

Philanthropy: A Primer

What's the difference between a grant and a gift—and how do you get one? How do foundations work? What's all this about 501(c)(3)s versus (c)(4)s? These are just a few of the questions that might be running through your mind if you're new to the world of philanthropy and fundraising.

It doesn't need to be so confusing.

Inside Philanthropy offers this series of brief “explainers” to introduce you to the basics of philanthropy, defining key terms and elucidating important debates to help you find your way through all the jargon to become a more informed, more effective fundraiser.

Meet the Philanthrosphere (or, Who's Who)

Both individuals and institutions give philanthropically.

Institutional Funders

Institutional giving refers to philanthropy by private and public organizations including foundations, corporations and the government. Foundations are nonprofit organizations that give money, usually in the form of grants. There are a few different types:

A private foundation is usually funded by a single individual or family. This includes legacy institutions you may have heard of, like the Ford Foundation and the Rockefeller Foundation; massive entities funded by living donors like the Bill and Melinda Gates Foundation and Bloomberg Philanthropies, and lots of small and mid-size foundations that may or may not have a public profile.

A community foundation, on the other hand, is funded by many donors and governed by a board of directors that reflects the community. The classic community foundation is geographically based, like the Brooklyn Community Foundation or the Grand Rapids Community Foundation. There are also identity- or issue-based community foundations, such as the Stonewall Community Foundation, which was founded by and for the LGBTQ community. Some community foundations have relatively small



amounts to give, and others, like the Silicon Valley Community Foundation, have assets in the billions.

A corporate foundation, also known as a company-sponsored foundation, gets its money from a for-profit business—for example, the Walmart Foundation or the Wells Fargo Foundation.

At the core of every foundation is an endowment, or a pot of money that has been set aside for charitable giving. Every year, a foundation has to spend at least 5% of the value of its assets on grants and core operating expenses. The rest is invested.

Many foundations are set up to exist in perpetuity (basically: forever), but they can alternately be designed to give away money at such a pace that they are spent down within a specific period of time.

Individual Donors

Individual giving refers to philanthropic gifts made directly by an individual, couple or group of individuals. Instead of giving through a separate legal and financial entity like a foundation, some individual donors simply move money from their personal accounts to a nonprofit they want to support. The term “major donor” is often used to describe someone whose gifts make a substantial impact on the budget of the receiving nonprofit, while “small donor” refers to the many funders whose gifts of various smaller amounts collectively have a huge impact. You might hear the term “mega-donor” used to describe billionaire individual philanthropists like David Geffen or MacKenzie Scott.

Individual donors give in many ways, including through direct check or credit-card donations, LLCs, crowdfunding campaigns, giving circles and donor-advised funds.

Intermediaries, Networks, and More

The philanthrosphere is also populated by a number of entities that help funders and nonprofits come together to network, maximize their impact, learn best practices and refine their processes.



Philanthropic intermediaries like donor-advised funds, fiscal sponsors and collaborative funds connect funders to the groups they fund.

Philanthropy-serving organizations including funder affinity groups (e.g., Grantmakers in Health or Native Americans in Philanthropy) and regional associations of grantmakers educate, inform and connect funders to increase the effectiveness, impact and scale of philanthropy.

The Basics of Grantmaking

Charitable contributions come in two basic forms: gifts and grants. Gifts are simple, with few (or no) strings attached. A grant, which is the form of giving used by the government and most foundations, is more complex. Most grants come with a contract or grant agreement, that specifies how and when funds are used, and what the funder expects to see in terms of outcomes and impact.

Getting Grants

Every foundation is different, and their grant decision-making processes vary. Some review grant applications from any nonprofit that wants to apply, while others only accept applications from those they invite. Some foundations decide they want to fund a certain type of project and put out a request for proposals from nonprofits. And some funders have program staff with expertise in the areas they want to fund who reach out to nonprofits. You'll want to identify funders who support your organization's community, issue area, or type of work, and research how they make grant decisions.

Types of Grants

While some grants are unrestricted or intended to generally support all of what a nonprofit does, most are restricted to a particular program or project. Grants can be one-offs, multiyear, or intended for ongoing renewal.

Grant Management

Foundations often require grant reports, through which nonprofits report back to funders about what they have done with their grant. Reports usually include financial elements such as spreadsheets showing how the money has been spent, as well as



narratives about the funded project and its impact. Funders also sometimes conduct or fund [evaluations](#) to assess whether a project is successful or how a nonprofit could improve. Knowing what a funder expects, meeting deadlines and fulfilling all grant requirements is an important part of maintaining and cultivating the grantee-funder relationship.

Going Deeper: Important Discussions in Philanthropy Today

Like every field, philanthropy is dynamic. Even as a sector largely defined by exclusivity and traditional norms, there is a considerable amount of difference and (potential for) change in the philanthrosphere. There are funders all over the map in terms of ideology, vision, size and areas of interest. Increasingly, longstanding traditions are being questioned, and the conversations happening in the wider society about diversity and equity are playing out in philanthropy too. As you deepen your knowledge of philanthropy, these are a few of the key questions and debates you'll find enlivening the discourse and in some cases changing the landscape of philanthropy today.

You may also want to check out:

- General-operating support vs. project support
- Participatory grantmaking (or, who should decide what gets funded?)
- Should foundation payout be higher?
- Donor-advised funds: pros and cons
 - What can—and can't—philanthropy do in terms of advocacy, policy, and politics?
- Related: What's the difference between a 501(c)3 and c4?
 - What is philanthropy doing (or not doing) around diversity, equity, and inclusion?

