

Accepting risk: Why it matters in grant-making

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Open and Trusting funders explicitly commit to accepting risk:

Open and Trusting commitment 3: Accept risk

We will accept our share of risk – we will be realistic about how much assurance applicants can reasonably give us; we will clearly explain how we assess risk when we make our funding decisions.

But risk remains as a barrier for many in fully implementing the eight commitments at the heart of the [Open and Trusting approach](#). Together, the Open and Trusting community must find a way to break this deadlock. (This is an abridged version of our previous discussion paper: [Accepting risk in funding practice](#)).

There's no escaping risk

Risk is inherent in any grant, project, or enterprise – there is no venture that is free of the risk of something getting in the way.

It is therefore very important to improve our understanding of funding risk – what it looks like, who carries it, and what benefits it can deliver.

The benefits of explicitly considering risk in grant-making

1. A clear understanding of risk can reduce implicit biases

If we don't address risk explicitly, the process of identifying and managing risk in grant-making can mask implicit bias. The consequences of this are evident in many funders' perceptions of certain groups of charities – notably Black-led and racial justice organisations – as inherently riskier, despite a lack of evidence to support this view (Armitage, 2021; Sidney, 2021).

2. Some funding practices can reduce the risks for charities

Although funders cannot do their work without funded organisations, funding risk is too often considered only from a funder's perspective. Funders don't realise how much their practices amplify risk for charities, affecting organisational and financial resilience, allocation of resources to meet beneficiary priorities, staff retention and support, use of limited fundraising, and reporting capacity (e.g. IVAR, 2023a; 2023b). All constrain charities in doing their best work, feeding back into funders' own risk management concerns. Acknowledging and working with this circular relationship gives funders a much more rounded view of funding risk – and a practical understanding of how accepting more risk onto their own shoulders delivers greater benefits for the communities and causes they wish to support.

3. A strategic approach to risk is an opportunity

Aversion to risk at board level is often cited as a barrier to more Open and Trusting funding practices. But why should we assume that being more Open and Trusting is a 'risky choice' for funders? There are many examples of foundation boards who have proved open to new ways of thinking about risk (e.g. Cairns et al, 2021), taking a strategic

approach that balances opportunities against risks, and pays attention to distinguishing between positive risk, acceptable risk, and serious risk concerns.

If you're not explicit about risk, how do you know if you have the appropriate approach to risk?

Risk culture is deeply embedded in the nuts and bolts of grant-making practice so it's key for funders to review the connection between their risk culture and their grant-making processes.

When funders review their practices through a risk framework they may find that their risk culture is not always in alignment with the level of risk actually being taken:

'When we look at the actual risks we take and we look at our portfolio, because we haven't made our risk appetite or approach explicit, we're not taking the risks we think we're willing and ready to take. We have a good shared understanding of risk, but not necessarily leading through to taking risk'.

When applied with an Open and Trusting lens, funders' risk management approaches can help them to question and test their assumptions about risk, to take better informed risks, and to be more active partners with funded organisations in sharing the risk burden (Trust-based Philanthropy Project, 2023).

Funders have broader shoulders

Open and Trusting funders are asking what they can do to accept a larger share of the risk:

'It strikes me how little risk most funders take – we are so protected from the environment that the organisations we support are facing, and yet sometimes we can back off when they get into difficulty when we're the ones with the resources and stability. So do we need to take a different approach to sharing some of those risks?'

'Funders have broader shoulders, we should shoulder more.'

Explicitly considering risk appetite and how this feeds, or doesn't, into grant-making practice has substantial benefits for both funders and charities and could strengthen the sector at this critical moment.

Assess your foundation's approach to risk

We have developed an [interactive tool](#) which aims to help you consider your own organisation's approach to risk, in light of the above. We hope that this supports foundations to start internal conversations about risk attitude, appetite and practice.