn from each other and collaborate, and for the foundation to have a wider impact on the whole sector or market.
- **Practical benefits:** concentrating on a small set of countries makes it easier to visit prospective and current grantees.

Identifying target countries

Once we had identified the core features of the WSH programme, we started to narrow down which countries to fund in. To do this we used four main lenses: we wanted the countries to have a high level of need; to have a stable political environment and commitment to WSH; to provide good funding opportunities; and to meet certain practical criteria.

As was often the case, talking to experts and other funders proved invaluable at this stage. For example, the Water Supply and Sanitation Collaborative Council had gone through a similar process for its global sanitation fund and shared the framework it had used, while academics and NGOs, such as Water Aid, shared useful data that fed into our analysis. Where hard data was not available—such as in assessing emerging funding opportunities—we benefitted from a succession of conversations with other funders and sector experts.

Levels of need

The World Health Organization and Unicef collate global figures that set out access to water and sanitation in most countries. There is some debate around the quality and the accuracy of this data, but it gives a sense of the relative need in different countries.

We gave equal weighting to the absolute number of people without access to WSH in a country, and to the proportion of the population without access to WSH. Once we had a clearer idea of the most disadvantaged countries, we looked at their data in more detail to get a more textured idea about the particular type of need in each country—for example, whether it was urban or rural, sanitation or water, or the quality or access to water.

Political stability and government commitment

As a first cut, we ruled out funding in countries where there was profound political instability (such as Iraq and Afghanistan), because the trustees did not want to work in complicated and volatile regions, where the foundation had no knowledge or presence. These countries—with fragmented and under-developed infrastructure and private sector—would also be less conducive for testing market-based solutions.

The experts and funders we consulted emphasised the importance of integrating funding into a coherent, national, political framework, in order to ensure that funding flows were coordinated and to reduce replication. We therefore considered the WSH policy frameworks in different countries. Government commitment to WSH should help to ensure a positive policy environment and additional support for the foundation, and could lead to other sources of funding to help successful initiatives develop and scale.

Funding opportunities

We analysed the level of WSH funding in each country and the emerging opportunities and activity in the voluntary sector. We were keen to target countries that were not saturated with funding but that did have some established funders that we could work with and learn from. Finding data in this area is incredibly complicated.

There is some information from the OEDC (Organisation for Economic Co-operation and Development) about government aid, but to build up a fuller picture, we also had to talk to experts and other funders. These sources were also useful in getting a sense of the emerging funding opportunities in each country, and whether there were enough promising initiatives that would fit the foundation's priorities. One country that was almost selected, Laos, was ultimately left off our list, as we were told that there was a lack of interesting market-based interventions—particularly compared to other countries in the region.

Practical considerations

There were two key practical issues to consider. Firstly, we wanted to choose countries where language and culture would not be a huge barrier and where we would be able to build meaningful relationships with NGOs. Secondly, we wanted to include a range of countries that gave variety in terms of geography, economy type, and priority of water and sanitation, so that the foundation could develop its experience of funding in different environments.

Using all of these four criteria, we chose three priority countries:

- **Cambodia:** Cambodia has one of the worst records on access to rural sanitation, and the highest level of open defecation as a proportion of the total population. The government, through its Department for Rural Public Health, had developed strong oversight and a clear plan of action, but is held back by a lack of resources. On top of this, Cambodia is home to a growing scene of 'sanitation marketing' (selling and marketing low-cost latrines), and a number of organisations are working in the sector.
- **Tanzania:** In Tanzania, levels of need are high in both sanitation and water, exacerbated by quickly growing cities and a highly dispersed rural population, which put huge pressure on a weak infrastructure. Tanzania provides an interesting funding environment as the location of the world's largest Sector Wide Assistance Programme (SWAP) in water and sanitation, where donors are channelling roughly \$1bn through the government's Ministry of Water and into a relatively well-developed policy framework. Tanzania is also the home of a growing ecosystem of organisations working in market-based solutions and private sector development.
- **Zambia:** Zambia offers a slightly different environment for funding. It is a middle-income country thanks to high copper prices, and has a relatively strong water utility policy frameworks—and water regulator (NWASCO). However, some of the highest urbanisation rates in the world have led to huge pressures on urban provision, exacerbated by high prices for goods, such as concrete.

Designing a selection process

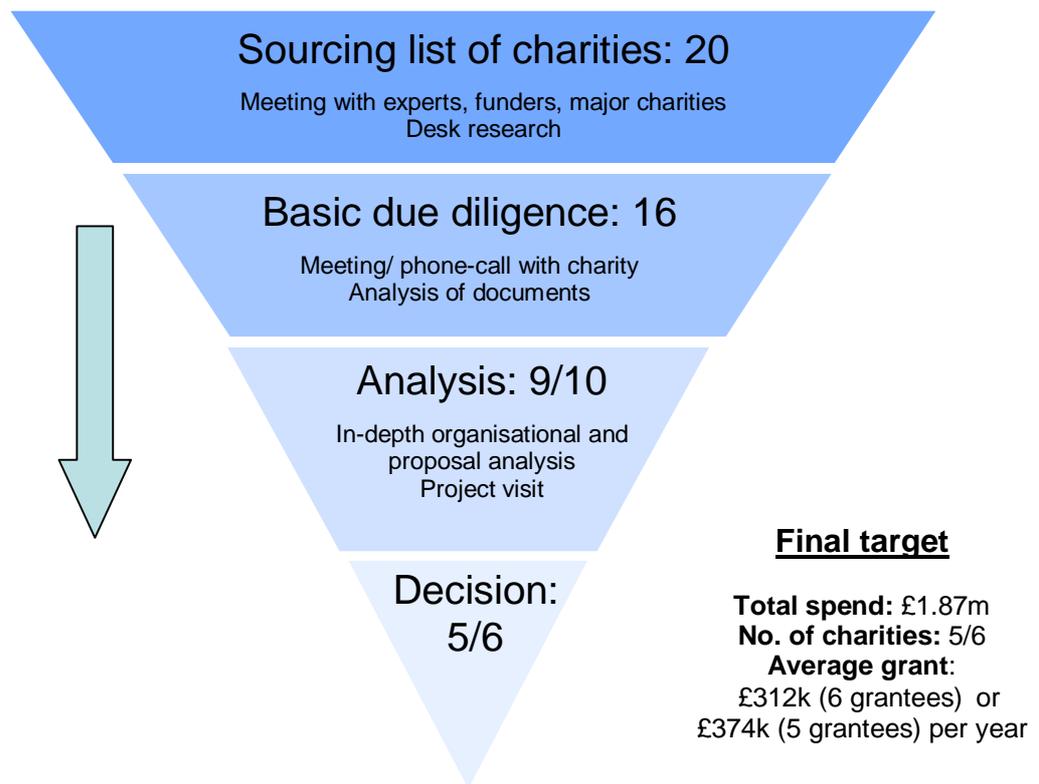
When designing a selection process for identifying grantees, we took into account factors such as time, resources, flexibility, targets, risk and potential impact. Given the size of the grants, the potential for learning and the benefits of raising profile and building networks, NPC and the Stone family decided to take an intensive and involved approach to grantee selection. We used four main stages:

- 1. Identifying an initial longlist list:** NPC identifies a longlist of potential grantees and carries out an initial assessment, looking at their organisational capacity and funding

opportunities. These are then submitted to the trustee board to identify a shortlist of candidates.

2. **Assessing the shortlist:** NPC assesses shortlisted organisations in more detail, including visiting projects, analysing documents and finances, and requesting a more detailed funding proposal. Where possible, trustees would also meet with senior staff.
3. **Making decisions:** The trustees decide which organisations to support, the scale of this support, and ask any outstanding questions that needed to be addressed.
4. **Monitoring and learning:** An appropriate monitoring and assessment framework is set up and used throughout the grant.

Figure 1: Funnelling process to identify grantees



3. Delivering

Drawing up funding strategies and plans for grant programmes can be relatively straightforward; the difficulty often comes when putting them into practice. When setting up a new grant programme, it can be unclear how well plans will translate into reality; few funding opportunities may meet the criteria, the process may require more time and expertise than originally anticipated. A tension exists between keeping to the structure and timetable of a grant programme, but still remaining responsive and flexible when working with NGOs that will have competing time pressures.

For the first WSH grant programme, its 'major grants' programme, the foundation took a relatively structured approach. There was a clear schedule to narrow down from a longlist of candidates to an eventual list of grantees and then put in place monitoring and evaluation frameworks. For the first stages, the foundation kept to its timeline. In November 2010, NPC began the process of searching for potential grantees. By April 2011, the trustee board had chosen its first phase of five major WSH grants (either signed off or agreed in principle), committing to give roughly £2m a year. However, when it came to putting in place the grant agreements and the monitoring and evaluation frameworks, this took much longer than expected.

Some key questions to ask

1. **Is the way that you are identifying and analysing grantees helping you meet your objectives?** Is the approach that you have chosen proving to be a good way to identify the strongest set of grantees, and is the analysis process at the right depth to achieve your aims?
2. **Are there any positive or negative repercussions from the way you are delivering a grant programme?** What are the unintended consequences of making the grants—both for candidates that apply, but also for you, for example, taking up too much time or resources? Can you do another to minimise any burden?
3. **What is the best way to put in place a monitoring and evaluation framework?** Based on what you are looking to achieve, what is the right level to pitch monitoring and evaluation requirements so that it meets your needs, but is not too onerous for grantees?
4. **What kind of ongoing support do you want to give your grantees?** How involved do you want to be in their work after awarding the grant, is there any further advice or input you can offer, for example bolt-on grants to tackle an emerging problem?

The longlist

Sourcing

One of the benefits of putting time into the strategic planning for WSH was that the foundation had already built up a strong network of experts and funders. NPC asked these contacts for recommendations of strong NGOs for the longlist, as well as carrying out desk research and speaking to other experts in the three target countries (such as Water Aid, Oxfam and multilateral and bi-lateral funders).

With potential grants of £1m over three years, the grantees needed to be big enough to absorb this kind of amount, so the foundation decided that the grant should not be more than 30% of

the NGO's total income. This considerably limited the pool of eligible NGOs, so the longlist was mainly populated by the larger international NGOs.

Analysing

NPC then carried out high-level analysis of this longlist of NGOs, using its core methodological framework for understanding an organisation's effectiveness. This looks at: activities, evidence, management and governance, use of resources and efficiency, finances and ambition (see NPC's website www.philanthropycapital.org for more details). This involved speaking to each organisation's country management, assessing available documents or data, and discussing potential funding opportunities for the foundation.

Narrowing down

The trustees discussed the analysis of the longlist and from this, selected a shortlist of nine organisations. There were two main factors in making this decision.

First, the organisation and the funding opportunity needed to fit within the foundation's emphasis on innovation and entrepreneurship. A significant proportion of the opportunities that were discussed were mainly around large-scale infrastructure development projects. Even when pressed, and encouraged to present high-level ideas for innovation, some NGOs struggled to think in those terms.

Second, the organisation had to have the capacity, both in terms of local management and in terms of expertise in WSH. International non-governmental organisations (INGOs) can have significant variation in the quality and expertise of individual country offices. By talking to local staff, and also learning in more depth about previous WSH experience, it became clearer which organisations had the knowledge to implement a large-scale WSH project successfully.

The shortlist

The nine shortlisted organisations went through three more stages of analysis: data analysis, submission of a concept note, and project visits.

Data analysis

We analysed materials such as financial accounts, evaluations, strategy documents and monitoring data, looking for evidence of how successfully organisations were thinking about their impact, financial management, efficiency and so on. We wanted to get a sense of whether they were learning organisations that used data to feed into decisions and improve their organisations, or whether they implemented projects without reflecting on their impact.

Concept note

We asked each shortlisted candidate to fill in a short concept note template to explain the funding opportunity for the foundation (see Appendix). This was useful for two reasons. Firstly, it helped the foundation get a much clearer idea of the funding opportunity and the capacity of the organisation, along with key partners and referees. Secondly, it helped to shape the field visit that followed, spelling out which activities we should look at, which key staff and partners we should meet, and which other stakeholders, such as government or funders, we should talk to.

Field visits

NPC visited each of the shortlisted candidates, accompanied by a member of the Stone family, where possible. Each visit lasted around three days, and involved:

- **Getting a better understanding of the funding opportunity:** Where the funding opportunity involved continuing or scaling up an existing project, we visited the project under discussion. This gave us a much clearer understanding of the activities and gave us the chance to talk to local staff and participants. Where the project had not yet started, we visited similar projects.
- **Understanding the context and the risks:** Visiting each country gave a clearer understanding of the environment each organisation was working in, including the project's context, the national policy framework and the funding environment. Where possible, we met representatives from government and other funders.
- **Assessing capacity and approach:** Spending three days with each organisation gave us a good sense of their capacity and expertise in WSH.
- **Meeting with partners:** It was helpful to meet with partners and organisations that would be key to the success of each project. This included meeting local funders that had supported the organisation in the past, and getting feedback on that relationship.
- **Building relationships:** The visits were a useful opportunity to build relationships with the candidates, so that they could understand more about the foundation's thinking and approach, and so that we could develop lines of communication.

The field visits were an important part of the process, especially given the size of the grants. They helped not only with decision-making, but have also proved invaluable with implementing monitoring and evaluation systems.

Making decisions

NPC used the data analysis, concept notes and field visits to draw up short, analytical documents that assessed each candidate against the foundation's core criteria of innovation, entrepreneurship, sustainability, scalability and impact. Based on these documents, the trustees of the foundation decided which organisations they wanted to support and how much they wanted to give, as well as raising further questions or areas of clarification.

The foundation did not ask for full proposals from each candidate in advance of the decision-making, partly because it had already amassed a large amount of data from visits, meetings and the concept note, but also because it wanted to be flexible and not force its potential grantees to fit within its funding timetable. In most cases, the projects' funding opportunities involved scaling up or developing previous projects, or building on on-going research. These projects were often still in the process of being finished, or in some cases concurrent conversations were happening with other funders that would influence the scope and design of the project.

The foundation did not want organisations to allocate a large amount of resources to developing project plans only for the plans to be turned down by the foundation. Instead, by agreeing to supporting organisations in principle—subject to a final review of the in-depth project plan and budget—it gave a level of commitment to justify this extra investment.

However, this meant that after the trustees made the agreements in principle in April, it took until November for all the grant agreements to be agreed. This was partly due to the time it took in some cases to put together a monitoring and evaluation framework—which this report will look at in the next section. But the main reason for the long lead time was the time it took grantees to develop their own project plans.

The foundation made five main grants: two in Cambodia, two in Zambia and one in Tanzania—which are set out in Table 1 below.

Table 1: Initial major grant portfolio

Grantee	Programme description
iDE Cambodia	<p>The foundation is supporting iDE Cambodia's Sanitation Marketing Scale Up Project (SMSU). This builds on iDE's successful experience of working directly with small enterprises, encouraging them to invest their own resources into producing, marketing and selling low-cost latrines to rural households. The project will enable over 100,000 households in seven provinces of Cambodia to purchase affordable sanitary latrines. Other project outcomes will include: improved latrine designs for two 'challenging environments'; sanitation financing mechanisms for consumer households and supply chain enterprises; and a research and training centre that will act as a platform for global dissemination of Sanitation Marketing experience.</p> <p>In addition, an in-depth research effort will run parallel with the project to investigate the dynamics and potential of the latrine market in Cambodia, including the effect of cost on latrine uptake.</p>
SNV Cambodia	<p>The foundation is supporting SNV Cambodia to develop its 'Sustainable Sanitation & Hygiene for All' (SSH4A) programme in Banteay Meas district in Kampong Speu Province. This aims to reach 100% coverage in the district—reaching 20,000 households—by using a portfolio of different approaches to target different segments of the population. Achieving high-levels of sanitation coverage in one area will maximise the public health benefit.</p> <p>The different components of the programme include: sanitation marketing, Community-led Total Sanitation (CLTS), long term behaviour change communication, targeted subsidies and building the capacity of local government.</p>
Water Aid Zambia	<p>The Foundation is supporting two of Water Aid's programmes in Zambia, which are both based in Luapula province, at the very north of the country. These are:</p> <p><i>Water self-supply project:</i> to encourage households in sparsely populated areas to improve their existing domestic water sources (usually shallow wells and springs) at their own cost. The programme involves raising awareness about the benefits of improved water sources and sanitation; establishing a small microfinance fund for households to borrow from; training local artisans to build water points and latrines; and connecting them to local traders who supply materials and parts.</p> <p><i>Small town piped water project:</i> to rehabilitate water systems in three towns in Luapula and to work with district councils, the municipal water authority and local water committees to put in place functional systems to manage and maintain the service.</p>

Grantee	Programme description
WSUP Zambia	<p>Water Sanitation for Urban Poor (WSUP) is a tri-sector partnership between the private sector, civil society and academia. The Foundation is currently supporting its programme in three peri-urban areas of Lusaka, Zambia. Over two years, it aims to support local 'Water Trusts' in each area to develop a sustainable and effective faecal sludge management system. This includes setting up teams to collect waste from household latrines, establishing local waste processing plants and exploring ways to monetise and sell the fertiliser. Across the programme, the emphasis is on establishing financial and organisational sustainability, by getting the pricing mechanisms right and building up the capacity of the local Water Trusts. As part of this programme, the foundation is also supporting a water supply and hygiene promotion.</p>
Water Aid Tanzania	<p>The foundation is supporting Water Aid Tanzania to develop and pilot two promising initiatives that grew out of an Irish Aid-funded innovation programme:</p> <p>Mtumba: This is a rural programme aimed at increasing demand for unsubsidised improved household latrines by combining behaviour change communication with sanitation marketing. This includes forming and training local artisan organisations and establishing sanitation centres, which are essentially 'showrooms' illustrating different latrine models to help stimulate demand.</p> <p>Gulper: This project is based in Dar es Salaam and involves providing loans to private operators (POs) to acquire the low-cost gulper technology and fit it onto a tricycle. POs then start a sludge emptying business aimed at urban households, and pay back the initial loans with their profits.</p>

Monitoring and evaluation frameworks

The final stage of delivery, once the project plan had been signed off was putting in place the monitoring and evaluation framework for each grantee. The foundation was keen to make this more robust than with its learning portfolio, to ensure that it could see the progress and developments in its grants, monitor for any emerging risks, and also use it as an opportunity for learning. As one of the aims of the programme is to test and develop different models, it was particularly important to ensure that there was a proper evaluation system in place to help refine the project design, assess the impact of the project and also help to share and disseminate any lessons.

Monitoring

NPC devised a standard reporting template for the foundation's grantees that was divided into three main sections. The first section asks a set of narrative questions around the wider organisation to capture any changes that might affect the programme that the foundation funds—such as a new strategy, financial changes or any turnover in senior management. The second section of the report looks at the annual milestones for the project, while the third section asks a set of wider narrative questions around the project and the wider context its working in.

This template provides the main framework for the foundation's monitoring. Grantees have to complete it every six months, but to a higher level of a detail on an annual basis. To ensure that the questions were appropriate and not overly onerous, we tested the framework with a sample of the foundation's grantees and incorporated their feedback.

On top of this more formal framework, the foundation is currently holding regular informal phone calls every three months to discuss any emerging issues and to hear about any new developments. This is particularly valuable in the initial stages of the projects, as they are getting established. Depending on the preferences of grantees, these might drop off over time.

Setting milestones

A significant part of the foundation's monitoring framework is the annual milestones. Each grantee sets annual milestones to track the progress and performance of their grant, with some input from NPC. These milestones include both outputs and outcomes targets, along with the indicators that each grantee will use to track progress (objectively verifiable indicators), and the way it will prove that it is meeting these indicators (the means of verification).

The foundation has tried to be flexible when developing these milestones. We expect that these milestones will be drawn from each organisation's own internal project management data—that they use to assess and monitor their own performance—rather than be an extra burden. So instead of imposing specific milestones—that may be inappropriate and where the grantee has no sense of ownership—the foundation has looked to be a critical friend. It asks questions around specific points and details and, in some cases, it helps to refine and flesh out the framework.

In the large part, this process has been smooth—although iterative. One of the selection criteria for choosing grantees was their attitudes towards monitoring and data management, and their experience in this area. This helped ensure that in all cases grantees met, and mostly exceeded, the foundation's minimum standards.

Where the foundation is funding alongside other funders, we have agreed shared milestones and reporting frameworks to reduce the burden on grantees. This has also proved to be a valuable learning experience for the foundation, as we can see how other funders monitor and provide ongoing input to their grantees.

Evaluation

As the foundation is supporting organisations to help refine, develop and scale their model, rigorous evaluation is an important part of that. It can help refine the programme design, assess overall impact, and document lessons for wider dissemination. All of the foundation's grantees have an evaluation component built into their project—at a mid-term point and also as a final evaluation as well.

The foundation was keen to ensure that the terms of reference and the main scope of any evaluation was decided as part of the project design. Ideally it would also be clear who would be carrying out the evaluation, and they could feed into the process from the beginning. In assessing applicants for funding, we came across too many evaluations where none of this had happened. Instead the evaluation had been tacked onto the end of a project, and had been hamstrung by a lack of baseline data at the outset and insufficient data collection over the length of the project. In some cases, the quality of the evaluator was poor, and there was insufficient time and resources dedicated to the evaluation to say anything meaningful.

Again, as with the milestones, the foundation's grantees were committed to measurement and relatively experienced in commissioning evaluation. This also provides an opportunity for the foundation to learn from its grantees.

4. Learning and adapting

For a foundation starting to build up a portfolio of grantees, it is important to maintain a flexible and reflective approach, continuing to learn while doing. The process of making grants will help to bring out further interests and opportunities, as well as lead to a deeper awareness and understanding of the sector and where you can have more impact. It can also help clarify the capabilities and skills of the foundation itself. Continuing what you are doing is not always the best option.

The Stone Family Foundation used the end of the main phase of implementation as an opportunity to reflect and adapt its grant-making processes. Although roughly £2m of WSH funding had been allocated, there was still a further £1.5m earmarked for WSH. The question was whether it would bolster the existing grant programme, or whether it would be used to target other points in the sector. As the main grants had just been made, it was too early to assess any data coming out of these projects, but the experience of delivering the major grant programme provided interesting lessons—particularly about the structure and features of the WSH sector. Using these, NPC helped the trustees to review their strategy and set the course for the foundation's next phase.

Some key questions to ask

1. **How did your plans and theories translate into practice?** Were the hypotheses and assumptions that fed into your strategy right? And what were the main deviations in the way that you delivered and structured your funding?
2. **What extra information have you learnt that affects your strategic direction and how you give grants?** This could come from learning more about the context of the sector, or seeing how other funders operate.
3. **How do you use this to refine and develop your approach?** What do the lessons you have learnt mean for the way you fund, and what you fund? Are there any ways that you will change or build on the way you work to be more effective?

Lessons learnt

The Stone family and NPC built up an extensive knowledge of the WSH sector, including pump and toilet technology, water resource issues, measurement and evaluation systems, behaviour change approaches and questions around costs and sustainability.

As well as learning about WSH issues, the trustees also learnt about the foundation's place in the WSH sector and how it should develop the next stage of its funding. These lessons fitted into the three initial hypotheses that the foundation used to direct its funding: firstly, that these market-based approaches had the potential to create an impact; secondly, that there was need for philanthropic funding; and thirdly, that this area fitted well with the interests and resources of the foundation.

The potential of market-based approaches

While innovation and entrepreneurship was hard to find—it is there

The area of innovation and entrepreneurship ended up being a successful area for the foundation to fund in—although this was not always clear. At times, we were uncertain about

whether there was sufficient capacity in the sector, and whether there were enough opportunities to fund. Many schemes that claimed to be innovative and entrepreneurial were actually not. Instead, traditional programmes simply bolted on microfinance components or small-scale community contributions without an understanding of the wider business model or whether microfinance was actually being repaid, or whether, in effect, it was just a delayed grant.

However, over time, we were pleased to discover exciting new ideas in WSH. And while it still too early to see the impact of these projects, initial signs are promising.

Some of the most exciting work is around service design and finance

When people think about innovation, they tend to think about technology—a new pump or a new latrine design. While technology is crucial, there is other exciting and important work going on in the sector. Many of the foundation's grants went towards establishing new business models, finance models and service design.

At a wider level, there is some exciting work going on in terms of financing WASH work, for example by using carbon credits. Marketing and design techniques that are used by commercial companies are beginning to penetrate the sector.

Water is the most challenging part of the puzzle

Sanitation ended up being the foundation's most funded area, with roughly 75% of its grants going towards sanitation programmes, 10% on joint water and sanitation, and 15% on water programmes. This is partly because of the complications of funding market-based solutions in water. It is a politically sensitive issue, and with a clear role for governments to provide water, there is not such a clear market for people to spend money on clean water. Some studies suggest that take up of clean water reduces significantly as soon as people have to pay.

The need for grant-funding to help initiatives scale

The experience of the foundation underlined the need for grant-funding to help promising initiatives scale. This was largely around helping develop the skills and capacity of staff, and also providing the time and the space for organisations to test, refine and prove their model.

Skills barrier

One major challenge preventing organisations achieving scale and sustainability is the lack of capacity and skills in the sector. Working in the area of innovation and market-based solutions is incredibly difficult—requiring financial skills, marketing knowledge, entrepreneurship, as well as working with local government, communities etc. It does not just involve building up a successful organisation, but in many cases also creating the market itself.

Combining all of these different skills in one organisation can be hard. Traditional NGOs can find it hard to adapt to working in a market environment—they lack the financial skills, knowledge of enterprise or knowledge of microfinance. Similarly, entrepreneurs can struggle to engage with communities and target low-income households. They also find it hard to apply for grants.

As an initiative develops and scales, staff will often require different skill sets. The skills necessary to design and set up a successful pilot are not necessarily the same as those required to scale it and put in place the necessary systems and processes. Managing this transition, potentially by changing staff or developing staffs' skills, can be difficult.

Finance barrier

The foundation's experience confirmed its initial hypothesis that there was a need for grant-funding to help organisations scale and move onto the next stage of the problem. But one of the challenges that remained was how to then connect-up these organisations to major sources of funds, and ensure that programmes were designed with this end point in sight. Many NGOs talk about reaching scale, but they often lack a clear understanding of how to access large funds. Some need help to understand what larger funders, such as social impact investors or the government, want to see—and therefore what they will have to demonstrate before they can get further funding. Philanthropic funders need to develop clear exit strategies when helping NGOs to grow, and it helps if they have relationships with larger funders.

One further lesson was that there was more need for lower levels of funding to support pilots and emerging innovation than we had initially expected. By funding at a level of £1m, we found that the foundation was missing out on funding some important work at a lower level, which was not getting much support. This was a particularly issue for the smaller, less well-established organisations that were unable to sustain their work through unrestricted income.

The fit with the foundation's resources and interests

The value of starting with an in-depth, structured process

The process that the foundation used to develop its strategy and choose NGOs for its major grants programme was intensive, but valuable:

- **Strong portfolio of charities:** By taking the time to understand the NGOs, we chose strong organisations.
- **Well-structured funding:** By building strong relationships with grantees, we feel we better understood how to structure and allocate funding, whether other support was needed, and what the key issues and risks were.
- **Good context for monitoring:** With a good understanding of the context and environment the NGOs are working in, it is easier to assess progress and performance.
- **Important lessons:** The trustees learnt a lot from the intensive process about the core issues and features of the WSH sector, giving a solid frame of reference for making decisions and building contacts.

However, it also raised questions about how appropriate it was to maintain this approach going forward in terms of the trustees' time and the resources of the foundation—and whether it was necessary given the lessons that the foundation had drawn from the experience.

The added value of trustees' skills and experience

The business experience of the trustees helped to assess each organisation and programme, and informed their decision-making. Having this component that trustees could relate to, and be expert in, also helped to increase their engagement and their confidence in their grantees. Their questions and advice also proved of benefit to grantees when helping them to test and refine their model. In a couple of specific examples, grantees strengthened their sales and marketing component as a direct response to a trustee visit.

The value of partnerships and networks

The foundation benefited from advice and information from a range of different partners throughout the process, particularly other funders. In Cambodia, for example, the Stone family funded one project in partnership with the World Bank and the Bill & Melinda Gates Foundation, which helped to develop a strong measurement and evaluation framework.

Adapting the approach

The trustees used these lessons to inform and develop their grant-making. To address some of the challenges that arose and complement the major WSH grants programme, they created two new grants programmes: supporting early innovation (which includes the Stone Prize for Innovation and Entrepreneurship in Water) and exploring ways to strengthen the sector.

Supporting early innovation

This new funding stream has been designed to support programmes at an earlier stage of their development and across a wider geographical area. We are also experimenting with different ways of finding NGOs to fund.

Smaller grants

The major WSH grants programme focused on larger, international NGOs and more established programmes. This was partly because of the size of the grants, the networks the foundation was using, and the high standards that we used. But during this process, we came across a number of interesting opportunities that met the foundation's criteria, but required smaller levels of funding, which they were not finding from other sources. By reaching down to this level, and providing grants of roughly £100,000-£200,000, the foundation could support and test these initiatives and then potentially provide larger grants to help scale up in the future.

A wider geographical spread

The trustees also decided to broaden their focus to reach further across sub-Saharan Africa and South and South East Asia. The focus of the major grants programme has provided a strong grounding for the foundation, and now trustees can feel more comfortable exploring opportunities across a larger geographical area, where they can still transfer their knowledge, but open the foundation up to a wider range of funding opportunities

Different ways of finding NGOs

In the area of sanitation, the foundation continues to proactively source organisations, while in the area of water, it is taking a new path to overcome some of the challenges it faced in finding strong funding opportunities. The Stone Prize for Innovation and Entrepreneurship in Water is giving up to five prizes of £100,000 each. Through the prize, the trustees hope:

- to attract organisations they would not normally reach;
- to raise awareness of innovation and entrepreneurship in the sector; and
- to raise the profile of the foundation, so that organisations know they can approach it.

The prize was launched on 1 February 2012 with six main criteria: entrepreneurship, innovation, sustainability, scale, effectiveness and early stage. There will be a three-stage filtering process, involving a range of experts in the sector. Prize winners will be announced in September 2012.

Strengthening the sector

The trustees and NPC are exploring how to provide more strategic support in the WSH sector, looking at how they can help to make the sector operate more efficiently. We are considering issues such as a lack of finance, business development and marketing skills. The key areas we are currently exploring are:

- **Access to finance:** this includes widening access to finance for small and medium social enterprises, and attracting larger amounts of funding from social impact investors.
- **Specialist support:** this includes improving organisations' access to support with design, marketing, business and pricing.
- **Formalising routes to growth:** this includes looking at ways to establish formal referral systems between organisations as initiatives grow.

This whole area is still in its early stages. One initial grant that the foundation has made has been to Monitor Inclusive Markets in India to provide business support to a set of organisations developing urban water purification plants in slums.

5. Conclusion

Funding effectively and strategically is not always easy, but it is always worthwhile. Maximising the impact of your money results in better lives and outcomes for the people you are trying to help. Putting extra effort in spending your money effectively can reap highly positive returns. Although there is no one template to follow, there are a set of common questions and dilemmas that funders often grapple with. Sharing experiences and lessons about the way in which funders have tackled these challenges, and the analytical approach and process they have taken, can help drive progress in the sector and offer different options and models for others.

The Stone Family Foundation is an example of how a relatively new and mid-sized foundation has looked to scale up and develop how it works and what it funds. We feel that we have learnt a lot about the areas where we fund—both through the foundation’s water and sanitation funding, which has been the focus of this report, but also through its funding programmes in adult mental health and disadvantaged youth in the UK. The foundation now has a portfolio of 26 grantees, and is well on its way to reach its target of an annual spend of £5m.

As the foundation’s work progresses, and as data flows back from the foundation’s portfolio of grantees, we will continue to refine and build on the foundation’s work, based on a process of: planning, delivering, learning and then adapting. We will continue to share our experiences and lessons as they emerge, and encourage other funders to contribute to the discussion and talk about how they have answered the questions and challenges they have faced.

Appendix: Concept note template

Purpose of concept note

The purpose is to give New Philanthropy Capital (NPC) and the Stone Family Foundation's trustees a clear idea of the strengths of the proposed funding opportunities, and the basis for making an informed decision on whether to take the applicant through to the next stage of the process.

Main components

Each concept note should include comprehensive information on the following areas:

Project design

- The main components of the project, a description of the key activities and a rough idea of the core outputs.
- A brief discussion about the innovative features of this approach, and how it brings something new to the sector.
- The geographical reach of the funded project and the main target groups, along with a brief explanation of how these were selected
- The rough timescale of the project and how activities would be staggered across the length of the project.
- Initial plans for the long-term vision of the project and what will be done as part of the project to develop its long-term sustainability.

Project delivery

- The management structure for the project; including biographies of key members of staff.
- The main members of staff who would be involved in implementing the project, and whether you would need to make external hires to fill these roles.
- The main partners involved in implementing the project, what their role would be, what their expertise is and what your previous involvement has been with them.
- The other main relationships or partnerships that will influence the project (eg, local or national government involvement).

Objectives and evidence

- The main objectives and expected results from the project, and the potential indicators that you would use to track progress.
- The evidence you have that the project will produce the desired results, drawing from internal monitoring data, relevant experience and the broader external evidence base.

Budget

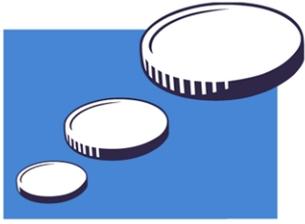
- The expected total costs of the project and a rough breakdown into its main cost components.
- Other committed or expected sources of funding for the work.

Risks and referees

- The main risks to achieving the expected results and mitigation strategies.
- Any referees who could provide an informed perspective on your work, such as government officials, funders or academics.

Format

- The format and layout should make sense to your organisation and convey the information you feel is necessary for the trustees to make an informed decision.
- Ideally we are looking for around five pages, along with relevant appendices (eg, budget and risk register).



New Philanthropy Capital

New Philanthropy Capital (NPC) is a charity think tank and consultancy dedicated to helping funders and charities to achieve a greater impact.

We provide independent research, tools and advice for funders and charities, and shape the debate about what makes charities effective.

We have an ambitious vision: to create a world in which charities and their funders are as effective as possible in improving people's lives and creating lasting change for the better.

For **charities**, this means focusing on activities that achieve a real difference, using evidence of results to improve performance, making good use of resources, and being ambitious to solve problems. This requires high-quality leadership and staff, and good financial management.

For **funders**, this means understanding what makes charities effective and supporting their endeavours to become effective. It includes using evidence of charities' results to make funding decisions and to measure their own impact.

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