

# Environment

**Date:** July 1, 2014  
**To:** Hewlett Foundation Board of Directors  
**From:** Tom Steinbach  
**Subject:** Environment Program Grant Trends Analysis

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This memo provides an analysis of Environment Program grantmaking from 2004 through 2013, with projections for 2014 and 2015, where possible.

In Section I, we provide context on the Program's overall grant making trends. Section II describes the frequency of general operating support (GOS) versus project support grants and some of the reasons for shifts in GOS levels over time. Section III lays out the trends for grant duration, as well as the factors that program officers consider when making choices about the length of each grant and whether to recommend grant renewal. Section IV covers average grant size and includes an assessment of the patterns in grant size from 2004 to 2013. Finally, summary findings are provided in Section V.

## I. Context

Taken together, levels of general operating support, grant duration, and grant size provide insight into the maturity of each Program strategy, the capacity to implement it, and the external operating environment in which the grants are made. In the Environment Program, these variables are driven predominantly by a focus on advancing the climate change and Western conservation goals established by the Board, pursued in ways that incorporate extensive input from the field. Program officers draw heavily on grantee expertise in setting strategy and developing grant portfolios, then seek to structure grant recommendations that help grantees achieve their goals and thrive organizationally. This approach is a constant throughout our grantmaking.

The grant patterns for these variables are also driven by the structure and budget of the Program and by the external environment in which we operate. These factors cause most of the variation in our grantmaking over time. Our focus on finding solutions that emerge from, and are implemented by, organizations in the field is expressed in relatively high levels of GOS, and in stability in grant duration, grant size, and number of renewals.

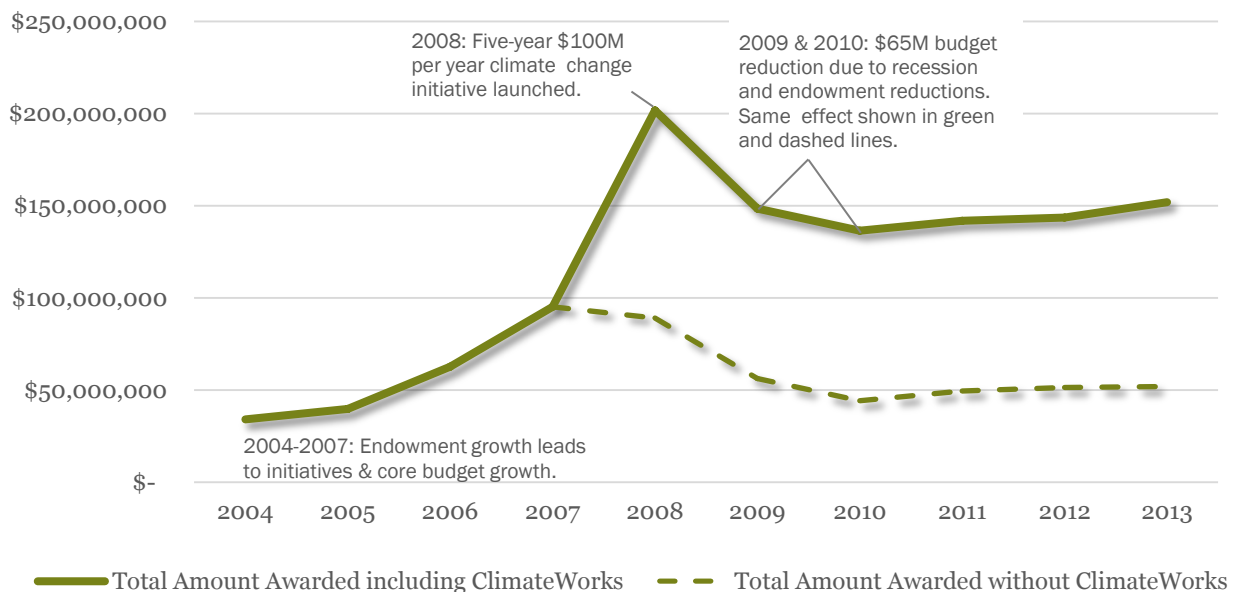
A dominant early driver of the variation in GOS, duration, and grant size is the growth in grant budgets from 2004 through 2008, as the economy expanded and the Foundation's endowment grew (see Figure 1). It's followed by subsequent grant budget reductions, beginning in 2009, due to the global recession and resulting decline in the endowment. The commitment of \$100 million per year to climate change efforts, beginning in 2008 and running through 2018, is also prominent.

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From 2004 through 2007, total funds awarded via the Environment Program grew from \$34 million to \$95 million. Program budgets expanded as the Foundation's endowment grew and extraordinary reserve initiatives, like the Great Bear Rainforest and China Sustainable Cities projects, were launched.

In 2008, two factors took hold. At its July meeting, the Board approved a five-year \$500 million commitment to the ClimateWorks Foundation. This added \$100 million per year to the grants managed by the Environment Program. Later that year, the economic downturn gained momentum and the organization began planning for big reductions in grant spending. The ClimateWorks commitment and \$7 million China Sustainable Cities Initiative remained in place through a two-year period of budget cuts that touched most parts of the Foundation. In 2009 and 2010, we reduced Environment Program grant awards by \$65 million through grant tie-offs and termination of the Great Bear Rainforest and Bus Rapid Transit special initiatives.

**Figure 1: Environment Program Total Amount Awarded (with and without ClimateWorks)**



Grant awards were comparably stable from 2011 through 2013 with total awards between \$140 million and \$150 million. We expect total awards to drop by \$20 million in 2014 as a result of reductions in climate and energy spending from the core Environment Program budget, tapering of the Clean Transportation Initiative, and conclusion of the China Sustainable Cities Initiative.

## II. General Operating Support vs. Project Support

We seek to provide general operating support to grantees with goals that align well with the climate change and Western conservation priorities established by the Board. We also tend to focus GOS support on organizations covering multiple aspects of a strategy (e.g., federal renewable energy policy) and where we expect a multi-year partnership to develop. At times, we will also use GOS for particularly innovative grantees, giving them greater latitude to pursue emerging strategies that they might not pursue if they received funding prescribed to a specific project.

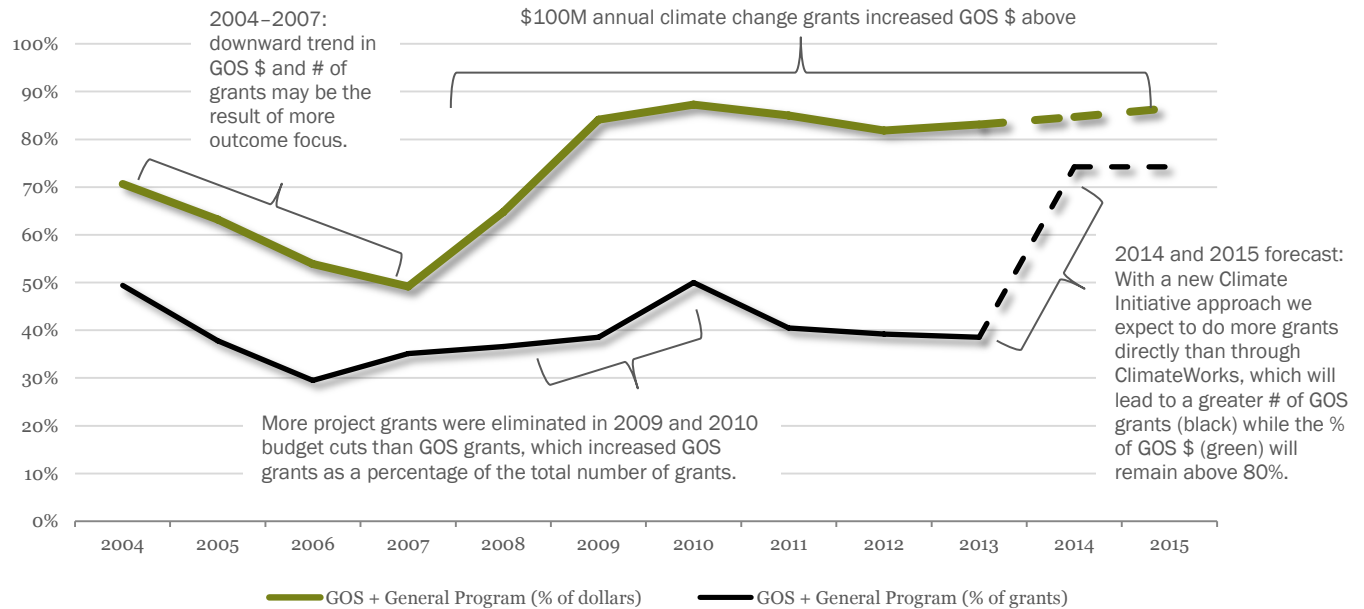
From 2004 through 2007, Environment Program GOS percentages fell from 70 percent to 50 percent of total grant funds awarded, and from 50 to 30 percent of the total number of grants approved (see Figure 2). There may be no single explanation for this trend, though this was the period when outcome-focused grantmaking became our dominant approach. This shift meant that program officers were no longer solely looking for strong organizations with capable leadership. They now had measurable goals for our Western conservation and energy policy work, and theories of change for how these goals could be reached. This likely meant that the work of some organizations previously receiving GOS grants was no longer aligned with the more specific goals and outcomes articulated for each area of our work. Grantees in that situation may have been tied off or awarded grants for specific projects.

In 2008, the Board approved the Climate Change Initiative, which was structured as a single five-year \$500 million GOS grant to the ClimateWorks Foundation, paid in \$100 million annual installments.<sup>1</sup> This large GOS grant was the main driver in raising the GOS percentage of total grant awards to well above 80 percent, where it remains today. We expect this trend to hold through the end of the Climate Initiative in 2018.

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<sup>1</sup> The original 2008–2012 five-year Climate Initiative, approved in July 2008, was ultimately extended one year, through June 2014. A new five-year Climate Initiative was approved in July 2013, with grantmaking to occur from January 2014 through December 2018.

**Figure 2: Percentage of Total Funds and Number of Grants Awarded as General Operating Support**



During the five years, from 2008 to 2013, our climate grantmaking had two aspects. We made a single large payment of \$100 million annually to the ClimateWorks Foundation, and an additional \$30 million in direct grants on climate from the Environment Program core budget and the China Sustainable Cities and Clean Transportation initiatives. We managed all these funds with a single goal and unified strategy. While a significant portion of the \$30 million was awarded as GOS, this was in a few large grants. We also made a significant number of smaller and generally shorter non-GOS project grants from the \$30 million to support new or emerging approaches not covered by ClimateWorks. This added to the trend seen in Figure 2, where more than 80 percent of funds awarded were GOS, while the number of GOS grants was between 40 and 50 percent of all grants approved.

Renewal of the Climate Initiative in July 2013 incorporated a number of changes in our approach. Among them was a shift to direct grantmaking, rather than a single \$100 million annual GOS payment to the ClimateWorks Foundation. Looking ahead, we still expect the percentage of grant funds as GOS to remain above 80 percent. Because we will be making more climate grants directly and picking up some of the organizations previously funded via ClimateWorks, the total number of GOS grants as a percentage of all grants will likely increase from 40 percent to roughly 70 percent. These projections are based on the priorities we expect to emerge from the climate funders table—a collaborative effort to align funding across large climate change donors. This is a new approach, so actual GOS levels may vary as we learn and adjust.

One trend not evident in the GOS data relates to a shift in Environment Program strategy. Around 2006 we realized that giving primarily to traditional environmental groups was not generating the results we hoped to achieve, in either our Western conservation or our energy and climate work. A period of experimentation and diversification began that year and continues today. The first wave of experimentation involved funding a broader array of organization types (e.g., business, faith, rancher, hunter/angler, Latino). This worked well and has become one of the hallmarks of our grantmaking approach.

Encouraged by this shift, we began a second wave of experimentation in 2010, following the failure to secure a national climate change policy in the U.S. Specifically, we started experimenting with increased support for grantees who can take strong policy recommendations and credibly deliver them to policymakers who are in a position to move on a given policy solution. We think these two waves of experimentation have led to a greater number of project grants and less GOS, as we are often funding new grantees or encouraging existing grantees to try new tactics. The effect would be to reduce the percentage of GOS grants and dollars awarded as GOS. Because these experimental grants have tended to be smaller than grants associated with mature strategies, the net effect on GOS levels has likely been modest, and possibly masked by shifts caused by the budget expansion and reduction drivers noted above.

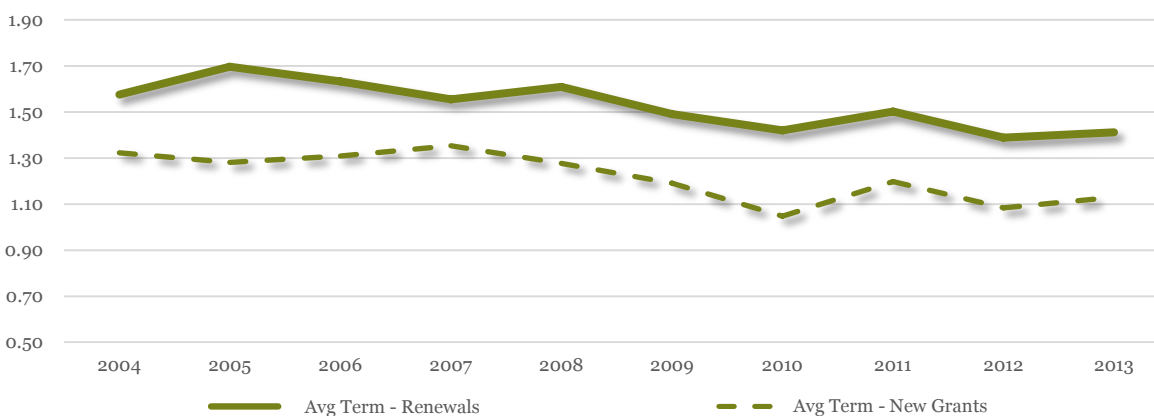
We expect this experimentation to go on for a few more years. As we learn what works and identify which grantees are most successful with this approach, we anticipate a shift back toward GOS support for the most effective grantees.

### **III. Grant Duration**

Many variables affect our decisions about grant duration. Degree of alignment with our strategy, available budget, and our level of confidence in a grantee's ability to adjust to changing conditions on the ground are a few of the most prominent factors.

For Environment Program grants, average term was fairly stable from 2004 to 2007 (see Figure 3). Terms fell somewhat from 2008 through 2010. This was almost certainly tied to budget reductions in those years. Program officers generally tried to discontinue entire clusters of grants to meet the budget cuts, but in some cases they chose to shorten grant terms in order to continue funding organizations they felt were important to achieving the Program's goals.

**Figure 3: Average Grant Term of New and Renewing Grants**



From 2008 to 2010, the average term for new grants fell by twice the amount of the average term for renewing grants—another effect of the reduced budget in a period where new strategies were being implemented. It became rare that a new grantee would be given a multi-year grant. With fewer resources at their disposal, program officers prioritized multi-year support for renewing grantees based on their assessment that these grants were a more essential part of our ongoing strategies<sup>2</sup>.

Since 2010, the average terms have stabilized with some modest fluctuations. Interestingly, average terms have not returned to the somewhat higher levels seen prior to the 2009 and 2010 budget cuts.

Not surprisingly, the average grant term for renewal grants is higher than for new grants. This reflects that new grants are often experimental. By definition we are more familiar with an organization and strategy for a renewal grant than for something new. Because new grants are generally more experimental and sometimes carry more risk of failure, program officers often start a new grant with a one-year term. This gives them the flexibility to consider a renewal after twelve months if progress has been promising.

This difference or gap between the average term for renewing grants and new grants has remained relatively steady over the ten-year period from 2004 to 2013. This consistency illustrates that program officers are applying a similar discount to new grants in relation to renewing grants when it comes to grant duration.

While some of our largest grants are GOS, they often carry one-year terms. This is true for organizations like the Energy Foundation, European Climate Foundation, and Western Conservation Foundation. All are regranters to which we regularly renew large grants. The only

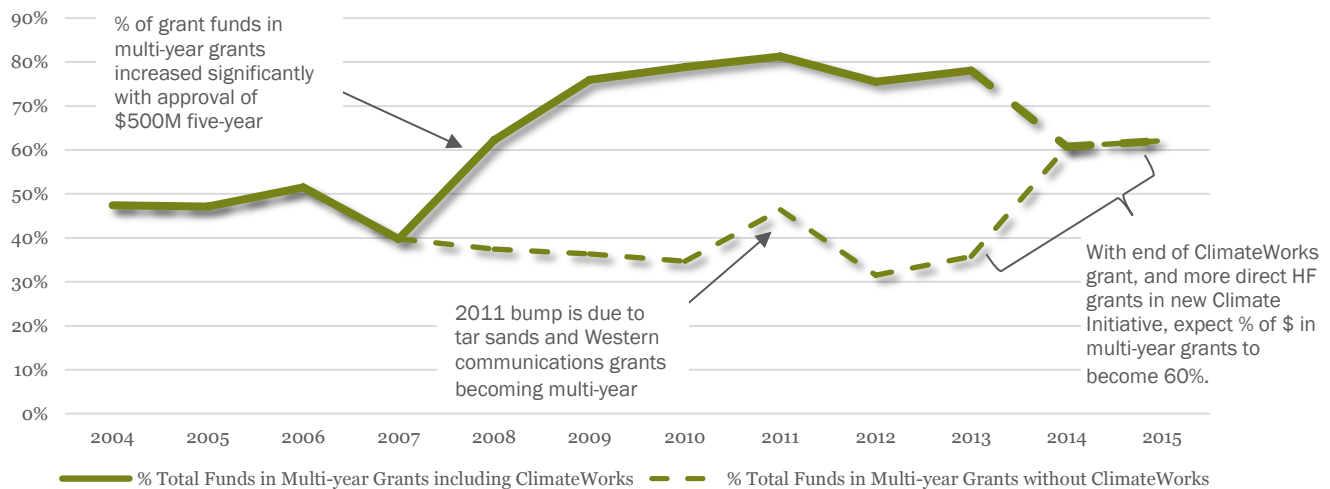
<sup>2</sup> This trend also appears in the total percentage of grants that were renewals. For most of the period from 2004 through 2013, the percentage of renewals remained fairly stable at levels just below 50 percent. From 2008 to 2010, this climbed to above 60 percent.

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reason these do not have longer terms is that we have not had sufficient funds to make them multi-year without significantly constraining all other grantmaking in the Program in the year in which these large grants would be awarded. We are working to change this for several of these large GOS grantees, as we do more direct grantmaking via the renewed climate change initiative.

From 2004 to 2006, 50 percent of total Environment Program grant funds were awarded as multi-year grants. When the five-year ClimateWorks grant was approved in 2008, the percentage of funds in multi-year grants increased significantly, hovering between 70 and 80 percent for most of the grant term (see Figure 4). Without ClimateWorks, the percentage of funds in multi-year grants is lower, ranging between 30 and 50 percent from 2007 and 2013. This is the result of several factors described above, with the most significant effects driven by not having funds available to make our largest grants multi-year, and by two waves of strategy experimentation, which meant more short-term grants. The budget cuts of 2009 and 2010 also contributed to reductions in the total amount of money in multi-year grants.

**Figure 4: Percent of Total \$\$ Awarded as Multi-year Grants (with and without ClimateWorks)**



## IV. Average Grant Size

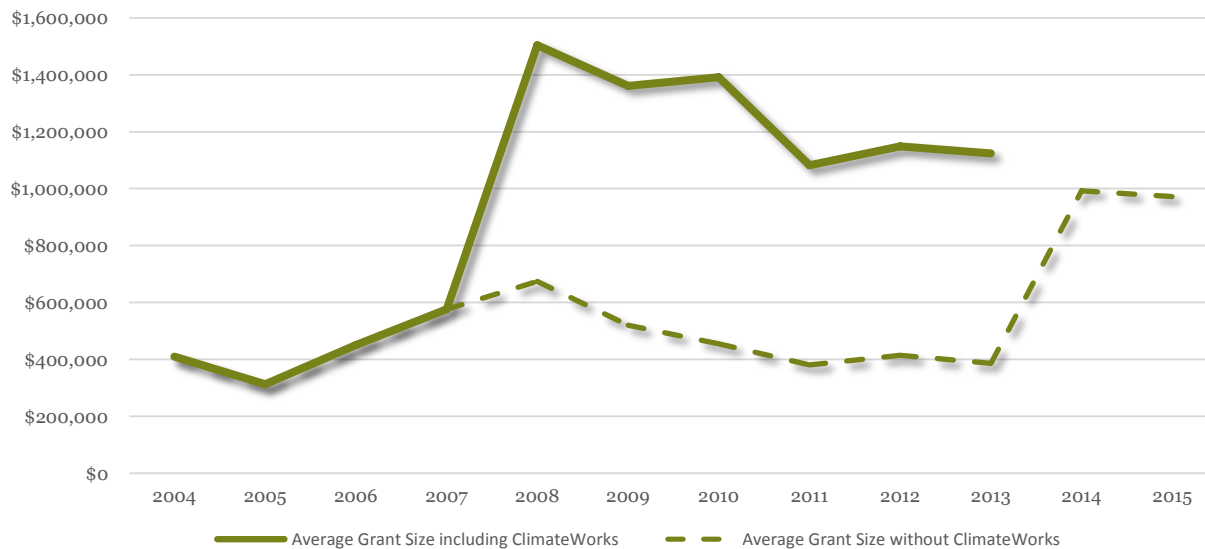
The Environment Program average grant has ranged from \$0.3 million to \$1.5 million from 2004 through 2013. As budgets grew from 2004 to 2008, the average grant size increased and with the approval of the ClimateWorks grant, it jumped significantly (see Figure 6).

Average grant size trended downward from 2009 to 2011, in large part due to the budget cuts of that period, and then stabilized through 2013 at \$1.1 million, with ClimateWorks included, and \$0.4 million without ClimateWorks. There is some correlation between average grant size and grant duration with these measures rising and falling together, though this is not universally true over the ten-year period. Additionally, excluding ClimateWorks, the average size of renewing grants has been two to three times greater than new grants. In 2007 and 2008 this

difference was less pronounced (though still present) due to a few large one-time grants for Great Bear Rainforest conservation and clean energy priorities.

With the end of the ClimateWorks grant and launch of the new Climate Initiative, we expect average grant size to stabilize near \$1 million.

**Figure 5: Average Grant Size (with and without ClimateWorks)**



## V. Conclusion

Levels of GOS, length of grants, and size of grants in the Environment Program follow patterns that correspond to the variations in the Program's budget and the relative maturity of the strategy being pursued. Generally speaking, with larger budgets and mature/time-tested strategies we see increased GOS, longer grant terms, and larger average grants. Periods of experimentation where we are trying new approaches tend to push us toward lower levels on each of these variables, until we are able to see which approach works best and feel confident in moving back toward more GOS, longer grants, and larger amounts.

In both the Western conservation and climate change areas of our work, we are in a period of experimentation. This is especially true on the climate front, where we are simultaneously reducing our overall grantmaking by \$30 million per year, pulling a significant portion of our grantmaking in-house (as opposed to through ClimateWorks), and working to identify which grantees are best equipped to deliver policy recommendations to policymakers in ways that prompt action. We will be paying close attention to the effect this period has on our grantmaking and anticipate that if we're successful, we'll see higher levels on each of these variables going forward.