Equity in Minnesota State Grantmaking

Prepared by
Nicolette Gullickson, Wendy Jones, Lilian Sand, and Jiapeng Yan
University of Minnesota Humphrey School of Public Affairs

Prepared for

May 2021
# Table of Contents

Introduction ............................................................................................................................................................................... 3  
Background and Context ...................................................................................................................................................... 4  
Research Questions ................................................................................................................................................................ 7  
Literature Review .................................................................................................................................................................... 8  
Methodology ............................................................................................................................................................................ 10  
Findings and Analysis .......................................................................................................................................................... 12  
Discussion ................................................................................................................................................................................. 24  
Recommendations ................................................................................................................................................................ 27  
Conclusion ................................................................................................................................................................................ 28  
References ................................................................................................................................................................................ 31  
Appendix A: Nonprofit Interview Guide ..................................................................................................................................... 34  
Appendix B: State Agency Interview Guide ............................................................................................................................ 35  
Appendix C: MCN BIPOC Organization Designation Protocol .......................................................................................... 37  
Appendix D: Nonprofit Survey ................................................................................................................................................. 39  
Appendix E: Code Book (State Agency Interviews) ............................................................................................................. 43  
Appendix F: Coding Schema (Nonprofit Interviews) .......................................................................................................... 46
Introduction

The state grantmaking process was not originally designed with equity as the organizing principle. As such, it is unsurprising to learn that nonprofit organizations in Minnesota led by and/or serving Black, Indigenous, and People of Color (BIPOC) receive less state funding than white-led organizations. Equity does not occur on its own, it must be cultivated. In recent years, there has been an increasing focus on community involvement when it comes to social service provision. Grassroots activism has elevated participatory funding as an equitable solution to the inequities present in grantmaking processes across the board, whether coming from the state or foundations. Communities know best what they need, and embedded community organizations are well-positioned to communicate these needs and execute the programs necessary to meet them. Unfortunately, the state of Minnesota takes a top-down approach, with agency personnel specifying what programs will be created, and thus funded, rather than asking communities what their needs are. In addition, this disconnected top-down approach leads to an application process that is overly burdensome and does not accurately capture the success of the organizations applying for state funding.

Several foundations, both local and national, have taken up the call for centering racial equity in earnest and have implemented innovative giving models that directly engage community members. Three of these foundations are discussed in this report, to illustrate the potential frameworks the state of Minnesota could adopt to increase racial equity in the state grantmaking process.

This report is the product of a months-long project undertaken by students pursuing their Masters in Public Policy and Public Affairs at the Humphrey School at the University of Minnesota. We worked directly with staff at the Minnesota Council of Nonprofits to ground this work and gather data around an issue that they have seen in their work with various nonprofits and funders. Within this report, we will outline the history of state funding in Minnesota and the context in which this project is situated; the specific questions that guide our research; a short review of relevant literature; our quantitative and qualitative methodologies; our findings and an analysis of those findings for both the nonprofit and state sides; a discussion of these findings; and recommendations for policy change and future research.

*The authors would like to thank Kari Aanested and Jon Pratt from the Minnesota Council of Nonprofits for their support. Their generosity and knowledge were critical to this project.*
Background and Context

Minnesota has a robust nonprofit economy. With 36,612 active nonprofits in the state (Internal Revenue Service, 2021) the Minnesota Department of Employment and Economic Development reports that nearly one out of every seven employed Minnesotans works for a nonprofit organization, accounting for 14% of the state’s economy (2020). Government funding has been critical to the growth and sustainability of the state’s nonprofit sector. In 2018, for example, Minnesota’s nonprofits received approximately half of their annual revenue from the government, including 23 percent from government grants, and an additional 25 percent from government fees and contracts (Pratt, Aanested & Barr, 2018).

The relationship between government funding and the state’s nonprofit sector has been repeatedly scrutinized in the past two decades. In 2002, the Minnesota Council of Nonprofits (MCN) partnered with legislators, researchers, private philanthropy, and the nonprofit community to investigate the limitations of systematic contracting among state grantmaking departments. A survey that MCN administered to over 300 nonprofit organizations revealed that 41 percent of the respondents did not currently receive any state funding and that 77 percent had never tried to secure state funding. The most common barriers reported to accessing state funding were that the system was too complex; there needed to be a simpler application process; funding needed to be more stable; and that organizations needed more information about how the process worked and what funding was available.

Concurrently, the Office of the Legislative Auditor (OLA) published a special report in 2002 that focused on approximately $550 million in grants that state agencies paid to quasi-governmental and non-governmental organizations, including non-profit organizations. The special review focused on the internal administration of state grants and contracts and addressed the following questions:

- Has the state developed an adequate system for managing grants?
- Did state agencies use appropriate methods for awarding and monitoring grants?
- Did state agencies comply with applicable legal requirements when expending grant funds?

The report recommended improvements in several aspects of state agency processes, including establishing guidelines or requirements for the state grant award process; better monitoring and auditing of grantees during the award period; compliance with applicable legal requirements when expending grant funds; and better consultation between legislators and agency staff when drafting new grant legislation.

The Office of the Legislative Auditor released a subsequent report in 2007 evaluating state grants to nonprofit organizations. At the time of this report, national attention was focused on high-profile reports regarding the misuse of funds by nonprofit organizations such as the United Way and the American Red Cross. In 2005, Minnesota Governor Tim Pawlenty included a grants initiative in his “Drive to Excellence” that focused on the lack of a consistent statewide grant management process, citing inefficiency in the administration of grants programs, and expressing concerns about the
accountability of grant awardees. During this era, both Congress and state governments were scrutinizing nonprofit organizations and the use of public funds to support them.

The 2007 report expanded on the state agency efficiencies identified in 2002 and placed added emphasis on accountability from the nonprofit organizations receiving funds. It determined that the state’s approach to managing grants to nonprofit organizations was fragmented and inconsistent, and that it did not provide adequate accountability. The report recommended establishing a Grants Management Office in the executive branch with the authority to formalize and require agencies to follow best practice to strengthen accountability and improve management of state grants. It also determined that the Legislature should not name grant recipients in law but allow agencies to select recipients through a competitive process.

The work of the Minnesota Council of Nonprofits, which sought to improve access to state funding for nonprofit organizations, and the reports from the Office of the Legislative Auditor, which sought to improve efficiency and accountability in the administration of state funds, came together in 2007 with the establishment of the Office of Grants Management (OGM) in the Department of Administration. The mission of the Office of Grants Management is to "standardize, streamline and improve state grant-making practices, as well as to increase public information about state grant opportunities."

In the ensuing years, significant changes have been made to the state’s internal and external grantmaking processes, including the establishment of a website providing public information about all State Agency grants and other resources for potential grant seekers, as well as creation of the MN Open Checkbook, and online searchable tool that makes public all grants and contracts awarded by state agencies. Additionally, in FY18, OGM implemented updated policies in its rating criteria for competitive grant awards that prioritized diversity and inclusion of historically underrepresented communities. However, as can be seen in figure 1, BIPOC nonprofits still receive less funding than non-BIPOC nonprofits.
Figure 1:
FY18 – FY20 State agency grant funding

Note. FY18 -FY20 combined funding to nonprofit organizations, with BIPOC designation, from Department of Employment and Economic Development, Department of Health, Department of Human Services and State Arts Board.
The data represented in figure 1 and figure 2 below were gathered from the MN Open Checkbook and are a representative sample of grant awards made by four state agencies over the course of three fiscal years. Both the number of BIPOC nonprofits (left) and the amount of funding granted to BIPOC nonprofits is significantly lower than non-BIPOC nonprofits.

Figure 2
Number of nonprofit organizations and grant funding

Note. Nonprofit organizations, with BIPOC designation, that received grant funding from DEED, MDH, DHS or MSAB in FY18 - FY20 and total combined funding to nonprofit organizations, with BIPOC designation, awarded by DEED, MDH, DHS or MSAB in FY18 – FY20.

As Minnesota scrutinizes deeply ingrained structural and racial inequities in its systems, now is the time to examine the state grantmaking process and how it has evolved since 2002. Nonprofit organizations fill gaps in the services sustained by public and private organizations and are often better able to accommodate diversity, undertake social experimentation, provide freedom from bureaucracy, and address minority needs (Worth, 2017). Given the importance of nonprofit organizations to underrepresented communities, is the substantial state support that Minnesota provides to nonprofit organizations equitably made available and distributed?

Research Questions

There is anecdotal evidence that BIPOC-led/serving and rural organizations are underrepresented in terms of applicants for state grants as well as grantees. Additionally, there are differences statewide in state funding amounts provided to BIPOC and non-BIPOC nonprofits as seen in the above figures.
This project seeks to answer the following questions related to this disparity.

1. Does inequity get introduced into the state grantmaking process? If so, how and where? How can it be mitigated?
2. Are there barriers to state funding for nonprofits? If so, how can we reduce them?

These questions take two different angles to investigating the disparities in state funding, one from the state agency side, and the other from the nonprofit sector. This helps to provide a holistic view of the entire grantmaking ecosystem and how it impacts BIPOC-led and -serving nonprofits.

**Literature Review**

Our study is situated within an existing body of research regarding government funding and nonprofit organizations. Most studies to date explore the nature of the relationship between government funders and nonprofit organizations in the context of economic theories, such as resource dependence or interdependence (Lu, 2015), and examine the relative impact of this relationship on both entities, especially on nonprofit organizations. The National Council of Nonprofits (2019) reports that charitable nonprofits in the United States receive 31.8% of their revenue from government grants and contracts, which can represent substantial funding over an extended period to help them carry out their mission (Smith & Grønbjerg 2006).

Looking broadly at nonprofits and potential barriers to accessing public money, the issue of **autonomy in relationship to government funding** is frequently discussed. Dependence on government funding may significantly impact nonprofit operational procedures and strategic decision making, including its mission, programs, and populations served (Knutsen, 2017). Data collection and evaluation requirements, for example, may be contributing factors to the loss of nonprofit autonomy by directing resources away from nonprofits’ core missions (Bopp, Harmon, & Voida 2017) and promoting workarounds, a fragmented data environment, duplication, and obstacles to using data to improve performance (Benjamin, Voida, & Bopp, 2018). Other research, however, minimizes these challenges and points to a neutral or positive impact of government funding on nonprofit autonomy, including a favorable effect on mission-driven program spending despite the administrative infrastructure often needed to comply with government documentation, reporting, and evaluation requirements (Lu & Zhao, 2019). Rather than inhibiting nonprofits’ autonomy in civic engagement and democratic processes, government funding may be a catalyst for policy advocacy (Lu, 2018), and one study indicated that government funding increased Asian American nonprofits’ ability to attract private donations, providing additional autonomy in operations and mission (Lee & Kim, 2020).

Research suggests that nonprofits’ **willingness to engage in or continue relationships with government funders** is also affected by issues of autonomy. The incentive for nonprofits to continue government partnerships may be positively affected by the perception of “distributive justice,” when the outcomes or rewards received by the nonprofit outweigh the effort and contributions it
puts into the relationship, and "procedural justice," when the nonprofit perceives that it can voice its opinions and have a role in the decision-making process (Peng, Liao, & Lu, 2020). The perception of chauvinism, paternalism and the need to “play the government’s game” may affect nonprofits’ relationships with government funders (Knutsen, 2017), and there is speculation that government funding stipulations on who can or cannot receive services (such as people who are undocumented) is a deterrent for culturally specific organizations to access government grants and contracts (Terrana, 2017).

Our study also looks at the nature of government bureaucracies, policies and procedures and potential inherent barriers they pose for nonprofits. The common government funding practice of reimbursing for services, for example, puts smaller nonprofits in precarious cash flow predicaments and is cited as a key source of vulnerability in studies of BIPOC-led nonprofits, often requiring nonprofit leadership to use personal savings to fund payroll and program expenses (Terrana, 2017; Wiles-Abel, 2020; Yung et al, 2008). One study of minority health nonprofits found that government policies and grantmaking processes were the biggest issues affecting capacity building needs, ranging from the need for technical assistance with complicated applications to feelings that policies demanding “evidence-based practices” excluded culturally specific approaches that worked in their communities (Yung et al, 2008).

This issue of implicit bias in state grantmaking priorities and processes warrants further investigation. Although some research positively associates the size of the nonprofit sector in a community with its racial diversity (Bae & Sohn, 2018) and suggests that a higher percentage of non-white residents corresponds with greater levels of government funding for community nonprofits (Garrow, 2011), research also suggests that a higher percentage of African American residents may decrease the likelihood that a neighborhood nonprofit will receive government funding (Garrow, 2014). Additional research asserts that nonprofits with bureaucratic organizational structures are more likely to receive government funding (Lu, 2015), which might reflect a bias towards dominant culture constructs.

By partnering with nonprofits to execute public services, governments can purchase specialized services without having to develop in-house expertise (Smith & Grønbjerg 2006). Research indicates that programs conducted by culturally specific organizations produce stronger outcomes in the population served (Gooden, Evans, Perkins, Gooden, & Pang, 2018) and in turn, these organizations become advocates for policy changes to further advance their communities (Lu, 2015). The benefit to the government in funding BIPOC-led or -serving nonprofits is an underlying assumption in our study, and our research probes the desire for state agencies to ensure these organizations are equitably funded. Research indicates that state agencies face numerous constraints and challenges in overall grant administration, which may be a contributing factor to inequity in the grantmaking process. The complexity of outsourcing services through grants likely increases management challenges (Salamon & Toepler, 2015) and contributes to a lack of administrative capacity in government agencies (Van Slyke, 2007). Fiscal challenges within government state agencies limit the resources available to change systems or provide technical assistance for potential or current grantees, and federal and state legal requirements and budgeting
processes present significant roadblocks to changing the status quo (Pettijohn, Boris, De Vita & Fyffe 2013).

Overall, there is little extant research specific to racial equity in state grantmaking processes, but there are some evaluation frameworks and a few relevant studies that have guided our investigation. Participatory grantmaking, which opens decision making to people outside the funding organization, is increasingly pointed to as a remedy for inequity in philanthropic foundations’ grantmaking processes (Gibson, 2017), although emerging research suggests that small nonprofit organizations still face challenges in accessing funding when this method is used (Wojcik, Ford, Hanson, Boyd, & Ashley 2020). Additionally, many European countries have established consultative relationships with the nonprofit sector that are embodied in policies and practices. Germany, for example, uses a “subsidiary” principle that formalizes the relationship between the state and nonprofit organizations, essentially guaranteeing them not just public resources but a share in the authority for making public policy (Salamon & Toepler, 2015). Although the scope of our study limits deep investigation in this area, our final recommendations might be advanced through further research in this area.

Methodology
Data for this project was collected through qualitative interviews with 24 Minnesota nonprofits, five staff from two state agencies who work in different aspects of the grantmaking process, a qualitative survey sent to 100 nonprofits, and a quantitative analysis of the Open Checkbook database.

Quantitative Survey of State Agency Grants
Using the Minnesota Office of Management and Budget's Open Checkbook database, we downloaded and compiled state grantees from three complete fiscal years, FY 2018 to FY2020, from the Department of Human Services (DHS), the Department of Health (MDH), the Minnesota State Arts Board (MSAB), and the Department of Employment and Economic Development (DEED). We removed government organizations that had received funding, including tribal nations, counties, and cities. We then cross-referenced the data with the IRS Exempt Organizations Business Master File (retrieved March 1, 2021) and removed organizations not identified by the IRS as tax-exempt or not listed specifically in the Minnesota database. Following the guidelines used by the 2007 Minnesota Office of the Legislative Auditor evaluation report on state grants to nonprofit organizations, we also removed large institutional service providers such as hospitals, health plans, and colleges and universities.

The final list provided a three-year sample of 1,235 nonprofit organizations that had received grant funding from diverse state agencies that had substantial grant-making activity. We then applied the criteria for BIPOC-led or -serving organizations established by MCN to the list and coded the organizations accordingly. Although the designation of “rural” was not a significant factor in our qualitative analysis, we applied U.S. Department of Agriculture Rural Urban Commuting Area
(RUCA) codes to the organizations based on their zip codes. The application of BIPOC and RUCA codes enabled us to generate and analyze descriptive statistics for the funding disbursed by the four state agencies in our study.

**Interviews**

We conducted qualitative interviews with nonprofit organizations and state agencies. Our interviews focused on the state grantmaking process, from the perspective of both grantors and grantees/potential grantees. The interview guide for nonprofit organizations can be found in Appendix A, and the state agency guide can be found in Appendix B.

We randomly selected nonprofit organizations from a list of BIPOC-led and -serving nonprofits compiled by MCN (their protocol can be found in Appendix C), representing a wide range of localities from across the state. We sorted the list by net assets and every sixth nonprofit was selected to be a part of the sample to ensure we pulled a financially diverse selection of organizations. We reached out to these nonprofits twice, via email, and interviewed those who responded. Our initial response rate was low, so we did two additional rounds of outreach, contacting every seventh organization from the MCN master list. In total, we sent interview invitations to 130 nonprofits and approximately 35 replied, giving us a response rate of 27%. The discrepancy between the number of responses and the number of interviews completed is due to organizations declining our invitation and no shows. We conducted 24 interviews; however, results are reported for 20 interviews only as four were not eligible. Two interviewees were not BIPOC-led/serving or rural organizations, one was ineligible for state funding because their programs are conducted abroad, and one funded its programs through fee-for-service only. Interview questions were narrowly targeted to capture each organization’s exposure to and experience with the state grantmaking process and took approximately thirty minutes. Interviews were transcribed and then coded using Atlas.ti. Patterns were identified and used to create categories to organize results. The coding schema can be found in Appendix E.

We attempted to interview staff engaged in grantmaking at the four state agencies as well as the Office of Grants Management (OGM) but were only able to secure interviews with two agencies. We sent three requests for interviews to OGM without a response and two requests to multiple staff within MDH and the State Arts Board without a response. Requests to two DEED employees were turned down with the response that external facing interview requests are handled by its communication department, to whom the request would be forwarded for a response. Although we did not receive a response from the DEED communication department, we were able to secure one interview with a DEED employee engaged in grantmaking. DHS, the agency responsible for the largest amount of state grantmaking, was extremely responsive. We interviewed four employees engaged in different aspects of the grantmaking process and participated in a meeting held by a DHS employee grant equity sub-group.
Nonprofit Survey

A broader survey meant to collect data on the state grantmaking process from the perspective of successful grantees was sent to 100 nonprofit organizations who received state funding in FY2020. A copy of this survey can be found in Appendix D. 100 nonprofits identified as BIPOC or with RUCA codes of 4 or higher were randomly selected from the quantitative survey data set (25 from each of the four state agencies analyzed in this report). MCN dispersed the survey via email. Five organizations submitted responses and this information was used to inform our broader analysis and served as a point of contrast with organizations that did not receive state funding.

Findings and Analysis

State Agencies: Descriptive Statistics

We extracted data from TransparencyMN's Open Checkbook¹ (managed by Minnesota Management and Budget) and collected information for DHS, MDH, DEED, and MSAB for fiscal years 2018 to 2020. Descriptive statistics and comparison charts are below.

The number of grantees from each of the three state agencies vary from 225 to 898. Figure 3 illustrates the geographic density of all nonprofits receiving grant awards in our sample, and figure 4 illustrates the distribution of funding to grantees by county.

¹ [https://mn.gov/mmb/transparency-mn/](https://mn.gov/mmb/transparency-mn/)
Figure 3
Geographic and funding density, all nonprofits

Note. Figure represents location density (left) and total funding (right) by zip code for all nonprofits awarded grants from FY18 to FY20 from DEED, MDH, DHS and MSAB combined.

The number of BIPOC-led and -serving organizations who received grants varies from 47 to 120 (20.9% to 13.4% of total grantees, for DEED and DHS respectively). In fact, the 423 BIPOC-led and -serving nonprofits as collated by MCN represent 1.16% of the 36,612 nonprofits in Minnesota. This means that BIPOC-led/-serving organizations are overrepresented in all state agency grants. However, investing more in BIPOC communities and nonprofits would help to increase representation in the nonprofit ecosystem in Minnesota, as Minnesota Compass\(^2\) reports that members of BIPOC communities represent 20.6% of the total population.

Figure 4

\(^2\)https://www.mncompass.org/topics/demographics
Geographic and funding density, BIPOC nonprofits

Note. Figure represents location density (left) and total funding (right) by zip code for BIPOC nonprofits awarded grants from FY18 to FY20 from DEED, MDH, DHS and MSAB combined.

The only state agency for which the average grant to BIPOC-led/-serving organizations was higher than non-BIPOC organizations is MDH, and only slightly. DHS, DEED, and MSAB all, on average, grant more to non-BIPOC-led/-serving organizations. The median grant amount for MDH, DHS, and DEED is higher for BIPOC-led/-serving nonprofits than the total grantee population. The median amount granted to BIPOC-led/-serving nonprofits by MSAB is about $12,000 lower than non-BIPOC organizations.

Figure 5
Comparison by state agency
<table>
<thead>
<tr>
<th></th>
<th>DEED</th>
<th>MSAB</th>
<th>MDH</th>
<th>DHS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total recipients</strong></td>
<td>225</td>
<td>601</td>
<td>620</td>
<td>898</td>
</tr>
<tr>
<td><strong>Total granted</strong></td>
<td>$453,501,437</td>
<td>$303,446,669</td>
<td>$407,814,655</td>
<td>$1,238,859,632</td>
</tr>
<tr>
<td><strong>Average total amount granted</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>to nonprofit organizations</td>
<td>$2,015,562</td>
<td>$504,903</td>
<td>$658,828</td>
<td>$1,379,576</td>
</tr>
<tr>
<td><strong>Median total grant amount</strong></td>
<td>$422,895</td>
<td>$49,899</td>
<td>$120,000</td>
<td>$142,172</td>
</tr>
<tr>
<td><strong>Number of BIPOC-led/-serving</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>organization grant recipients</td>
<td>47</td>
<td>76</td>
<td>77</td>
<td>120</td>
</tr>
<tr>
<td><strong>Total awarded to BIPOC-led/-serving</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>organizations</td>
<td>$73,455,113</td>
<td>$13,119,240</td>
<td>$49,215,181</td>
<td>$112,742,769</td>
</tr>
<tr>
<td><strong>Average total BIPOC-led/-serving</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>organization grant</td>
<td>$1,675,112</td>
<td>$178,193</td>
<td>$680,994</td>
<td>$985,150</td>
</tr>
<tr>
<td><strong>Median total BIPOC-led/-serving</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>organization grant</td>
<td>$466,766</td>
<td>$37,125</td>
<td>$243,545</td>
<td>$210,956</td>
</tr>
<tr>
<td><strong>% BIPOC organization recipients</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>of grants</td>
<td>20.9%</td>
<td>12.6%</td>
<td>12.4%</td>
<td>13.4%</td>
</tr>
<tr>
<td><strong>% total grant finds to BIPOC-led/-serving</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>organizations</td>
<td>16%</td>
<td>4%</td>
<td>12%</td>
<td>9%</td>
</tr>
</tbody>
</table>

**Note.** *FY18 -FY20 combined funding to nonprofit organizations, with BIPOC designation, awarded by DEED, MDH, DHS or MSAB. Average Grant Across Agencies*

**Figure 6**

*Average total grant award*
Figure 7
Percentage of BIPOC grantees and funding

Note. FY18-FY20 combined BIPOC nonprofit organizations as a percentage of all nonprofit organizations awarded grants by DEED, MDH, DHS, and MSAB and as a percentage total funds awarded to all nonprofits.

State Agencies: Interviews
State agency interviews echoed and expanded on several themes that emerged during our literature review. Interviews were transcribed using Temi software and manually coded due to the
small number. We supplemented interviews with internal documents pertaining to equity and inclusion in grantmaking shared by DHS staff and by a recorded MCN workshop on state grantmaking conducted on January 26, 2021 by Naomi Munzer, Director of the Office of Grants Management. Four broad themes emerged during the interviews.

**Compliance**

The overwhelming theme present in our interviews was the need to comply with state and federal laws. "Our goal is to comply with the law," responded one interviewee when asked about grantmaking priorities in their agency. The following sub-themes emerged within the discussion of compliance:

- **The law is immutable.** Although interviewees discussed ways that their practices might change within the context of the law, only one interviewee suggested that maybe the current laws should be reexamined (see discussion in "Change" theme below). All interviewees expressed to some degree that the laws are the unchanging force that drive all activity.

- **Fear of punishment is a motivation.** The need to comply with state and federal laws is accompanied by a perception that outside forces (the media, the legislature, the Office of the Legislative Auditor, etc.) are always looking for them to make a mistake, for which they will be punished.

- **Equity and inclusion are perceived as part of compliance.** All interviewees referenced diversity and inclusion as a policy or directive that had to be followed. This discussion stemmed from the Governor's Executive Order 16-01, which led to FY18 Policies 08-02, 08-03 and 08-04 from the Office of Grant Management. These policies pertain to diversity and inclusion requirements in grant agreements, rating criteria, and request for proposals.

- **Fairness is perceived as an aspect of compliance.** In discussing the grantmaking process, three interviewees mentioned "fairness" or a variation of the concept as a requirement. This was expressed in terms of making the process a “fair competition” or that decisions were made impartially by the reviewer's scores. Statements like “we try to keep as neutral as possible” or “you have to build the scoring system to account for (diversity).”

- **There is ambiguity regarding compliance and decision making.** Each interviewee articulated a different understanding on how decisions were made about grantmaking and the extent to which the process was regulated. Although some aspects of the process may be attributed to different state agencies, this ambiguity was apparent within DHS and the different program areas interviewed, ranging from a strict adherence to scoring to indications that decisions might be made outside of the final scores, as in “usually you don't follow the (final review) scores to a T” because of factors such as a need to diversify the types of services funded or where they are delivered. One interviewee expressed frustration that the “bean counter is the one telling the director” what to do rather than staying true to the goals of diversity and inclusion.
Capacity
Interviewees frequently cited a lack of time and resources to execute the grantmaking process effectively. During MCN’s recorded workshop on state grantmaking, Naomi Munzer, Director of OGM, also referenced her limited capacity to help grant seekers, stating she was “an office of one.”

- **Length of process and deadlines reduce capacity.** All interviewees described a complicated process involving multiple legal reviews that could take three to twelve months to complete, from drafting the RFP to executing the final grant contracts in the grantmaking process. The lengthy compliance process was often articulated as conflicting with timelines imposed by the federal government or the legislative budgeting process. “You’re really under the gun,” stated one interviewee. Three interviewees articulated that they felt they could do more in general to help grantees if not for external deadlines and the length of the process.

- **Capacity is a barrier to diversity and inclusion.** All interviewees specifically stated things they would like to do to increase diversity and inclusion in the grantmaking process if they had more time or resources. This included activities such funding to pay community reviewers, time to recruit community reviewers, time, and funding to do outreach to potential grantees, and internal resources to provide more technical assistance to potential and current grantees.

Change
The theme of changing the status quo, in the context of equity and inclusion, permeated all the interviews. Interviewees expressed a strong desire to promote practices that ensured greater diversity in their grant recipients and a more inclusive grant process.

- **There has been a shift in practices to prioritize diversity and inclusion.** All interviewees referenced that things are different than before. Examples included new RFP templates from the Office of Grants Management, agency Equity Policies that employees are expected to review and comply with, a new community engagement position, and the emergence of employee “community of practice” groups looking at diversity and inclusion in agency processes.

- **There is dissatisfaction with the status quo of diversity and inclusion.** When asked if they were satisfied with the pool of grant applicants or with the diversity of grantees, interviewees expressed in general terms that they wished it were more diverse. Interviewees articulated that diversity existed, but they wanted to see more. Some interviewees expressed frustration with processes that they felt were barriers to increasing the diversity of grantees. No one specified what kind of diversity they wanted to see.

- **Some experimentation and new practices aimed at diversity and inclusion are emerging.** Each interviewee referenced at least one new activity or practice in the past year that was intended to engage a broader community in the grantmaking process or to increase internal cultural competence. Examples included holding a “training” session for potential grant applicants in advance of posting the RFP and reviewing educational materials about “white privilege” in employee work groups. One interviewee suggested that perhaps the laws
themselves needed to change and recommended that the legislature initiate a study to look at the efficiency of state grantmaking and its effectiveness in achieving desired outcomes, especially diversity and inclusion outcomes.

Culture

Organizational culture, the expression of values, expectations, and practices that guide and inform the actions of an organization’s employees, appeared to be a factor in grantmaking processes.

- **Turning policy into practice is decentralized.** All interviewees articulated a strong understanding of diversity and inclusion as a policy in state grantmaking. However, the way the policy was being put into practice was expressed differently by each interviewee, and most included expressions of ambiguity or uncertainty about specifics within their agency. Within DHS, interviewees noted the size of the agency and how that contributed to a lack of consistency among programs. Several noted that diversity and inclusion materials and training were available, but they had not been required to use it. Rather, it was up to each program area how the information would be incorporated into their team’s work.

- **Paternalism may be part of the culture.** Interviewees sometimes noted attitudes among staff involved in the grantmaking process that were paternalistic, or assuming they knew what applicants needed, such as making the call that an applicant could not operate on a reimbursement model and therefore should not get funded. “We don’t even ask the question, we just tell people,” stated one interviewee.

- **External engagement is largely passive.** Many interviewee comments implied that it was the job of the community members or potential grantees to do the work of finding out about funding opportunities or improving their technical skills to fit within the state grantmaking model. Interviewees noted that RFPs, for example, are typically only posted on agency websites or sent to previous grantees, and grant reviewers are often pulled from within state agencies rather than recruited from diverse communities. During the January MCN workshop on state grantmaking, when asked about equity in the grantmaking process, Naomi Munzer suggested that potential grantees needed to improve their grant writing skills by getting community members involved as grant reviewers.
Figure 8
Finding by count and percentage of total state agency interviewees

<table>
<thead>
<tr>
<th>Finding</th>
<th>Count</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Compliance</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compliance is immutable.</td>
<td>5</td>
<td>100%</td>
</tr>
<tr>
<td>Fear of punishment is a motivation to comply.</td>
<td>4</td>
<td>80%</td>
</tr>
<tr>
<td>Equity and inclusion are perceived as part of compliance.</td>
<td>5</td>
<td>100%</td>
</tr>
<tr>
<td>Fairness is an aspect of compliance.</td>
<td>3</td>
<td>60%</td>
</tr>
<tr>
<td>There is ambiguity regarding decision making.</td>
<td>5</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Capacity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Length of process and deadlines reduce capacity.</td>
<td>5</td>
<td>100%</td>
</tr>
<tr>
<td>Capacity is a barrier to diversity and inclusion.</td>
<td>5</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Change</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>There has been a shift in culture to prioritize diversity and inclusion.</td>
<td>5</td>
<td>100%</td>
</tr>
<tr>
<td>There is dissatisfaction with the status quo of diversity and inclusion.</td>
<td>4</td>
<td>80%</td>
</tr>
<tr>
<td>Some experimentation and new practices aimed at diversity and inclusion.</td>
<td>5</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Culture</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Paternalism may be part of the culture.</td>
<td>3</td>
<td>60%</td>
</tr>
<tr>
<td>Turning policy into practice is decentralized.</td>
<td>5</td>
<td>100%</td>
</tr>
<tr>
<td>External engagement is largely passive.</td>
<td>5</td>
<td>100%</td>
</tr>
</tbody>
</table>
Nonprofit Organizations

Several categories of insight arose during our interviews with BIPOC-led/serving and rural nonprofit organizations, ranging from issues with application requirements to advertising of funding opportunities to issues with reporting requirements. Interviews were transcribed and coded using Atlas.ti. Analysis of coding revealed four broad categories: process, capacity, transparency, and structural inequity.

Process

- Applications are seen as cumbersome, overly complicated, and requiring data that often smaller organizations do not have. Many of these smaller organizations mentioned the frustration they felt to be applying to grants to help build their capacity and infrastructure and being denied because they do not have the infrastructure in place to complete grant applications to state agencies’ standards. This is also true for reporting requirements.

- Organization leaders saw evaluation criteria as often unrelated to their work or not gathering the full picture of their impact. They also found these to be additional work for an amount of money that was not always worth the effort. Multiple interviewees expressed the desire for relaying information via conversations over formal reporting via paperwork.

- Many state grants reimburse nonprofits rather than disbursing funds up front. Small, lesser-resourced organizations stated that they often do not have the funds to pay costs to later be reimbursed.

- State funding is seen as too restrictive, leading some nonprofits to disregard state funding altogether, in favor of seeking funding from foundations, whose requirements are viewed as less burdensome and more flexible.

Capacity

- Requests for Proposals (RFPs) require the submission of a detailed budget that aligns with the parameters of the requested funds, so if a smaller organization does not have a dialed in budget, they are unlikely to receive the grant or they will be discouraged from applying at all.

- Reporting requirements are onerous and overly burdensome for small, less-resourced organizations. Grants often require annual reporting, with some even requiring quarterly reporting, and these under-funded organizations do not have the time or monetary resources to comply with these extensive and strict reporting requirements.

- Some nonprofits hire outside grant writers or consultants, but small, lesser-resourced organizations cannot afford this extra cost, especially since it is not reimbursable.

Transparency

- A common issue cited by our interviewees was a lack of knowledge regarding what funding opportunities are available.

- Many organizations we interviewed described a lack of transparency in the grantmaking process itself.

- Organizations who did not receive funding from DEED, DHS, and MDH did not get constructive feedback as to why their applications were rejected and how they could
improve in the future. However, MSAB and MRAC provide audio files of review panel deliberations, feedback sessions, and notes to would-be grantees to help them improve their applications in future cycles.

**Structural Inequity**

- Organizations that have successfully secured state funding in the past may have an unfair advantage in future years, as we see previous grantees continually being awarded grants in future years. This may indicate that previous grantees have an advantage over organizations that are newly applying or who have been unable to secure state funding in the past.
- Organizations that are already well-resourced have an advantage in that they can more easily meet the state's requirement that potential grantees have a demonstrated record of successful program delivery. Additionally, there is a belief that name recognition and political connections help established organizations beat out smaller, lesser well-known organizations.
- While some state agencies use community reviewers, it is unclear how heavily weighted the recommendations of community reviewers are. Additionally, there appear to be inconsistencies across agencies as to whether reviewers are given anti-bias training before rating RFPs. It is possible that reviewers are not taking holistic, unbiased views of RFPs.
- RFPs do not always align with the needs of BIPOC communities. Decisions about programming are made top-down within agencies with little input from the communities being served. How are BIPOC-led and -serving organizations brought into the process of deciding what programs should be funded?
- Because most smaller organizations do not have expert grant writers or consultants on staff, they are unlikely to be familiar with agency-specific conventions, such as the specific language and terms reviewers look for in grant applications.

**Figure 9**

*Finding by count and percentage of total nonprofit interviewees*

<table>
<thead>
<tr>
<th>Finding</th>
<th>Count</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Process</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Applications are seen as cumbersome and requiring too much/inaccessible data</td>
<td>19</td>
<td>95%</td>
</tr>
<tr>
<td>Criteria often seen as unrelated to the work or not gathering the full picture of org impact</td>
<td>4</td>
<td>20%</td>
</tr>
<tr>
<td>Reimburse nonprofits rather than dispersing funds up front</td>
<td>3</td>
<td>15%</td>
</tr>
<tr>
<td>State funding is seen as too restrictive</td>
<td>8</td>
<td>40%</td>
</tr>
<tr>
<td>Issue</td>
<td>Score</td>
<td>Percentage</td>
</tr>
<tr>
<td>----------------------------------------------------------------------</td>
<td>-------</td>
<td>------------</td>
</tr>
<tr>
<td>Unclear how heavily weighted the recommendations of community reviewers are (might just be lip service)</td>
<td>5</td>
<td>25%</td>
</tr>
<tr>
<td><strong>Capacity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Detailed budget expectations</td>
<td>4</td>
<td>20%</td>
</tr>
<tr>
<td>Reporting requirements are onerous and overly burdensome</td>
<td>9</td>
<td>45%</td>
</tr>
<tr>
<td>Lack of infrastructure (needed to complete extensive RFPs and to meet reporting/evaluation requirements)</td>
<td>7</td>
<td>35%</td>
</tr>
<tr>
<td>Lack of financial resources (includes inability to afford grant writers/consultants, pay for infrastructure needed to complete RFPs, no money for development, etc.)</td>
<td>8</td>
<td>40%</td>
</tr>
<tr>
<td><strong>Transparency</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of knowledge regarding what funding opportunities are available</td>
<td>6</td>
<td>30%</td>
</tr>
<tr>
<td>Lack of transparency in the grantmaking process</td>
<td>8</td>
<td>40%</td>
</tr>
<tr>
<td>Rejected applicants get no constructive feedback</td>
<td>7</td>
<td>35%</td>
</tr>
<tr>
<td><strong>Structural Inequity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Previous grantees have an unfair advantage over organizations</td>
<td>7</td>
<td>35%</td>
</tr>
<tr>
<td>State agencies require a demonstrated record of successful program delivery</td>
<td>2</td>
<td>10%</td>
</tr>
<tr>
<td>Reviewers might be biased</td>
<td>6</td>
<td>30%</td>
</tr>
<tr>
<td>Favoring of established, already well-resourced orgs</td>
<td>8</td>
<td>40%</td>
</tr>
<tr>
<td>RFPs do not always align with the needs of BIPOC communities</td>
<td>3</td>
<td>15%</td>
</tr>
<tr>
<td>Decisions about programming are made top-down within agencies with little input from the communities being served</td>
<td>6</td>
<td>30%</td>
</tr>
<tr>
<td>Unfamiliarity with agency-specific conventions, such as the specific language and terms</td>
<td>7</td>
<td>35%</td>
</tr>
</tbody>
</table>
Discussion

Based on the findings above, inequity does get introduced into the state grantmaking process, especially for BIPOC-led/serving and rural organizations, but that these inequities are not all experienced by each nonprofit. Below is a description of the state grantmaking process where one can clearly see how the inequities described by our interviewees play out in practice. We follow this section with specific recommendations for improving equity in state grantmaking as well as reducing barriers for nonprofits.

The result of coming face-to-face with the barriers listed above left many of our interviewees feeling defeated and led them to disregard pursuing state funding in the future. Although 80% of our interviewees stated that their organizations had received state funding, they felt the process was so arduous that many were deterred from applying for state funding in future years. The extensive reporting requirements often led these organizations to feel that the money was not worth the time and resources they had to spend to comply with reporting requirements. Though they recognized that state contracts generally provide more security than many other sources of funding, they just did not see a good return on the investment of time and resources required for submitting grant applications when they found themselves being rejected, especially in the absence of constructive feedback that would help them improve their applications in subsequent grant cycles. Even hiring outside grant writers or consultants does not guarantee that applicants will be successful. As several of our interviewees credited their contracted grant writers as their source of knowledge regarding the existence of funding opportunities, lesser-resourced applicants that cannot afford to hire grant writers miss out on this vital source of funding information.

State grants often require a proven track record of success, so these funds end up going to more established nonprofits. This requirement means that smaller, lesser-resourced nonprofits do not get the opportunity to build the capacity required to accumulate a record of success because they do not get the funding necessary to do so. This leads to a chronic cycle of favoring more established

<table>
<thead>
<tr>
<th><strong>COVID-19</strong></th>
<th><strong>5</strong></th>
<th><strong>25%</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Getting COVID-19 $, how the process was expedited, increase in # of grants</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Rural</strong></td>
<td><strong>3</strong></td>
<td><strong>15%</strong></td>
</tr>
<tr>
<td>Organization indicates it serves rural areas</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Grantee</strong></td>
<td><strong>16</strong></td>
<td><strong>80%</strong></td>
</tr>
<tr>
<td>Received state funding</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Arts</strong></td>
<td><strong>8</strong></td>
<td><strong>40%</strong></td>
</tr>
<tr>
<td>Organization is an arts organization</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*these are not all specifically arts orgs, some have arts programming and received arts board funding but are not primarily arts orgs
organizations over smaller ones that need that funding to develop their services and programs. Additionally, because state grants often do not fund operating or development costs, BIPOC-led/serving and rural nonprofits, which tend to be smaller, are not supported in their efforts to build the capacity required for securing state grants. Thus, the growth of BIPOC-led/serving and rural organizations are stunted by the current process.

Half of the organizations we interviewed that have successfully secured state funding are arts organizations. In fact, all eight arts organizations in our sample successfully secured state funding through either the Minnesota Arts Board or the Metropolitan Regional Arts Council or both. This may indicate that arts board grantmaking processes are more accessible than those at other state agencies, such as DEED and MDH. Further investigation is needed, but arts organizations we interviewed described the high levels of transparency and greater resources for rejected applicants provided by the Minnesota State Arts Board and the Metropolitan Regional Arts Council. Conversely, it is possible that the greater accessibility of arts funding may be due to Minnesota’s Arts and Cultural Heritage Fund that is a result of a constitutional amendment passed in 2008 that requires a certain percentage of tax dollars be spent on the arts, known as the Legacy Amendment.

State Grantmaking Processes
There seems to be an inherent difference between how arts agencies disburse funds compared to other state agencies. The Minnesota State Arts Board (MSAB) and Metropolitan Regional Arts Council (MRAC) tend to offer smaller, project-based grants to a broader range of applicants for projects and performances with a given date or short period. In contrast, state agencies such as DEED, DHS, and MDH tend to offer programmatic funding with more specific goals around impact and longer grant cycles. Although in theory this would make for more sustainable funding, it tends to cater to those organizations with more data collection and evaluation capacity, and those who have previously received funding. This shrinks the scope of grantees and excludes many smaller organizations, many of which are BIPOC-led and -serving or rural. Because the grants are larger and more directly tied to specific state-selected outcomes, there are more barriers to accessing these funds compared to state arts funding.

Once again, the state grantmaking process is inequitable as evidenced by our interviews and the detailing of state grantmaking processes. In the next section we outline the examples of more equitable processes provided to us by our interviewees.

Innovative Examples of Equity in Funding
Our interviewees cited several foundations as examples of successful implementation of equitable grantmaking processes: Headwaters Foundation, Pohlad Family Foundation, and Twin Cities United Way. In this section we provide details on how each of these foundations center equity in their grantmaking activities.
Headwaters Foundation for Justice (HFJ)³

Headwaters Foundation for Justice is a Minneapolis-based community-based foundation that supports community organizations and groups through donations, grants, and investments. They link their mission statement and guidelines to the interests of groups of people of color. Accordingly, HFJ's activities are designed to promote equity for people of color.

In the last fiscal year (2019-2020), HFJ collected donations and grants totaling $7,137,923, and distributed a total of $3,831,499 to 145 Grantees through 248 different grants. Various fundraising programs, including the Giving Project Cohort, have helped many organizations with an average grant of more than $30,000. The Giving Project Grant, one of HFJ's grant programs, specifically supports BIPOC-led organizations. Through this program, they distribute money to a number of organizations that use community organizing methods to address the root causes of injustice.

Pohlad Family Foundation⁴

The Pohlad Family Foundation is committed to investing in the Minneapolis area and serving the community. In 2020, in response to the murder of George Floyd and the subsequent civic engagement, they quickly established a new area of focus focused on supporting racial justice work in communities and committed $25 million to this work.

The Pohlad Foundation’s work in racial justice focuses on three programs: rebuild and recover, reimagining public safety, and long-term transformation. Their grants committee is made up of family and community members who help to guide strategies and make granting decisions. There are short biographies of each member of this committee listed on the website, to provide transparency in who is making these decisions.

Greater Twin Cities United Way⁵

Throughout the past year, the Greater Twin Cities United Way has also reallocated funds to specifically fund BIPOC-led businesses and COVID-19 relief projects. Their Rebuild for the Future Fund targeted BIPOC businesses in areas hardest hit by the civil unrest in the summer of 2020 and quickly disbursed funds for covering repairs, equipment, technology, building materials, relocation expenses, etc. Additionally, their COVID-19 Response and Recovery Fund granted $5.1 million to 500,000 individuals and 126 nonprofit organizations, almost all of which are BIPOC-led/serving. They did not require their typical reporting process be completed for these funds.

These programs provide blueprints for making the state grantmaking process more equitable, not just for BIPOC-led/serving and/or rural nonprofits, but all nonprofits in Minnesota. Advocates can use these examples to lobby state agencies and legislators to improve their processes.

³ www.headwatersfoundation.org
⁴ www.pohladfoundation.org
⁵ www.gtcuw.org
Recommendations

State Agencies

Short Term Recommendations

1. Be proactive in providing audio files and/or notes and ratings from grant proposal review sessions to increase transparency. Applicants are legally allowed to access this information, but this is not well known and there is no easy method to access this information.
2. Be proactive in letting applicants know what is and is not possible in an easy to scan checklist. For example, an advance IS possible for organizations that may not be able to start on the reimbursement model immediately. Be clear about things that must be in place before applying versus what needs to be in place to execute a contract (such as $2 million in liability insurance).
3. Give feedback to unsuccessful grantees and make recommendations for improving their applications for future grant cycles. This could be something as simple as sending out a list of the top three most common mistakes observed during the application review process.
4. Make a grant proposal from a successful grantee available to future applicants, to increase transparency and help unsuccessful applicants improve their future grant applications.

Longer Term Recommendations

1. Simplify and shorten grant applications. Use accessible language and writing style.
2. Invest in a centralized electronic grants management system to increase capacity and simplify the application process for potential grantees.
3. Hire dedicated grant reviewers who work to recruit diverse panels of reviewers. Pay people to be on the panels to increase equity in this space. Train reviewers on implicit bias and advise them to evaluate applications through a lens of racial equity.
4. Change reporting requirements to be more equitable and less Eurocentric. Many nonprofit organizations appreciate the shift some foundations are making away from seeing individuals served as data points and instead having conversations around lessons learned from projects and/or programs.
5. Set aside a proportion of each funding opportunity to specifically grant to BIPOC-led and -serving organizations and/or organizations with a small to midsize operating budget.
6. Directly engage the communities being served when determining programming opportunities and involve communities in decision making processes. Be proactive in recruiting diverse applicants.
7. Increase funding available for development and provide funding for operating costs.
8. Increase resources for the Office of Grants Management to provide more one-to-one coaching and support for agencies and applicants.
9. Initiate a legislative study to examine state grantmaking in the context of equity and inclusion. Engage diverse stakeholders in the study.
Minnesota Council of Nonprofits

Short Term Recommendations

1. Inform membership of grant opportunities on a regular basis and include each state agency’s grant notification sign up link in monthly newsletter.
2. Provide small grants to organizations to help them hire grant writers or consultants. Or, recruit pro bono grant writers to support member organizations.

Longer Term Recommendations

1. Continue advocacy efforts, particularly those aimed at increasing state funding for infrastructure and capacity building to encourage growth of smaller nonprofits, as BIPOC-led and rural organizations tend to be smaller.
2. Provide grant writing workshops and mentorship for state grants specifically, potentially inviting state agency representatives to participate.
3. Conduct further research in the following areas:
   a. Comprehensive review of state agency-led Q&As around RFPs and their grantmaking.
   b. Deeper qualitative work with state agencies other than DHS.
   c. Interview representatives of the four foundations to gather data on best practices and guidance on how to successfully adopt more inclusive and racially responsive grantmaking processes.
   d. Statistical analysis of organizations based on specific attributes, such as looking for correlations between certain organizational characteristics and successful securing of state funds.

Conclusion

The barriers our interviewees described are unsurprising. Considering the modest community engagement by state agencies to integrate community input in the state grantmaking process, inequity is a predictable outcome. The application process and the attendant strings of reporting and evaluation requirements make the state grantmaking process burdensome and overtaxing for smaller, lesser-resourced nonprofits. The top-down nature of decision-making inevitably leads to programs that do not entirely align with the needs of the communities they purport to serve.

Our analysis revealed four broad categories of inequity - process, capacity, transparency, and structural inequity - that hamper BIPOC-led/serving and rural nonprofits’ efforts to secure state funding. Our research also identified that within state agencies, compliance and capacity are significant barriers to changing current practices, although there is a stated commitment to diversity and inclusion and indications that some change is happening. For these to succeed, however, some of the current practices and values embedded into organizational culture need to change.
Our recommendations target these inequities and are designed to reduce barriers to access and increase smaller, lesser-resourced organizations’ ability to successfully secure state funding. The simplification of grantmaking processes and the proliferation of funding opportunities that arose out of COVID-19 shows us that the process can be amended to make it more manageable for nonprofits in Minnesota that are struggling to secure state funding, and state agencies appear to be seeking opportunities to make changes.

Limitations
This project has several limitations. Most of our interviewees were white, particularly white women. As such, the white perspective is overly represented in our results. Future researchers should interview specifically BIPOC-led nonprofits. Additionally, our response rate was low. It is possible that BIPOC-led/-serving nonprofits are overtaxed due to the sharp increase in attention paid to issues of racial equity since the murder of George Floyd. The pressures of COVID-19 may also be impacting BIPOC -led/-serving and rural nonprofits’ capacity to participate in research such as this project. The number of interviews we conducted is small, so the results of our analysis are not representative of the entire universe of BIPOC -led/serving and rural nonprofits in Minnesota, which is more than 400. Further, only three of the nonprofits we interviewed are rural organizations so our results may not reflect the additional and specific barriers faced by rural organizations. However, most of our interviewees mentioned the same issues and we reached saturation quickly. Of note, some organizations we interviewed had successfully secured county funding, but it was unclear if this funding came from the federal government or the state government. In such cases, we did not categorize the organization as a grantee during our coding process.

Similarly, the response rate from state agency personnel was low and all interviewees were white. As noted previously, the pressures of COVID-19 may have impacted response rates. The prevalence of capacity as a barrier in the interviews that we were able to conduct may also have contributed to the low response rate.

Directions for Future Research
Future researchers should conduct statistical analysis to look for correlations between organizational characteristics and successful procurement of state funding. It is important to know if certain characteristics or actions, such as hiring contracted grant writers or size of annual budget, are positively correlated with receiving state funding. It would also be valuable to know if certain causes are funded more frequently than others.

Further, a more rigorous attempt to increase the response rate of both nonprofits and state agencies would result in more robust data collection for this statistical analysis. Interviewing representatives of the three foundations, to gather data on their racial equity activities, would provide substantial insight for funders, state or otherwise, who wish to make their funding processes more equitable. Finally, the contrasts between grantmaking processes of state arts
boards versus non-arts state agencies requires further exploration as, anecdotally, the grantmaking processes of the state arts boards appear to be more equitable. The effect of the Legacy Amendment on funding for arts organizations requires further examination, as does the fact that some state agencies give more funding to BIPOC-led/serving than others.

Finally, the overall relationship between government funders and BIPOC-led/serving organizations needs to be studied. As noted in our literature review, there is little extant research pertaining to culturally specific nonprofits and government funding. Issues such as autonomy, government chauvinism, and the perils of bureaucratic processes identified in the literature review also emerged in our research, but their impact on broader societal issues of equity and inclusion needs further study.
References


Appendix A: Nonprofit Interview Guide

Thank you for taking the time to answer some questions for us. This should only take about 20-30 minutes. We are students at the Humphrey School of Public Affairs and we’re working on a project for the Minnesota Council of Nonprofits to identify some barriers to accessing state funding. Please note that your responses will not be attributed to you and that this information will help us to get you in a better position to receive state funding.

1. Can you describe some of the primary activities for which your organization seeks funding?

2. What is your organization's annual budget?

3. What are the sources of your funding? How do you find out about these opportunities?

4. Have you applied for state funding? If so, have you received it?
   a. If yes:
      i. How many years have you received state funding?
      ii. If they have a contract, ask how they secured that contract (competitive or bidding)
      iii. Describe your experience applying for state funding.
      iv. Do you have best practices that have helped you secure state funding?
   b. If no:
      i. Why haven't you applied for state funding?
      ii. What do you need/what would encourage you to do so?

5. What do you see as barriers to accessing state funding?

6. What do you think could or should be done to increase equity in the state grantmaking process?

7. Is there anything you want us to know that we haven't asked?
Appendix B: State Agency Interview Guide

Thank you for taking the time to answer some questions for us. This should only take about 20-30 minutes. We are students at the Humphrey School of Public Affairs and we’re working on a project for the Minnesota Council of Nonprofits to identify some barriers and opportunities for nonprofit organizations, specifically BIPOC-led or -serving and rural nonprofits, in accessing state funding. Your responses will be attributed to your state agency but not to you personally without your permission.

1. Can you tell me about your agency's overall goals for RFPs?
   a. Are there articulated priorities?
   b. Departmental mandates?
   c. Who is involved in establishing priorities or mandates?

2. Can you describe overall how your agency administers grants to other organizations? For example:
   a. How are RFPs created?
   b. Who is involved in the process?
   c. Is the process consistent across all departments? Why or why not?

3. How do you promote RFP opportunities?
   a. Has this changed at all in the past 5 years? If so, how?
   b. Are there things you’d like to try to promote RFPs but have not yet done so?

4. Are you satisfied with your applicant pool?
   a. Has your agency attempted to broaden the applicant pool? If so, how? What have you tried?

5. Do you use community members to review submitted RFPs? How are they recruited?
   a. If yes:
      i. How are they recruited?
      ii. What criteria do you require for someone to be a grant reviewer?
      iii. What is the typical retention rate for community reviewers?
      iv. Are demographics considered in recruitment and selection of reviewers?
      v. How heavily does your agency weight the ratings/feedback of community reviewers when it comes to final decision making?
   b. If no:
      i. Have you used them in the past?
      ii. Do you know why they are not currently used?

6. How are RFP funding decisions made?
7. How do you think your department/agency has been successful in engaging the following in the RFP process?:
   a. BIPOC-led and/or -serving nonprofit organizations?
   b. Rural nonprofit organizations?

8. Are there things you think your department/agency could do differently or better to engage BIPOC-led and/or -serving nonprofit organizations in the RFP process? How about rural nonprofit organizations?

9. As you have worked with outside organizations in the granting process, are there consistent themes you've heard from them about what is working well or could be improved upon?

10. Are there any other things in the RFP process that you’ve considered but haven’t done?

11. Is there anything you want us to know that we haven’t asked?
Appendix C: MCN BIPOC Organization Designation Protocol

Nonprofits led by or primarily serving Black, Indigenous, or People of Color (BIPOC) are essential community resources engaged in: advocacy and self-determination, representation and community empowerment, leadership development, community enterprise, service delivery, and arts and culture.

In partnership with organizations and sector leaders who identify as, or primarily serving BIPOC communities, the Minnesota Council of Nonprofits (MCN) has created an index of public information about BIPOC led and/or serving nonprofits (with specific racial/ethnic communities disaggregated). This index intended to be a resource for community members, foundations, policymakers, government agencies, donors, and nonprofits looking to partner with, invest in, and amplify the work of BIPOC led and/or serving nonprofits.

As of 2/17/21 there are 459 organizations featured in the BIPOC Nonprofits Index, including: organizational name, website, mailing address, founding year, financial information, primary activity area (publicly available information taken from IRS 990 filings).* Recognizing that the term "BIPOC" is not a monolith, the Index also disaggregates by primary racial/ethnic community.*

Methodology

In consultation with BIPOC led and/or serving nonprofits and community partners, the following criteria of inclusion was developed and is used in building the BIPOC Nonprofits Index:

Who does the organization serve?
- Intent to represent specific community defined by race/ethnicity
  - What’s their mission/intent?
  - What’s their name?
  - Founding history?
  - Have they received grants designated toward a specific community?

Who serves in managing roles? (executive leadership and management)
- Local knowledge
- Self-reporting
- Publicly available demographic data (ie. GuideStar)

Who serves in governing roles? (board of directors)
- Local knowledge
- Self-reporting
- Publicly available demographic data (ie. GuideStar)
The Index disaggregates BIPOC led and/or serving nonprofits by specific racial/ethnic communities. MCN’s intent is to provide a baseline resource as a first step toward disaggregated data, and that individuals would use this resource to do further disaggregation as needed for their work. The categories for racial/ethnic communities used in the Index were developed by Candid’s GuideStar, with two changes: The Index 1. further disaggregates "Black/African Americans" and "African/East African/West African" 2. includes a "Middle Eastern Heritage" category. Full categories include:

- African/East African/West African
- Black/African Americans
- Asian/Asian Americans/Pacific Islanders
- Hispanic/Latino/Latina/Latinx
- Middle Eastern Heritage
- Multi-Racial or Multi-Ethnic
- Native American/American Indian/Indigenous
- White/Caucasian/European

Financial information and corresponding fiscal year, founding year, and primary activity areas were taken from the publicly available IRS Exempt Organization Business Masterfile. For a complete list of all tax exempt entities in Minnesota, visit [www.irs.gov/charities-non-profits/exempt-organizations-business-master-file-extract-eo-bmf](http://www.irs.gov/charities-non-profits/exempt-organizations-business-master-file-extract-eo-bmf) and click on the state of Minnesota to download. Websites were taken from 990 information, publicly available through [www.open990.org](http://www.open990.org).
Appendix D: Nonprofit Survey

MCN State Funding Survey
Thank you for participating in this survey!

This is part of a larger study being conducted by students at the Humphrey School of Public Affairs to offer recommendations for improving access to the state grant system. Please answer these questions to the best of your ability. We appreciate you taking the time to participate, and know that your responses will be reported anonymously.

1. Organization Name
2. In what region of the state is your organization located?
3. We identify as a... (Check all that apply.)
   a. Black, Indigenous, People of Color (BIPOC)-led nonprofit
   b. BIPOC-serving nonprofit
   c. Rural nonprofit
   d. None of the above
4. Please select the primary activity area your organization is involved in.
   a. Arts
   b. Education
   c. Crime/Legal
   d. Public Safety
   e. International
   f. Human Services
   g. Environment
   h. Employment/Jobs
   i. Housing/Shelter
   j. Youth Development
   k. Philanthropy
   l. Health
   m. Food/Agriculture
   n. Recreation/Sports
   o. Civil Rights/Social Action
   p. Community Improvement, Capacity Building, and Economic Development
   q. Other:
5. For the most recent fiscal year, what was your organization’s total annual budget?
   a. Over $3 million
   b. $1-3 million
   c. $500,000-$999,999
   d. $250,000-$499,999
   e. Up to $250,000
   f. Unknown
6. Approximately what percentage of your funding comes from the following sources?
<table>
<thead>
<tr>
<th></th>
<th>None</th>
<th>Less than 10%</th>
<th>11 - 25%</th>
<th>26 - 50%</th>
<th>51 - 75%</th>
<th>76 - 100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government (Federal)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government (State)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government (County/Local)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foundation Support</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Member Dues</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate Contributions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual Contributions/Donations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fees for Services</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

7. What type of work or services does your organization provide and what kinds of clientele do you serve?

Please answer the rest of the questions in this survey in regard to ONE of your state grants or contracts.

8. From what state agency did you receive this grant/contract?
9. How did you find out about the availability of this state grant or contract?
   a. State agency website
   b. State agency email
   c. State agency mailing
   d. Minnesota State Register
   e. Direct contact by a state official
   f. Monitoring specific pieces of state legislation
   g. Contacts within the nonprofit community
   h. Previous experience with the agency
   i. Office of Grants Management, MN Department of Administration
   j. Other:
10. Was this funding identified as a:
   a. Grant
   b. Contract
11. Was this a new grant/contract, or a renewal of an existing grant/contract?
   a. New
   b. Renewal
   c. Don't know

12. Was a Request for Proposal (RFP) issued for this grant/contract?
   a. Yes
   b. No
   c. Don't know

13. How clear were the criteria upon which the grant applications were judged?
   a. Not clear
   b. Somewhat clear
   c. Clear
   d. Very clear
   e. Don't know

14. If you went to a state training/workshop about the grant application process, was it helpful?
   a. Not helpful
   b. Somewhat helpful
   c. Extremely helpful
   d. Did not attend a workshop
   e. No workshop was offered

15. Were grant/contract applications reviewed by:
   a. An advisory council/expert review
   b. A citizen review group
   c. Don't know

16. Overall, how would you rate the state's grant/contract application process?
   a. Very poor
   b. Poor
   c. Fair
   d. Good
   e. Excellent

17. How likely are you to re-apply for this or a similar state grant/contract?
   a. Very unlikely (1) to very likely (5)

18. What three changes would you recommend to improve the Minnesota state system for soliciting and awarding grants and contracts to nonprofit organizations?

19. Please add any other comments about the state’s grant/contract application and award process. For instance, what kind of help or changes to the system might have made your application more successful?
## Appendix E: Code Book (State Agency Interviews)

<table>
<thead>
<tr>
<th>THEME</th>
<th>DEFINITION</th>
<th>EXAMPLE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compliance</td>
<td>The processes that granting agencies must follow or data that must be collected because they are required by Minnesota statute or federal regulations.</td>
<td>“Our goals are to comply with the law.” (Interviewee #2)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>“The compliance office sets pretty stringent criteria about the content of our RFPS and their contracts.” (Interviewee #4)</td>
</tr>
<tr>
<td>Compliance – Fear</td>
<td>An expression of punishing or negative consequences if mistakes are made or processes do not comply with statutory requirements.</td>
<td>“I always prep the evaluation review panel that everything is public record. So if you’re making snarky remarks or things that maybe seem unprofessional, that could end up in the Star Tribune. That’s the way you want to look at it.” (Interviewee #5)</td>
</tr>
<tr>
<td>Compliance - Can’t be changed/ immutable</td>
<td>The law, or grantmaking regulations, can’t be changed. Changes to the process can only happen within what's required in statute.</td>
<td>“We have to comply with the law and the policy but try to do that in a way that also serves the communities we're serving.” (Interviewee #2)</td>
</tr>
<tr>
<td>Compliance - diversity and inclusion</td>
<td>Diversity and inclusion is required in the grantmaking process. A sense that this work is an aspect of compliance or that those regulations are intended to ensure diversity and inclusion.</td>
<td>“Equity and diversity and inclusion is a policy goal for the state and DHS.” (Interviewee #4)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>“There’s a lot of policies in place that ensure that the responder is addressing questions of equity.” (Interviewee #2)</td>
</tr>
<tr>
<td>Compliance - ambiguity</td>
<td>Aspects of the grantmaking process in which the application of rules and regulations or the decision-making process is vague, or when there are conflicting responses regarding how regulations are executed.</td>
<td>“The final funding decision is made based on the scoring.” (Interviewee #2)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>“And that final review, you usually don’t follow the scores to a T. There’s definitely room for interpretation.” (Interviewee #4)</td>
</tr>
<tr>
<td>Compliance - Fairness</td>
<td>The perception that the rules promote equality and fairness in the grantmaking process.</td>
<td>“You need to be within those times because we can’t show that it’s favoritism, because what if they were awarded it and they didn’t meet our strict criteria.” (Interviewee #5)</td>
</tr>
<tr>
<td>Orientation</td>
<td>Description</td>
<td>Example</td>
</tr>
<tr>
<td>-------------</td>
<td>-------------</td>
<td>---------</td>
</tr>
<tr>
<td>Capacity</td>
<td>A lack of time or resources to accomplish grantmaking goals.</td>
<td>“The whole grantmaking in general - it’s just really time consuming.” (Interviewee #2)</td>
</tr>
<tr>
<td>Capacity - process deadlines</td>
<td>Pressure and limitations experienced by agency personnel because of the time needed to execute RFPs within externally imposed deadlines.</td>
<td>“Timelines in general are a big problem.” (Interviewee #4)</td>
</tr>
<tr>
<td>Capacity - barrier to inclusion</td>
<td>Lack of time and resources as a contributing factor to adding or changing activities, tools, or processes that could potentially increase diversity and inclusion.</td>
<td>“You’re really under the gun.” (Interviewee #1)</td>
</tr>
<tr>
<td>Change - shift in practices</td>
<td>New activities or tools that reflect an intention to promote diversity and inclusion. Overt pressure to do things differently.</td>
<td>“It’s pretty much an employee run group that works on grants . . . we met and talked about what topics you need more training on . . . and so the equity sub group was formed.” (Interviewee #3)</td>
</tr>
<tr>
<td>Change - status quo needs to change</td>
<td>An expression of frustration with the current system or an acknowledgement that the way things are done now should be improved. A desire to see more diversity and inclusion.</td>
<td>“They’re going to spend a dime to save a penny. In my estimation, they’re more concerned about fraud than they are about making funds available to those who need them.” (Interviewee #1)</td>
</tr>
<tr>
<td>Change - experiment, innovation</td>
<td>Examples of trying new activities in the grantmaking process with the intention of increasing diversity in the applicant pool.</td>
<td>“We recently had an RFP that we posted, and there was this conference that the team had. The cool thing is that they worked with our community engagement specialist to make sure that smaller organizations that we are kind of targeting were present at this table.” (Interviewee #4)</td>
</tr>
<tr>
<td>Organization culture - paternalism</td>
<td>Observations of when agency decisions were made with the assumption that it was in a grantee’s best interest. Examples of statements that assume potential grantees need a specific type of assistance.</td>
<td>“We don’t even ask the question. We just tell them.” (Interviewee #1)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>“We would love to pay for a contractor to . . . teach them, this is how you write a good grant.” (Interviewee #4)</td>
</tr>
</tbody>
</table>
| Organization culture - decentralized | Recognition that knowledge, practices, tools and priorities are not consistent across state agencies or even within one division of a single agency. | “So even though we’re all part of one state agency, things are sometimes done a little differently, but the mechanics of the grant making is supposed to be the same across programs.” (Interviewee #5)  
“Right now, there are a lot of tools and resources, but not everyone’s aware of them or they’re in different places, or maybe just one division is using them.” (Interviewee #3) |
| Organization culture - passive | Statements indicating that potential grantees or community members bear the responsibility of engaging with the agency or learning how to navigate the agency. | “We make sure that it’s (the RFP) on our website. A lot of time there’s word of mouth because there’s a lot of organizations that are heavily dependent on grant funding.” (Interviewee #5) |
| Change in culture | Acknowledgement that diversity and inclusion in state grantmaking is a higher priority than previously. A desire to be more inclusive and help small or young organizations, especially BIPOC-led or serving organizations, access grant funding. | |
| Being “stuck” | A sense that things can’t change. | “They (agency leaders) want to know what the barriers are, but then they don’t do anything about it.” (Interviewee #1) |
Appendix F: Coding Schema (Nonprofit Interviews)

Process
- **Applications** are seen as cumbersome and requiring too much/inaccessible data
- **Criteria** often seen as unrelated to the work or not gathering the full picture of org impact.
- **Reimburse** nonprofits rather than dispersing funds up front
- State funding is seen as too restrictive
- Unclear how heavily weighted the recommendations of community reviewers are (might just be lip service)

Capacity
- Detailed **budget** expectations
- **Reporting** requirements are onerous and overly burdensome
- Lack of **infrastructure** (needed to complete extensive RFPs and to meet reporting/evaluation req.s)
- Lack of **financial resources** (includes inability to afford grant writers/consultants, pay for infrastructure needed to complete RFPs, no money for development, etc)

Transparency
- Lack of **knowledge** regarding what funding opportunities are available
- Confusion around the **eligibility** of their organizations
- Lack of **transparency** in the grantmaking process
- Rejected applicants get no constructive **feedback**

Structural Inequity
- Previous grantees have an unfair **advantage** over organizations
- State agencies require a **demonstrated record** of successful program delivery
- Reviewers might be **biased**
- Favoring of established, already **well-resourced** orgs
- RFPs do not always **align** with the needs of BIPOC communities.
- Decisions about programming are made **top-down** within agencies with little input from the communities being served
- Unfamiliarity with agency-specific **conventions** such as the specific language and terms

**COVID** (getting COVID $, how the process was expedited, increase in # of grants)
**RURAL** (org indicates they serve rural areas)
**GRANTEE** (received state funding)
**ARTS** (org is primarily an arts org)