Why Grant Agreements Matter
A grant agreement is a contract between the funder and the grantee organization that defines the term, scope, and purpose of the grant. A grant agreement helps both the funder and the nonprofit understand the goals for grant funds, and everyone is better off for it.

Reasons Funders Mistakenly Avoid Agreements
Some funders shy away from grant agreements because they worry that requiring an agreement (1) will seem too onerous to an organization, (2) could jeopardize a relationship with an influential executive director, and/or (3) is too time consuming and not necessary. All too often, we hear the phrase, “I have a good relationship with the executive director; I’m not worried.” Or “The organization knows how to spend the money better than I do.”

You have a particular vision for what your philanthropic dollars will accomplish. And you must remember that nonprofit organizations include professionals who come and go, face various funding pressures, and who are all too often overworked.

Problems That Could Ensue Without Grant Agreements
Without a grant agreement or with just a general pledge of funds to an organization, a grantee:

1) Is not obligated to honor your intent for how your funds will be spent.
    Case Example: We were called in after that fact on a grant that went terribly wrong. A donor made a multi-million dollar grant to a hospital for important scientific research and when the market crashed in 2008, the hospital informed her that her gift was lost. This would not have happen if the money had been properly earmarked.

2) May be confused as to what you believe success is and fail you unwittingly.
    Case Example: A donor thought a grantee institution understood that his funding of over $1 million was intended for academic programs. Instead, the institution believed the donor would be satisfied if it was spent on capital improvements as well as academic programs. When the institution happily reported its perceived success on the expenditures of all the funds, the donor was surprised and disappointed. While the donor never did express his frustration, he considers the grant a partial failure.

3) May not realize that you wish to see reports on how funds are used.
    Case Example: A donor requested annual reporting from a grantee, but did not specify that the report address how the funds were spent specifically. In the year that passed, two key staff members left the
organization, and no remaining staff knew the donor’s original intent for how the funds were to be spent. When the new staff reported to the donor, they addressed general operating goals. When we asked the organization to delineate what had happened to the donor’s actual funds, they could not ethically report on what had happened to the funds, as no one had tracked it. The donor was sorely disappointed that her funds might have gone to aspects of the organization that mattered less to her than the program she had intended to fund.

Grant Agreements Make the Grantee-Grantor Relationship Stronger
Once you write your check without a grant agreement, it is difficult to establish a different set of expectations for your grant. The organization may feel criticized and relations become awkward. You help the organization more by explaining your requirements upfront. In fact, it will help you be honest with yourself about what you truly expect—or do not expect—from a grantee organization.

In partnership with the staff that you plan to fund—the ones who wrote the proposal or the executive director that you trust—you should make the grant’s purpose transparent and clear in the agreement. This will ensure that your grant can withstand inevitable staff transition and the competing demands on the time of nonprofit staff members.

Key Tips for Helpful Grant Agreements
1) Insist on a proposal or work plan to include in the text of your agreement or as an attachment.
2) Require a budget for the program or organization that shows projected expenses and income, at a minimum.
3) Insist on a budget for how your funds will be spent within the program budget, if that needs to be clarified.
4) List any key personnel responsible for execution of the grant within your contract and require notification of when such personnel leave, so that you can be involved in overseeing the transition of your grant to new personnel.
5) Work with program staff to generate realistic metrics and milestones that all parties can track together.
6) Clarify you expectations regarding the content and timing of reports.

If any of these six requirements are difficult for the grantee, find out why. Use that difficulty as an opportunity to better understand the organization and what you can expect from it. With that knowledge, you can either help the organization meet the challenges or mutually modify the grant agreement to better reflect the realities of executing the grant.