PHILANTHROPIC MECHANISMS: A GUIDEBOOK FOR DONORS

KARA WHELPLY AND HILARY MCCONNAUGHEY PAGE

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ABOUT THE MILKEN INSTITUTE

The Milken Institute is a nonprofit, nonpartisan think tank focused on accelerating measurable progress on the path to a meaningful life. With a focus on financial, physical, mental, and environmental health, we bring together the best ideas and innovative resourcing to develop blueprints for tackling some of our most critical global issues through the lens of what is pressing now and what is coming next.

ABOUT MI PHILANTHROPY

MI Philanthropy advances the strategic deployment of philanthropic capital to create a better, more equitable world. We tackle persistent societal challenges by giving philanthropists insights, tools, and strategies to take big risks and test bold ideas.

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Disclaimer

This publication is not intended to serve as a comprehensive guidebook to establishing a philanthropic entity or implementing a funding mechanism. Many legal stipulations are involved in any of these endeavors, and an individual should consult with a legal professional before attempting to conduct any of the philanthropic activities described in this text.

Many organizations and philanthropic endeavors are provided as examples in this report, but their inclusion does not represent an endorsement.

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INTRODUCTION

Andrew Carnegie is recorded as having remarked that “it is harder to give money away intelligently than to earn it in the first place.” Engaging in effective philanthropy is indeed a skilled practice, which requires an appreciation of the issue area(s) in which funders engage and a clear understanding of the impact they wish to impart. Deploying philanthropic capital can be a sufficiently straightforward process, but having clarity on the root problem of a particular topic and then targeting resources to mitigate it is the utmost demonstration of strategic philanthropy.

The ways in which individuals engage in philanthropy have been evolving since its modern origins near the turn of the 19th century. Over the past few decades, philanthropists in the United States have been able to maximize a dynamic set of tools and strategies to establish sophisticated giving vehicles—usually in the form of distinct organizational entities—and deploy innovative funding mechanisms, or the means of using philanthropic capital. These approaches offer philanthropists the flexibility and the opportunity to make sustainable progress in their chosen fields of interest.

Every philanthropic approach has unique features that enable individuals to optimize their giving and contribute positively to their communities and the world. The vehicles and mechanisms a philanthropist utilizes can make or break the effectiveness of the resources allotted to achieve positive change. The appropriate levers to pull will vary based on a thorough examination of the problem, identification of the changes required to combat the issue, and the desired approach to instilling impact. Each philanthropic option at every decision-making stage has merits and limitations; by embracing a learner’s mindset and engaging in due diligence, a philanthropist can determine the tactics that best complement their change-making vision.

Philanthropy may seem to be a daunting endeavor, but it does not have to be so. A strong start includes understanding the full array of options at one’s disposal. To that end, this foundational guidebook highlights the variety of available philanthropic approaches, with a focus on philanthropic vehicles and funding mechanisms. The guidebook presents practical considerations on how to get started—that is, what to know when engaging with these various modalities.

A deeper understanding of the available philanthropic options can help change-makers achieve Carnegie’s aspiration to give money away intelligently. Knowledge is power, and this guidebook aims to empower philanthropists as they embark upon their giving journeys.

PHILANTHROPIC VEHICLES

When individuals decide to pursue a long-term philanthropic endeavor, often the first decision to make is whether to establish an organization or other philanthropic vehicle to host and deploy their capital. The kind of vehicle a donor creates depends on their preference regarding the scale of giving, appetite for control and risk, interest in hiring personnel, and desire to collaborate, along with other considerations. These preferences, considered with their change-making vision, help narrow down the appropriate vehicle. For instance, if a donor wishes to establish a service-providing organization with additional funders, they may consider establishing a public charity.

Philanthropic vehicles can be standalone entities or be embedded within a family office or another host structure, which permits greater privacy when deploying capital. Some operations require external fundraising and involve hiring personnel. Others can be funded by a single donor and function without staff. Each model has distinct legal parameters and regulatory requirements, especially those providing a tax benefit. The following vehicles are among the most prevalent.

PUBLIC CHARITY

Public charities are tax-exempt 501(c)(3) nonprofit organizations that receive broad support to conduct direct charitable services that benefit the public good. Donors who fund these organizations receive charitable deductions on their tax returns (IRS 2023).

Public charities are formed to provide services and programs guided by the organization's charitable mission. These activities can include scientific research, education, advocacy, social services, and religious services. Some public charities can generate income from their mission-related endeavors, and all engage in fundraising to sustain their organization. Beyond their direct programmatic offerings, public charities can also perform a wide range of activities, including:

- giving financial support to other organizations,
- providing fiscal sponsorship,
- investing in mission-aligned for-profit entities, and
- launching mission-aligned for-profit and nonprofit subsidiary organizations.

Individual donors can create public charities, but the entity must have a board of directors to govern organizational strategy, finances, and overall oversight. Additionally, a public

Community foundations are public charities primarily focused on grantmaking to nonprofits within a particular geographic region (Council on Foundations 2023). Many individuals, usually residents of that region, donate to a community foundation to carry out grantmaking programs or designate funds to a donor-advised fund (DAF) housed at the community foundation. The community foundation then spends from the DAF at the donor's direction.

The **Public Support Test** is the IRS mathematical test for a publicly supported charity. It requires that at least 33.3 percent of donations are by donors who give less than 2 percent of the nonprofit's overall receipts (McRay, Understanding the 501(c)(3) Public Support Test 2023).

charity must receive support from a diverse array of sources within five years to pass the public support test (Kim 2022). Public charities are not required to spend a specific portion of their income. However, they must disclose financial information through IRS tax form 990, a publicly available document detailing the organization's financial activities.

When considering whether to establish a public charity—including a medical research organization (MRO) or a support organization—philanthropists should assess their willingness to cede power and decision-making authority. External funding comes with a dilution of any single philanthropist's control over the organization, but the additional resources can also expand the reach of its programming and services. The intended geographic reach of the entity will likely inform the scale of capital required, as well. A philanthropist must determine whether this fundraising can happen organically via immediate networks or by engaging outside parties to facilitate asset development and organizational setup. When appropriate, publicity and marketing will also be necessary to promote the public charity's services to its target population. Hiring key personnel will be a critical factor in successfully launching this type of change-making organization.

Medical Research Organization

An MRO is a unique 501(c)(3) public charity whose primary purpose is to conduct medical research in partnership with an academic medical center. An MRO enables philanthropists to create a centralized research hub, collaborate with external donors, and incubate and spin off biotech start-ups.

Unlike other public charities, MROs do not need to pass the public support test; instead, they must satisfy a mathematical or endowment test to ensure that the organization is actively conducting and supporting research. MROs must spend half of their assets on active research or at least 3.5 percent of their endowment on active research at an academic medical center. The 3.5 percent can include leasing or purchasing space or equipment, personnel salaries, and medical research-related expenses. Investments and grants do not count toward this 3.5 percent (NGO Source 2017). MROs can partner with multiple academic medical centers as long as the 3.5 percent is met. This structure enables large-scale biomedical research problems to be addressed across multiple institutions with a centralized host and organizer.

The primary motivators to create the MRO include:

- increased commitment to conducting medical research,
- ability to individually fund or collaborate with other high-capacity donors, and
- ability to commercialize therapeutic assets through investment mechanisms or company creation.

Creating an MRO is a significant undertaking that involves negotiating an affiliation with a medical center and creating a management team that includes a board of trustees and a C-suite. Since these bodies govern the MRO, donors considering whether to establish this type of entity must be willing to relinquish active control of the organization. Like all 501(c)(3) nonprofits, an MRO must file an annual Form 990 with the IRS. The MRO must also fund staff actively conducting medical research, though these individuals can be sourced from the affiliated academic medical center and be part-time. The human capital demand of an MRO is significant; however, the organizational structure can be streamlined by outsourcing some operational elements, such as legal and accounting.

MRO Spotlight: Lieber Institute for Brain Development Maltz Research Laboratories

The Lieber Institute for Brain Development Maltz Research Laboratories was founded in 2010 by Steve and Connie Lieber, along with Milton and Tamar Maltz. The institute aims to translate the understanding of basic genetic and molecular mechanisms of schizophrenia and related developmental brain disorders into clinical advances that change the lives of affected individuals. The institute operates a hybrid combination of an academic institute and a biotech company that conducts onsite research on drug development and collaborates with medical centers (Lieber Institute for Brain Development 2023). The institute is based in Baltimore, Maryland, with partners across academia, nonprofits, and government entities.

Supporting Organization

A supporting organization is a public charity that exists solely in connection with another public charity. It benefits other entities through various activities, including fundraising support, capacity building, technical assistance, advocacy, and partnership development. It also shares its governance structure (Tamplin 2023). A single donor can fund a supporting organization, but the key differentiators from a private foundation are its exclusive focus on one particular public charity and the donor's relinquishing control to the public charity's governing body (McRay, What Is a 509(a)(3) Supporting Organization? 2019).

Supporting organizations appeal to some donors because they do not face the same restrictions as private foundations, which include the types of assets that can be donated and the timing of receipt of tax benefits. For example, donations of appreciated property to private foundations are not deductible at the current, fair market price, whereas they can be when gifted to public charities and supporting organizations (McRay, Using a 509(a)(3) Supporting Organization as a Private Foundation Alternative 2022). In addition, contributions to a supporting organization receive, as do all public charities, a higher tax deduction (60 percent) compared to private foundations (30 percent) (Endowment Development Services 2023).

Individuals considering whether to establish a supporting organization should assess their commitment to expending 100 percent of their donated philanthropic resources in service to the associated public charity. For instance, grantmaking through a private foundation provides flexibility in determining the grantee, whereas channeling funds through a supporting organization means only the affiliated public charity will receive the donation.

PRIVATE FOUNDATION

Private foundations can be categorized as family foundations, institutional (independent) foundations, or corporate foundations, depending on their governance and initial funding. Unlike public charities, private foundations are generally funded by a single individual, family, or organization. They can be established as 501(c)3 nonprofit organizations or charitable trusts.

Historically, private foundations have served as vehicles to make grants to nonprofits. However, they can function well beyond grantmaking when leveraged to their fullest potential. For example, a private foundation can engage in impact investing and make mission- and program-related investments (as covered later in this guide). Foundations that exclusively make grants are called nonoperating foundations, and those that run their own charitable programs are called operating foundations.

Private foundations can exist in perpetuity or they can be designed to spend down their assets over a set time. The latter are known as time-limited foundations. Philanthropists intending to establish a private foundation should have a sense of the intended life span of the entity, which will inform grantmaking strategy and scale. By law, private, nonoperating foundations must spend at least 5 percent of their net investment assets annually via grants or permissible administrative expenses. Each year, a private foundation must submit a Form 990 to the IRS.

A foundation's assets tend to begin at a minimum of $500,000. If staff are employed, the minimum threshold jumps to $3 million–$5 million (American Endowment Foundation 2023). For tax deduction purposes, philanthropists often create foundations after a significant windfall, such as an inheritance or business sale.

Depending on the complexity, establishing a private foundation can take a few weeks or months. Once a foundation begins operations, ongoing responsibilities include asset management, grant administration, and general record keeping. Depending on the foundation's scale and intended activities, hiring staff may be necessary; various functions can be outsourced, including proposal review, nonprofit due diligence, grants management, and board management. Most states require at least three board members who meet at least annually.

Private Foundation Spotlight: Gordon and Betty Moore Foundation

The Gordon and Betty Moore Foundation is a multibillion-dollar family foundation established by Intel co-founder Gordon Moore and his wife, Betty. Formed in 2000, the organization has close to 100 employees, with programmatic focuses on scientific research, environmental conservation, patient rights, and place-based support within the Bay Area. The board of trustees represents a unique blend of family members and distinguished experts within their programmatic portfolio. The foundation grants upwards of $300 million each year to support these causes.

PRIVATE OPERATING FOUNDATION

A private operating foundation is a limited-source philanthropic entity that conducts programmatic activities to pursue its charitable mission. Data from 2017 indicate that fewer than one-tenth of private foundations are established as private operating foundations, and the vast majority have endowments of less than $1 million (Born 2017). Examples of private operating foundations include museums, zoos, and performing arts centers.

Several qualities make private operating foundations distinct from private (nonoperating) foundations. Most notably, a private operating foundation can make grants as long as that is not its primary function. However, a private operating foundation is unique because it primarily functions to fund and manage its own charitable initiatives. For that reason, such a foundation requires in-house staff to manage its programmatic endeavors. In contrast, a private foundation without personnel can outsource its administrative activities relating to grantmaking. In addition, private foundations usually have one funder, but private operating foundations can have more than one funder (Blaney et al. 2021).

Philanthropists considering whether to establish a private operating foundation should prioritize how they wish to effect change. Do they want to support existing efforts through grantmaking, or run program(s) to pursue a charitable mission? Given the need to hire staff, donors should expect a fair number of upfront and ongoing demands to manage a private operating foundation. Additionally, the sheer number of nonprofits attending to the full spectrum of charitable causes likely means that existing organizations already provide the programmatic service that an aspiring donor of a private operating foundation wishes to pursue. To reduce redundancy, funders should survey the nonprofit landscape to determine whether new programming is warranted, or whether their philanthropic resources should be directed to support social change work already being done by an existing entity.

LIMITED LIABILITY CORPORATION

Limited liability corporations (LLCs) hybridize for-profit and charitable activities, enabling philanthropists to generate financial and social returns. This vehicle offers philanthropists maximum flexibility because grantmaking, advocacy and lobbying, impact investing, and even traditional commercial investing can occur under one umbrella. Because an LLC is a for-profit entity, capital directed to this entity is not tax-deductible, though tax advantages can be realized upon deployment of charitable dollars, such as grants, through the entity.

Unlike private foundations, LLCs are neither legally required to spend down 5 percent of their assets nor obligated to report their investment activities publicly each year, though select LLCs voluntarily opt to follow these philanthropic norms. This model, therefore, affords more confidentiality than a private foundation.

Most family offices are established as LLCs. These entities can engage seamlessly in impact-driven and conventional investment activities to fulfill their clients' interests.

The complexity of societal and environmental problems drives approaches to address them from every angle. To that end, an LLC structure provides flexibility and greater integration of various social change efforts to expedite progress.

LLC Spotlight: Pivotal Ventures

Melinda French Gates founded the LLC Pivotal Ventures in 2015 to advance equality in the United States by expanding women's power and influence. Pivotal Ventures supports organizations and individuals engaged in this social change work through grantmaking that benefits women and girls and youth mental health, as well as private investments in women- and minority-led ventures. Pivotal Ventures also pursues partnerships and engages in advocacy to promote women's political power and to champion paid family and medical leave and other systemic support for caregivers. French Gates expects that the entity's blended investment approach will accelerate progress and help to achieve sustainable change.

DONOR-ADVISED FUND

Individuals can establish a donor-advised fund and contribute to it through a DAF sponsor, which could be a community foundation or nonprofit affiliate of a financial institution, such as Fidelity Charitable or Schwab Charitable Fund. Individuals take a tax deduction against their contribution at the time of deposit. Then, they can direct charitable giving via their DAFs at a later date. DAF clients provide direction about the distribution of their charitable funds, and the DAF sponsor performs the remaining activities, including vetting the nonprofit beneficiary, disbursing funds, and reporting its aggregated financial activities to the IRS. DAF-directed funding must be unrestricted because donors cannot stipulate the charitable contributions coming from this vehicle.

This instrument offers increased privacy to the donor because the DAF sponsor aggregates its clients' charitable disbursements in its required reporting, enabling confidential, anonymous giving if desired. This lack of transparency between DAF donors and their beneficiaries, as well as the lack of a standard requirement for annual disbursements, has faced public backlash. However, this feature is attractive to philanthropists who wish to remain under the radar.

Most DAFs require an initial minimum contribution of $5,000. Donors can contribute to their DAF once or on an ongoing basis. Contributors often add to a DAF at the end of the calendar year to maximize their tax deductions.

Storing charitable funds in a DAF may be advantageous if a funder intends to build up capital to make a significant charitable contribution for a particular endeavor. However, DAFs have been widely criticized for warehousing charitable funds that the social sector urgently needs, especially because some DAF sponsors do not require clients to recommend fund disbursement by a certain deadline. Thus, philanthropists should be proactive and personally prioritize a timely disbursal of their DAF contributions.

All DAF sponsors conduct essential due diligence into nonprofit organizations; however, only a few provide personalized philanthropic guidance to their clients. If donors require additional knowledge about the nonprofit space or advice about their philanthropic interests, they should consider seeking guidance from professionals outside the DAF sponsor.

KEY CONSIDERATIONS WHEN SELECTING A PHILANTHROPIC VEHICLE

When selecting a vehicle, philanthropists should weigh their intentions, priorities, and desired tactics to effect change. However, they are not limited to one vehicle; high-capacity philanthropists often leverage more than one vehicle to achieve their impact objectives. Table 1 highlights the critical distinctions between the various philanthropic vehicles. Table 2 compares the distinguishing characteristics between the vehicles.

Table 1: Advantages and Disadvantages of Philanthropic Vehicles

Vehicle	Advantages	Disadvantages
Public Charity (including MRO and supporting organizations)	• Provides greater tax benefits to donor when compared to donating to a private foundation • Offers an opportunity for mass fundraising potential, thereby expanding the charity's reach and programmatic offering • Can demonstrate impact more concretely than grantmaking via provision of direct services	• Does not empower founding philanthropist(s) to have primary control of organizational strategy or operations • Higher operating costs to cover personnel and likely brick-and-mortar expenses associated with delivery of direct services
Private (Non-operating) Foundation	• Empowers founder(s) to set terms of the organization's intent and operations, including its life span and involvement of future generations • Able to engage in grantmaking and impact investing to fulfill change-making objectives • Can be as lean or robust as desired in terms of the need for personnel	• Unable to support lobbying or political activities
Private Operating Foundation	• Direct connection to the delivery of charitable services	• Higher operating costs in terms of hiring personnel to run in-house programming • Limited ability to engage in grantmaking as a primary function
LLC	• Able to engage in the full spectrum of financial activities: direct gifts, grants, impact investing, venture philanthropy, and commercial investing • Provides complete discretion (that is, no IRS or other requirements to disclose financial activities) • No restrictions on lobbying or political donations	• No tax benefit upon transferring assets into an LLC (though tax advantages can be realized with the deployment of charitable dollars, such as grants, through the entity)
DAF	• Enables anonymous donations to charitable organizations • Administrative responsibilities associated with a charitable donation handled by DAF sponsor	• Unable to support lobbying or political activities • Unable to make stipulations with contributions; funding must be deployed as unrestricted gifts

Source: Milken Institute (2024)

Table 2: Distinguishing Characteristics of Select Philanthropic Vehicles

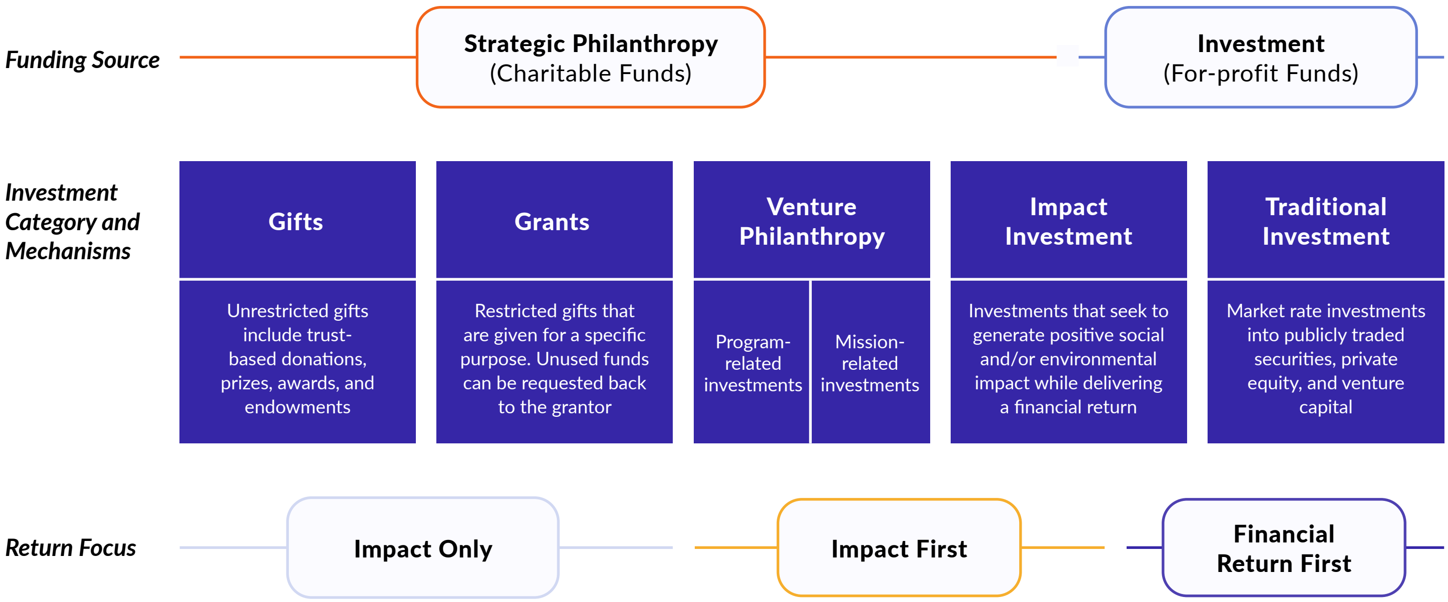
Vehicle	Receive Tax Advantage?	Give Anonymously?	Designed for Multigenerational Engagement and/or Perpetuity?	Need to Hire Staff?	Able to Engage in Impact Investing?	Able to Engage in Lobbying?
Public Charity	●			●	●	●
Private (Non-operating) Foundation	●		●		●	
Private Operating Foundation	●		●	●	● *(limited)*	
LLC		●			●	●
DAF	●	●				

Source: Milken Institute (2024)

FUNDING MECHANISMS

Depending on their change-making approach, individuals can deploy capital through a philanthropic vehicle in several ways. Some philanthropic vehicles are more limited in their ability to direct resources, so the philanthropist and nonprofit leadership should be aware of these parameters when also considering their intended type of return: field-specific impact, financial returns, or a combination of the two. Funding mechanisms exist on a continuum where impact and financial returns can be correlated, as depicted in Figure 1.

Figure 1: Impact and Financial Return Investment Continuum



Source: Milken Institute (2024)

Philanthropic mechanisms include gifts and grants, which can be restricted or unrestricted regarding the terms for use. With unrestricted giving, the donor cannot direct how the funds are used. With restricted giving, once awarded, philanthropic capital must be used for the specific purpose designated in the funding agreement. If the capital is not used accordingly, the donor can request its return. Venture philanthropy, or investments in for-profit entities to advance an organization's philanthropic mission, is another philanthropic mechanism available to individuals. The following sections describe these types of funding mechanisms in greater detail.

GIFTS

Outright, unrestricted gifts—in the form of cash or stock—are the most straightforward way to offer philanthropic support because they are bestowed on the recipient with no strings attached. Small gifts tend to be donated without funder stipulations and specific reporting requirements. For more significant gifts, agreements can be created to indicate the intent for the funds. Once received, however, the funds are used at the discretion of the recipient. Thus, gifts are firmly rooted in trust between the donor and the recipient.

Endowment

An endowed gift provides long-term support to an organization by utilizing the return on investment from an endowment fund to support the chosen recipient. Endowments are often made to academic institutions to support a chair (individual), department, center, or institution focused on a specific academic research topic. In academic or research institutions, the spending distribution is often subject to a set percentage, usually based on the five-year rolling average for the endowment fund's rate of return. This spending distribution often ranges from 3.5 percent to 5 percent per year. Recipient organizations usually extract an indirect cost fee to cover administration and other operational elements, which can range from 10 percent to 20 percent. In this example, the donor endows the chair with a $10 million gift to the endowment fund.

Table 3: Example of Yearly Financial Support for an Endowed Chair of an Organization

Endowed Amount	Spending Distribution	Indirect Cost
$10 million	4%	10%
Yearly payout: $10 million x 4% = $400,000 Minus indirect cost: $400,000 – $40,000 = $360,000 Yearly support provided by gift = **$360,000**		

Source: Milken Institute (2024)

The recipient institution's 4 percent spending distribution will support the chair (via compensation and other relevant costs). The spending distribution is reduced by the 10 percent indirect cost, so the annual support for the chair is $360,000. Endowed funds have the potential to grow as the corpus is actively invested over the years.

Endowed Professorship Spotlight: Baszucki Endowed Chair for Metabolic Neuroscience
In May 2023, the Baszucki Family Foundation established the Baszucki Endowed Chair for Metabolic Neuroscience at Stony Brook University in New York. This $3 million endowed chair recognizes an exceptional researcher in metabolic neuroscience. The researcher will use the endowed funds provided by this gift to support their salary, benefits, research, and teaching to advance the scientific field of metabolic neuroscience.

Achievement Award

Achievement awards are monetary or nonmonetary gifts that recognize excellence and achievements by one or more individuals or organizations in regard to past work. The Nobel Prize, for example, is one of the most prestigious and well-known achievement awards, and it recognizes top performers across various fields, including medicine, literature, physics, and chemistry.

The criteria for receipt of an achievement award are at the awarder's discretion. Because the gift can be offered without the recipient's involvement, there is no expectation of how the award funds will be used. This no-strings-attached reward is, therefore, an excellent way to celebrate and publicize an individual or organization's achievements in a given field.

In some cases, individuals can nominate themselves for consideration. Third parties can also nominate recipients of achievement awards, or a recipient can be given the award without any direct or indirect solicitation.

To establish an achievement award program and bestow the awards, the award sponsor should leverage publicity to prompt nominations from relevant and diverse stakeholders within the selected field of focus. Public materials should clearly articulate the selection criteria, eligibility requirements, and review methodology. Assembling a review committee—ideally composed of credentialed individuals in the specific issue area—conveys objectivity and brings credibility to the selection process.

Achievement Award Spotlight: Metabolic Mind Awards
The Metabolic Mind Awards, funded by the Baszucki Brain Research Fund (part of the Baszucki Group), recognizes individual contributions in the emerging field of metabolic psychiatry. The program awards $100,000 to individuals building awareness around ketogenic metabolic therapy for mental health by treating patients, developing training programs, writing, speaking, teaching, storytelling, and advocating. Awardees are champions of the metabolic psychiatry movement and accomplished professionals working at the intersection of metabolic and mental health.

Innovation Competition

Innovation competitions (also known as philanthropic, challenge, or incentive prizes) are valuable tools for funders interested in sourcing or scaling innovative solutions from diverse perspectives and innovators operating outside their immediate network. Going beyond the "usual suspects" ensures a variety of ideas and, ideally, prototypes for novel solutions and new markets.

Competition sponsors can inspire participants to devise promising solutions to widespread, intractable problems by providing a concrete incentive, often a large cash prize. Spurring multiple solutions across the collective efforts of all competing teams often generates 10 or more times the prize purse, creating a multiplier effect for the donor. Moreover, a repository of vetted, unselected funding proposals can advance the philanthropic ecosystem by broadening other donors' knowledge of prospective grantees. These knock-on effects can often make the return on investment of prize philanthropy higher than traditional grantmaking.

Innovation competitions are particularly useful for stagnant issues or areas with no clear path to progress. This practice entices individuals to investigate a problem that may be under-resourced or historically overlooked; therefore, prizes are likely not needed to incentivize progress on causes with widespread involvement and traction. Most competitions assemble an independent judging panel composed of relevant field experts to bring legitimacy and objectivity to the endeavor. Rewards include monetary gifts (sometimes upwards of tens of millions of dollars), network recognition, potential employment, and business development opportunities.

The process of building prize competition infrastructure, generating publicity, and recruiting an independent review committee is resource-intensive and can last an average of two years. In general, researching, designing, and creating specific rules for the competitions typically take three to four months, and recruiting teams and providing them with opportunities to learn, grow, and prototype, another three to six months. At least one round of judging should occur before a final round, along with rigorous testing and evaluation of the proposed outcome and data. The testing and evaluation phase for innovations around a specific issue makes this model particularly distinctive.

Because innovation competitions promote creative solutions and innovative approaches and seek to catalyze new markets, a philanthropist behind this effort should be comfortable with

Innovation Competition Spotlight: Milken–Motsepe Innovation Prize

The Milken–Motsepe Innovation Prize Program is a series of multiyear, multimillion-dollar innovation competitions for technological solutions that accelerate progress toward the UN Sustainable Development Goals, with a spotlight on Africa. The inaugural Milken–Motsepe Prize in AgriTech challenged global innovators to demonstrate solutions for smallholder farmers in Africa using tech to bring more food to market. The Milken–Motsepe Prize in Green Energy aims to reward innovators who expand access to reliable, affordable, and sustainable electricity in Africa. The annual competition offers $2 million in prizes and additional benefits, including a $1 million grand prize for the winning team and $1 million in additional prize money for select finalists. Participating teams also receive access to networking, training, and other resources.

some unpredictability. They should not have a solution in mind when launching a competition. Instead, they should be open to adaptation, iteration, and exploration—and relatively tolerant of risk. Before deciding to pursue a philanthropic prize competition, funders should ensure they have the capacity and willingness to undertake this effort.

Key Considerations for Distinct Gift Endeavors

At any size, a philanthropic gift is usually the most straightforward type of charitable contribution. Most individuals do not weigh their preferences for an endowment, achievement award, or innovation competition. However, it is valuable to grasp the unique benefits and drawbacks of these distinct types of gifts, as shown in Table 4.

Table 4: Advantages and Disadvantages of Distinct Gift Types

	Advantages	Disadvantages
Endowment	• Structured to ensure the longevity of the funded endeavor • Enhances the financial health of the beneficiary organization	• Can be repurposed at the discretion of the recipient • Investment return amounts are subject to change
Achievement Award	• Honors past accomplishments and bestows credibility on an individual in their field • Offers objectivity, legitimacy, and credibility via a panel of expert judges	• Does not inherently inspire breakthroughs or solutions • Relies on a solid nomination pipeline, which necessitates sufficient publicity
Innovation Competition	• Fosters new ideas from diverse sources • Often attracts additional capital to vetted finalists and winner(s), magnifying the prize purse's impact and potential for scale • Offers objectivity, legitimacy, and credibility via a panel of expert judges	• Can be a lengthy and resource-intensive process • Dependent on competition sponsor's willingness to relinquish control in determining selected finalists/winner(s)

Source: Milken Institute (2024)

GRANTS

Grants are a form of financial assistance from governments, foundations, and individuals. Although grants are similar to charitable gifts, the beneficiary must comply with the terms outlined in the grant agreement. These terms often include how the funds can be spent, when they should be used, and whether and how the grantee needs to report to the funder on its activities.

Most grants are solicited via a competitive process. This undertaking can entail submitting a funding proposal and budget to project how the resources will be spent in pursuit of a charitable aim. A donor may conduct a site visit or interview an organization's leadership to vet prospective grantees further.

There are many types of grants, and funders can choose how they support grantees. A donor can provide general operating support, which affords beneficiaries the most flexibility to spend the funds however they deem necessary. When a funder specifies the ways that grant money should be used, that grant is restricted to those specific purposes. Spending or directional changes must be communicated with the funder for approval. A grant can be restricted to support a nonprofit program or project, or designated for certain internal efforts, such as capacity building or planning support.

Funders can provide seed funding to burgeoning organizations or emergency funding to organizations facing a pressing hardship. They can contribute to a capital campaign, where funds are used to build or renovate a brick-and-mortar establishment. They can also motivate others to give by offering to match other incoming dollars (with or without a maximum cap) raised during a fundraising effort.

The following sections elaborate on some of the most common grants awarded by philanthropists.

Programmatic Grant

A programmatic grant supports a particular endeavor by the nonprofit beneficiary. The aid can cover direct service(s) provided by the organization to pursue its mission, and indirect costs immediately associated with the programmatic activities. Programmatic grants are, therefore, restricted funding; the donor has imposed limits on how funds can be spent.

Philanthropists are often compelled to support nonprofit programs because they deliver a direct social good. Although nonprofit programs certainly need funds to operate, donors should also consider the wraparound operations of an organization that are equally necessary to ensure programmatic successes. For that reason, donors should assess whether their grantmaking merits earmarks for program support versus general operating support.

Programmatic Grants Spotlight: The Leona M. and Harry B. Helmsley Charitable Trust

The Leona M. and Harry B. Helmsley Charitable Trust is a family-governed charitable trust with an $8 billion endowment and global reach. Its philanthropic portfolio includes place-based efforts in New York City and Israel and a heavy focus on the health and care of specific disease areas. Within its type 1 diabetes (T1D) programmatic area, for example, Helmsley makes programmatic grants to expand care options by supporting telemedicine and virtual specialty clinics, and promoting increased engagement of mid-level providers such as nurse practitioners, physician assistants, and pharmacists. Helmsley also invests in T1D research and biotech companies so that the field can better understand the biological factors contributing to the development of this medical condition. In this way, Hemsley's holistic approach to programmatic funding in T1D improves direct patient care and advances the health systems that will benefit tomorrow's patients.

Research Grant

As the name indicates, a research grant is awarded to a recipient for scientific research. These grants are usually provided by government or private entities through a competitive application process. Depending on the funder type, research grants can be provided to for-profit and nonprofit research institutions, including academic universities, nonprofit research institutes, and for-profit companies.

Research grants are awarded based on the scientific merit of the research proposal, which is vetted through a rigorous process that can include peer review of proposals over several weeks. With peer review, the proposal is evaluated by a panel of the applicant's peers in the field. Often, these panels consist of three to four experts who evaluate the applications on scientific merit, potential impact, team capabilities, and cost realism.

Most research grants to academic institutions have associated indirect costs (IDC), also called facilities and administration fees. These fees are usually calculated as a certain percentage of the total amount of the grant minus any equipment purchase. IDCs help to cover overhead expenses not directly tied to the research endeavor.

The world's largest provider of biomedical research grants is the US National Institutes of Health (NIH) (Science 2023). In 2022, the NIH provided research institutions $19.1 billion in extramural funding (Lauer 2023). Private philanthropic organizations are also a significant source of research funding. In 2022, US-based philanthropic organizations provided approximately $30 billion to science research funding (Sohn 2023).

Several institutions are implementing **fast grants** to expedite the process used for research grants. This granting method originated from the Mercatus Center at George Mason University in response to the COVID-19 pandemic. Fast grants provide research funding for projects that require less than $500,000, with funding decisions made in less than two weeks and funding disbursed in a matter of days. Applicants for these research grants submit abbreviated research proposals (about one to two pages) for consideration.

Research Grant Spotlight: Misophonia Research Fund

The Misophonia Research Fund (MRF) and the Milken Institute have partnered to advance a world where misophonia is scientifically understood and effective treatments are available to anyone with this disorder. Misophonia is a condition in which specific sensory sensations produce a physical and emotional response. Since this partnership began in 2018, more than $10 million has been awarded to 26 research projects worldwide to advance diagnostics and treatment options for misophonia. In August 2023, MRF awarded its fifth round of research grants, with more than $2.3 million awarded across six grants.

Capacity-Building Grant

An organization's ability to effect change is only as strong as its operations and the systems that drive its programming. To maximize impact, a nonprofit can benefit from capacity-building grants to cover expenses related to technology upgrades, staffing, and general infrastructure improvements. Thus, nonprofit capacity building is a crucial but often overlooked area of philanthropic investment. Grants can be earmarked specifically for this purpose. More likely, however, a funder provides unrestricted support to an organization, which can then apply the funds to general operating or capacity-building expenses, or both.

The philanthropic sector can best create impact at scale by funding nonprofit capacity building. To support these efforts, philanthropists could follow specific guidelines proposed within the sector. One concrete recommendation is to commit at least 1 percent of one's net worth to building nonprofits' infrastructure, including technology platforms and databases (Rockefeller Philanthropy Advisors; Impact Entrepreneur 2019). Another recommendation is to allocate 10 percent of one's total charitable contributions to research and analysis to help support the nonprofits' measurement, evaluation, and learning processes.

Capacity-Building Grants Spotlight: William and Flora Hewlett Foundation

The William and Flora Hewlett Foundation's Effective Philanthropy Program is designed to strengthen its immediate grantees and the larger philanthropic ecosystem by advancing thought leadership on philanthropic best practices and providing operational support to enhance nonprofits' internal capabilities to perform. These capacity-building grants promote organizational effectiveness and help nonprofits invest in essential activities, including strategic planning, communications, and finances. In addition, the resources can help organizations prepare for leadership transitions, tend to board development and governance, and implement internal practices, including diversity, equity, and inclusion. With the ability to address capacity-building needs, nonprofits are well-positioned to offer direct services and other programming contributing to social and environmental impact.

Key Considerations for Grantmaking

Myriad types of grants can be awarded to a nonprofit beneficiary. Grants structured as general operating support provide the most flexibility and autonomy to the grantee and the least number of reporting requirements, thereby freeing the organization to focus on its mission rather than administrative responsibilities. Table 5 highlights the advantages and disadvantages associated with some common grant options.

Table 5: Advantages and Disadvantages of Distinct Grant Types

	Advantages	Disadvantages
Programmatic Grant	• Directly advances the charitable mission of the nonprofit beneficiary	• Can be repurposed at the discretion of the recipient • Investment return amounts are subject to change
Research Grant	• Can fund higher-risk or early-stage research that may not receive government funding • Can quickly provide funding to researchers to accelerate scientific discoveries	• Does not inherently inspire breakthroughs or solutions • Relies on a solid nomination pipeline, which necessitates sufficient publicity
Capacity-Building Grant	• Explicitly intended to enhance internal operations, often overlooked in philanthropy	• Challenging to track impact and/or return on philanthropic investment

Source: Milken Institute (2024)

INVESTMENTS

Investments offer philanthropists and nonprofit organizations a return-based approach to generate impact and financial returns and optimize their portfolios. Investments can flow from LLCs, public charities, and private foundations to nonprofit and for-profit entities and tend to take two forms: venture philanthropy and impact investing.

The type of philanthropic vehicle may constrain investments. Public charities and LLCs have the most flexibility because they can own for-profit and nonprofit subsidiary companies, conduct significant equity investments, and have a lower chance of self-dealing complications. Private foundations have less flexibility because they can own only 20 percent of a business and must follow IRS disqualified person rules (IRS 2023). Any philanthropic investment requires specialized expertise and reporting.

Venture Philanthropy

Philanthropic organizations such as private foundations and public charities can use venture philanthropy to strategically invest in companies to advance philanthropic goals. No one-size-fits-all definition of venture philanthropy exists because the practice can range from recoverable grants to equity investments. However, it is rooted in applying venture capital principles to deploy philanthropic capital to for-profit entities, primarily in the start-up or early stages. A key difference between venture capital and venture philanthropy is that donors do not receive a return for the latter; rather, any potential revenue is recycled into the venture philanthropy fund. Venture philanthropy enables financial capital to achieve goals and outcomes that benefit society while removing some of the financial risk and pressure from the for-profit entity.

Venture philanthropy capital helps to bridge the space between innovative products and commercialization. It is often used in biomedical development to traverse the so-called "valley of death," the area of development between preclinical and clinical research where potential therapeutic assets often fail. This type of funding can, therefore, enable biotechnology and pharmaceutical companies to increase their funding sources for the high-risk development of novel therapeutics.

Impact Investing

Impact investing seeks to generate measurable social and environmental benefits while generating competitive financial returns. Any individual investor (including philanthropists) can leverage their portfolio's impact by investing in companies with positive, measurable societal outcomes, including environmental, social, and governance benefits. Impact investing funds can be structured to focus on a specific theme, such as climate change or agriculture, and target early-stage companies.

Measuring impact is essential to monitoring the success of impact investing. However, no universally accepted set of metrics to track impact exists, leading to high variability levels. Many individuals assess the performance of their impact investments using the United Nations' 17 Sustainable Development Goals.

Individuals with social and environmental impact objectives usually engage in other responsible investing practices that are separate from impact investing. Such practices include thematic investing or negative screening to determine whether or not to invest in a business venture. With the former, the individual aligns their portfolio around a specific focus area or personal values (for example, green energy). The latter eliminates companies from potential investment based on ethical or social concerns, such as the production of high carbon emissions. These responsible practices help align an individual's impact objectives and financial activities.

Types of Investment Mechanisms

A variety of investment mechanisms can accomplish social and environmental impact goals. Philanthropic investments, particularly for private foundations, often fall into two categories: mission-related investments (MRIs) and program-related investments (PRIs).

Mission-Related Investment

MRIs are financial investments deployed to advance the philanthropic organization's mission. MRIs are designed to advance a larger societal impact while simultaneously seeking a market rate of financial return. They can be made via private foundations and public charities, often by utilizing the organization's endowment. MRIs do not count toward the 5 percent deployment required of private foundations. They can be market-rate or below-market-rate and leverage a variety of investment mechanisms, including equity investments and loans.

Mission-Related Investment Spotlight: Skoll Foundation

The Skoll Foundation, in partnership with its investment manager, Capricorn Investment Group, leverages a portion of its endowment to make MRIs to advance both economic inclusion and racial justice by investing in new asset classes, underrepresented fund managers, and first-time fund formation. The Skoll Foundation's economic inclusion and racial justice investments complement its gift- and grant-making portfolio by using all the levers to activate the total portfolio.

Program-Related Investment

PRIs are below-market-rate investments that are a hybrid of grants and investments. The IRS defines these investments as those in which:

1. "The primary purpose is to accomplish one or more of the foundation's exempt purposes,
2. Production of income or appreciation of property is not a significant purpose, and
3. Influencing legislation or participating in political campaigns on behalf of candidates is not a purpose" (IRS 2023).

PRIs are appropriate when an investment structure would benefit the recipient (investee) more than a traditional gift or grant. PRIs are deployed as grants and, upon a financial return, are counted as investment income. The rules for their deployment differ based on the organizational type. This philanthropic investment can be part of a private foundation's 5 percent required capital deployment. However, the use of these investments by private foundations is highly regulated, and legal counsel should be consulted before structuring such investments (Joseph, Program-Related Investments and You-Perfect Together? 2010).

Program-Related Investment Spotlight: Kresge Foundation

The Kresge Foundation started a practice of social investing in 2008 by deploying grants and PRIs to address the financial barriers confronting communities of color and underserved communities. These PRIs take the form of loans, equity investments, strategic deposits, and unfunded guarantees. Kresge has provided more than $400 million in social investments across seven thematic programs, with the highest historic funding awarded to organizations near its office in Detroit, Michigan.

Philanthropists and nonprofit organizations can select from multiple investment mechanisms to deploy MRIs or PRIs. Because these mechanisms differ, philanthropic investors should structure deals to cultivate their intention and the recipient's needs for a significant impact. Table 6 outlines some common investment mechanisms philanthropic investors could use in their venture philanthropy and impact investing portfolios.

Table 6: Investment Mechanisms Definitions and Examples

Type	Definition	Example
Social Impact Bonds	A social impact bond (SIB) is a performance-based contract where investors provide capital to a social service organization or program with the intent for it to have an improved social outcome. If successful, the government pays the return on the investment (Social Finance 2023).	Massachusetts was one of the earliest governments to deploy social impact bonds through the Juvenile Justice Pay for Success Initiative. This initiative seeks to reduce recidivism and improve employment outcomes for young men at high risk of re-offending. This SIB is offered in partnership with impact investors from both the nonprofit and for-profit space, including the Kresge Foundation, the Arnold Foundation, and the Goldman Sachs Social Impact Fund. Massachusetts will pay back the investment based on the effectiveness of the intervention when compared to a randomized control group.
Convertible Notes	A convertible note is a debt and equity hybrid. Short-term debt can be converted into equity based on a predetermined funding round. Early-stage companies often use convertible notes for fundraising. Convertible notes can be attached to grants if the grant funding can yield intellectual property with commercial potential (University of Pennsylvania Carey Law School n.d.).	The Richard King Mellon Foundation has a social impact investment program that uses convertible notes to fund for-profit companies focused on one or more of its programmatic areas, including conservation, economic development, economic mobility, and health and well-being. In 2022, the foundation provided a program-related investment as a convertible note to Ducks Unlimited, LLC, to expand engagement opportunities for outdoor enthusiasts and provide additional conservation funding.
Equity	Equity investments are the purchase of shares in a company. Investors expect the company's shares to rise in value over time. Venture capital investment in early-stage companies often takes the form of equity (BlackRock 2023).	The RD Fund, a subsidiary of the Foundation for Fighting Blindness, participated in the Series A funding round of Astana Therapeutics with an equity investment of $8.5 million (RD Fund 2022).

Source: Milken Institute (2024)

Table 6: Investment Mechanisms Definitions and Examples *(continued)*

Type	Definition	Example
Loans	A loan is borrowing capital with an agreement that the capital will be paid back to the lender. Often, loans are paid back with a predetermined amount of interest on the principal. Low-interest loans are often used in program-related investments to help mission-aligned organizations obtain capital.	The Kresge Foundation provided a $2 million PRI loan to the Collective Energy Company to finance solar and solar storage predevelopment and construction activities for community health centers.
Royalties	A royalty is a legal contract that binds an entity to payment to another entity for the ongoing use of its asset. Royalty deals within the pharmaceutical space have been significant because they can be negotiated before development and, if successful, can generate a large amount of capital when sold.	The Cystic Fibrosis Foundation (CFF) applied a royalty deal in its contract with Vertex. CFF had an initial investment of $40 million into Vertex. The development and success of Kalydeco® and other CF treatments enabled CFF to sell its royalty rights for $3.3 billion.

Source: Milken Institute (2024)

All the mechanisms highlighted in Table 6 call for deployment based on objective, recipient, and growth potential. Loan amounts can vary, but bonds are usually issued in larger sums. Bonds and loans are appropriate when providing recipient organizations with programmatic and organizational support at low interest rates.

Convertible notes and royalty agreements are well suited to innovation-focused organizations, such as scientific research institutions. These mechanisms have a longer time horizon, and their return highly depends on the entity's success. Convertible notes and royalty agreements can be integrated within grant agreements to allow donors to benefit in the future. Equity investments into start-ups carry the most risk but can yield high returns. Loans may be a more appealing option for later-stage companies with viable products for commercialization because they are a less expensive point of entry than equity.

Loans from philanthropic investors can help organizations that are not deemed creditworthy by traditional institutional investors and may therefore not be eligible for a bank loan or may be eligible but at a high interest rate. Therefore, a loan from an individual investor would likely provide greater flexibility, with more favorable terms, than one from a financial institution. From an investor's perspective, the decision to lend should be based on the recipient's ability to repay the debt, the timing of the funding needed, and the amount of capital needed. Almost all the mechanisms mentioned in Table 6 can be paired to optimize impact and return.

Key Considerations for Venture Philanthropy and Impacting Investing

In sum, venture philanthropy and impact investing are powerful tools that philanthropists and some philanthropic vehicles can deploy to advance their mission. However, the field has not agreed on universal impact metrics for these investment types. Nonetheless, MRIs and PRIs present clear opportunities for an investor to achieve social impact. The pros and cons of MRIs and PRIs that investors should consider are presented in Table 7.

Table 7: Advantages and Disadvantages of MRI and PRI

	Advantages	Disadvantages
Mission-Related Investing	• A high degree of flexibility for investment structure and terms • Potential for significant financial returns	• Not counted toward charitable expenditure
Program-Related Investing	• Ability to provide financial support to both nonprofits and for-profit entities • Investment income recorded upon generation of profit	• Lower flexibility for investment terms because investments must be below market • Extensive reporting requirements

Source: Milken Institute (2024)

CONCLUSION

There is no one way and no right way to approach social impact. Philanthropy is a highly personal endeavor that reflects one's values and priorities in advancing progress. To determine their philanthropic approach, donors must engage in due diligence and assess their appetite for flexibility against the limitations of each funding mechanism, organizational structure, and collaboration opportunity. For additional guidance on considerations for the next steps, consult the Milken Institute's Philanthropist's Field Guide.

This guidebook only skims the surface of the legal requirements and immediate next steps to engage in any of these endeavors. It was designed to broaden awareness and help philanthropists narrow their path toward philanthropic action. Ultimately, what is most important is participating in the philanthropic process. Taking an intentional first step is progress.

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ABOUT THE AUTHORS

Kara Whelply is an associate director, Philanthropy, at the Milken Institute. She is part of the Science Philanthropy Accelerator for Research and Collaboration (SPARC) within MI Philanthropy. Whelply's work focuses on advising individual philanthropists and nonprofit organizations on therapeutic development with methods to identify, fund, and accelerate treatments for disease areas of interest, along with consulting on organizational strategy and development. Whelply has cultivated an expertise in science funding strategy, specializing in venture philanthropy. Prior to joining the Milken Institute, she was an ORISE fellow at the Center for Drug Evaluation and Research at the US Food and Drug Administration, where she focused on regulatory data and knowledge management systems to improve efficiency and workflow for regulatory reviewers and administrators. Whelply received both a Master of Business Administration and a Master of Public Health with a concentration in epidemiology from the University of Alabama at Birmingham and has a bachelor's degree from the University of Alabama. She is based in the Institute's Washington, DC office.

Hilary McConnaughey Page is an associate director, Philanthropy, at the Milken Institute. She has spent a decade of her career in philanthropy, advising institutional foundations, corporations, and high-net-worth individuals on their social impact endeavors. At MI Philanthropy, she advises high-capacity philanthropists on their change-making strategies and delivers on operational next steps by providing foundation management services and oversight. She also develops thought leadership through MI programming, reports, and action-oriented resources aimed at advancing the philanthropic sector and individual giving. At Arabella Advisors, McConnaughey Page managed charitable and advocacy-related projects on behalf of her institutional foundation clients. She has experience in building a corporate social responsibility program at a biotech start-up in San Francisco, as well as training in human-centered design at Tipping Point Community, a grantmaking nonprofit focused on alleviating poverty in the Bay Area. McConnaughey Page received her Master of Public Policy from Brown University and BA with honors from Colgate University.

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