GIVING IN CHALLENGING TIMES

ROCKEFELLER PHILANTHROPY ADVISORS
PHILANTHROPY ROADMAP

> "In prosperity, caution;
> in adversity, patience."
>
> DUTCH PROVERB

In times of economic crisis, the urge to act precipitously is understandable. But such an approach may not help donors reach their intended goals.

A financial downturn affects both the supply and demand sides of philanthropy. Money available for giving often shrinks just as public need rises sharply, driven by hardships like high unemployment and ebbing government resources. In the recent recession, private foundations and donor-advised funds saw double-digit investment losses. Some donors felt they had to retrench; some vowed to maintain their normal levels of giving.

Huge economic change may seem to call for a dramatic change in giving strategy. But thoughtful philanthropists rarely panic. In fact, they often see changing circumstances as a chance to take a fresh look at their approach—reviewing their giving; recalibrating their priorities and methods; and recommitting to a long-term giving strategy (if appropriate).

This brief guide is designed to serve both emerging and established donors. Part of the *Philanthropy Roadmap* series, it looks at important questions faced by those who give in challenging times:

REVIEW
Are the values that inform your giving still appropriate and inspiring?

RECALIBRATE
Does a fresh look at your motivations, your goals and your giving vehicles indicate areas for change or consolidation?

RECOMMIT
Will you make adjustments to your giving strategy so that you are better positioned to support the causes you care about over the long-term?

When the financial crisis came in 2008, San Francisco philanthropists Leanne and Ruby called a family meeting with their philanthropic advisor to assess the situation. They felt overwhelmed by the scale of the economic meltdown and knew, even though the crisis hadn't impacted their ability to give, their finite resources could not address all the needs they'd identified. However, they also felt compelled to do something to help. After assessing the situation in San Francisco, where they had always focused their giving, they decided to increase their support of basic services such as food banks and shelters. They also decided not to re-fund a film program which introduced inner-city youth to art house cinema. Instead, they used that money to address more pressing needs. Also at that first meeting, they made a very interesting decision — not to spend all of the money they had budgeted for 2008. Instead, they held a significant portion of that year's budget to be used for what seemed most appropriate in early 2009. This gave them a few months to see how the crisis developed. By February of that year, they had decided to support a nonprofit which worked to reduce poverty by giving people advice about public benefits and financial assistance. This advice helped people in need access unclaimed money from state and federal sources. Leanne and Ruby felt supporting this organization would leverage their giving. The timing also allowed more people to get this advice in time to help them prepare their taxes accordingly.

In the ensuing years, Leanne, Ruby and other family members continued to meet, assess and refocus their giving. They maintained their support for most of their grantees. But, as the long-term effects of the crisis took hold, they also gave to new areas — such as after school programs which had lost public funding.

> "The only constant in life is change."
>
> GREEK PHILOSOPHER HERACLITUS

REVIEWING GIVING

Philanthropy can't address the problems of humanity if it fails to keep pace with the people and communities it seeks to serve. That's why many donors find it wise to build regular reviews into any giving strategy.

When dire economic conditions present a new reality and new choices about giving priorities, reassessment takes on a particular urgency.

Naturally, compassion for those affected by financial hardship will guide the process, but so will the rational push for improving philanthropy's impact. In the end, both heart and head are required to respond to an evolving situation with both relevance and effectiveness.

Here are some key aspects of giving which donors may find worthy of review in economically challenging times:

METHOD

In hard times, donors can re-evaluate how they give. Whether they make direct personal gifts, use a donor-advised fund, or run a private foundation, it's fair for them to ask if another giving vehicle might better serve their needs. For instance, down markets often cause donors to take a closer look at how spending requirements may impact the long-term financial health of their family's philanthropy. Donors who give independently or through a donor-advised fund generally do not have the same annual payout requirements that private foundations have. Due to the many complex issues connected with

these different charitable vehicles, seeking out advisors with expertise in philanthropy as well as tax and financial planning can be advantageous.

MOTIVATION

Many donors see the volatile economic climate as an opportunity to think about their reasons for giving: the why of philanthropy. What are the values that inform your giving? What are the causes that are most meaningful? What issues resonate through a given donor's background, family, culture and values? Donors may have already identified causes to support — the what of philanthropy — but may want to re-consider their top priorities in how to allocate resources. The results of this internal review process could lead to a deeper commitment to the philanthropic work they've been doing. Or, on the other hand, the process may provide the incentive needed to make small or even radical changes to the causes they support or the way they support them.

IMPACT

When endowments shrink even as the demand grows for the services they fund, each philanthropic dollar becomes a more valuable resource. To help decide among organizations that have different approaches, donors should carefully consider the impact that each organization has in their field. By gaining access to reports on an organization's work, donors can compare the outcomes that each organization produces to the impact their giving seeks to achieve.

COMMUNICATION

One of the best ways to re-assess giving is to gather new information about organizations you support. And one of the best ways to gather that new information is simply to ask your nonprofit partners how they have experienced the downturn. Have they seen increased demand for their services? Have their priorities changed due to fresh needs arising in the populations they serve? Have they seen a decrease in funding from public and private sources? What kind of support would be most useful given current circumstances? An open, honest dialogue often produces the best strategy and outcome for both the donor and recipient organization. By considering yourself to be in partnership with an organization to produce a particular outcome, it becomes easier to share your views and interests with them. You may even find there are non-financial contributions that you or people within your network can make that will be particularly helpful.

PEERS

How are other philanthropists responding to the new economic reality? Donors may want to pay particular attention to foundations that work in similar areas of interest. In the for-profit world, companies are often loath to share tactics and techniques for success. In civil society, the general rule is one of cooperation rather than competition. So it can be straightforward for one funder to find out how other funders deal with endowment and investment issues as well as how they programmatically face up to new social challenges. Such research also can ensure that philanthropists who decide to change their giving strategy can be complementary, rather than redundant, in regard to the giving of other individuals and institutions.

PROCESS

Donors should factor in their own cost- and time-efficiencies when making decisions about approach, giving vehicles, etc. For example, in challenging times, donors might want to consider ways to streamline their application or review processes to get dollars out in a timely manner and to reduce the burden on an already stretched grantee.

COLLABORATING TO RESPOND TO A CRISIS

OPEN SOCIETY FOUNDATIONS

George Soros' Open Society Foundations reacted swiftly to the 2008 subprime mortgage crisis, launching an initiative to prevent foreclosures for homeowners in distress, to expand access to affordable credit, and to stabilize communities with high concentrations of mortgage foreclosures. They increased their funding in 2009 because they knew other funders would reduce or eliminate their grants. They also pledged to work on issues like unemployment over the long-term. But the Open Society Foundations also showed how flexibility and cooperation can drive an urgent philanthropic response. When the JEHT Foundation—which supported criminal justice reform, human rights, and election reform—suffered significant losses to its endowment through the Madoff investment fraud, it had to close its doors. Open Society, which had been a funding partner of the JEHT Foundation, then joined forces with the Ford Foundation and Atlantic Philanthropies. These three funders discussed how they could support JEHT grantees which each foundation had supported in the past. In the end, the three foundations together approved a number of emergency grants to help fill the gap left by JEHT's closure.

> The Open Society Foundations also showed how flexibility and cooperation can drive an urgent philanthropic response.

“An ounce of application is worth a ton of abstraction.”

BOOKER T. WASHINGTON

RECALIBRATING AND RECOMMITING

Armed with new information, an updated perspective, and fresh input from philanthropic partners, donors can move to the next step—adjusting both their strategy and their tactics.

This recalibration can involve new grantees or new giving priorities. It can support new work within an established philanthropic area of interest or even an investment in social enterprise. The potential for change is vast and the options far too many to name here.

When updating a giving strategy in light of difficult economic times, donors may find it worthwhile to consider ways of giving that present new opportunities.

Here are some of them:

GENERAL OPERATING SUPPORT

In challenging times, nonprofits increasingly rely on general operating support to keep them going (literally, to keep the lights on and staff paid.) This support allows organizations the budget flexibility to react to changing needs and to sustain their most important initiatives. In a fluid economic environment and at a time of reduced governmental involvement, grantee needs and projects may rapidly change. Allowing grantees added latitude with general operating support enables them to adapt to unpredictable and quickly changing needs and emerge stronger. Current grants or multiple-year commitments that are restricted exclusively to a particular program or project can be contractually released, allowing a nonprofit to use the funds for general operating support.

LOANS AND ACCESS TO CREDIT

Many organizations that depend on regular payments from public funding sources or fundraising events may experience cash flow disruptions during a recession. If an organization has not already established a reserve fund for such contingencies, it may be difficult or impossible to obtain credit. For donors who give privately or through a donor-advised fund, making a grant to an intermediary nonprofit organization that in turn makes loans to other nonprofits or social entrepreneurs can leverage the gift. The invested funds are recycled as borrowers repay loans and the capital is re-loaned to other organizations.

PROGRAM-RELATED INVESTMENTS

Foundation trustees might consider expanding traditional grantmaking activities to include making program-related investments. These investments further a foundation's charitable purposes and do not seek a commercial return as a significant reason for the investment. Examples of program-related investments include: low interest or interest-free loans to needy students; high-risk equity investments in businesses in deteriorated areas; and low-interest loans to small businesses owned by members of economically disadvantaged groups. Tax and legal counsel should be consulted to explore the full extent of options.

IMPACT INVESTING

This approach seeks to align the investments of a foundation with its grantmaking priorities. For example, in 2010, the KL Felicitas Foundation had 65 percent of its endowment invested in socially responsible enterprises. These businesses are often paired with its grants and/or program-related investments. During difficult economic times, such diversification of investments offers trustees the opportunity to direct "patient capital" toward building the economy in sustainable ways.

DIRECT SERVICES

Organizations that provide direct services see needs rise in lean economic times. Broadly defined, direct services act as society's safety net: supplying those most vulnerable with basic aid such as food pantries, free health clinics, and after-school programs. Providing new funding to direct services is a potential way to have immediate impact.

CO-FUNDING

When foundation or donor colleagues join forces in giving, they often learn from each other, developing more effective and innovative grantmaking strategies. Such cooperation can increase the impact of contributions, especially in a difficult economy.

MATCHING GIFTS AND CHALLENGE GRANTS

Creating or supporting a matching gift campaign can also provide opportunities for donors to leverage their giving. Matching gifts and challenge grants are donations conditional on the recipient organization raising a corresponding amount of additional money (matching) or some stated amount (challenge). These gifts are often used as a promotional tool, to "challenge" an organization's group of supporters to meet certain fundraising goals. By issuing a matching gift challenge, you encourage an organization's development and fundraising team to build its capacity. By giving to an organization in the midst of a matching gift campaign, you ensure that your gift will leverage additional funds, and help position the organization to survive a protracted downturn.

RECRUIT NEW SUPPORTERS

Loyal donors are often the best advocates for organizations dealing with dire economic conditions. Donors can be powerful advocates, catalyzing additional support for their most valued organizations. Whether you serve on a nonprofit board where fundraising is expected, or act as an informal supporter and believe that an organization deserves to survive and prosper, your backing can help determine an organization's future.

THE RASMUSON FOUNDATION

The biggest private foundation in Alaska was developed by Elmer Rasmuson who was born, the son of missionaries, in the tiny village of Yakutat. Rasmuson, who owned the National Bank of Alaska before it was sold to Wells Fargo, believed that "a community that invests in itself is a healthy community." So when the financial crisis of 2008 hit, the Rasmuson Foundation ($500 million) gave grants to help communities start their own local funds. It also redoubled its efforts to encourage individual Alaskans to give. (The state's nonprofits get relatively little support from individuals.) So the foundation—normally focused on the arts and culture, health and social services—invested in changing public policy. Rasmuson promoted legislation to allow individual Alaskans to donate all or part of their annual permanent fund dividend to nonprofits. (Alaska's permanent fund is a $40 billion-plus pool of funds derived from oil tax money, a certain percentage of which is annually distributed to every Alaskan in October.) The legislation became law in 2009 and over the first four years of operation, more than $5.24 million has been donated to hundreds of nonprofit organizations. The Rasmuson Foundation also responded to the financial crisis by making a large grant to nonprofits who provide direct services like food banks and shelters. But the foundation feels the best response to the economic downturn is to build up community and philanthropic capacity.

> ...the best response to the economic downturn is to build up community and philanthropic capacity.

> "The capacity to respond to others in need is a defining characteristic of being human."

PROFESSOR ROBERT L. PAYTON,
INDIANA UNIVERSITY, CENTER ON PHILANTHROPY

MOVING FORWARD

Philanthropy is often driven by compassion, but that compassion becomes all the more powerful when it expresses itself through patience and planning.

A financial crisis can spin Wall Street into a frenzy, but thoughtful donors usually do not take hasty action. Instead, as we have laid out in this guide, they take time to review their giving, recalibrate their strategy and then, if appropriate, re-commit to their values and their philanthropic goals.

It's also worth remembering, however, that even bear markets can turn positive. Many donors and foundations not only review their current strategy, but take time to plan ahead so they can be well-positioned in their giving when the economy rebounds.

IDEAS WORTHY OF CONSIDERATION

Continue to develop funding strategies that reflect your interests, history, and legacy.

Keep up-to-date on innovations in philanthropy and the latest discussions on impact-focused giving.

Maintain communications and relationships with nonprofit partners and fellow donors who share your interests.

Encourage and support long-term organizational planning—from creating reserve funds to preparing for the next economic downturn.

Remember that effective philanthropy usually becomes more meaningful as donors become more engaged in their giving.

ROCKEFELLER PHILANTHROPY ADVISORS
is a nonprofit organization that currently advises on and manages more than $200 million in annual giving. Headquartered in New York City, with offices in Chicago, Los Angeles and San Francisco, it traces its antecedents to John D. Rockefeller Sr., who in 1891 began to professionally manage his philanthropy "as if it were a business." With thoughtful and effective philanthropy as its one and only mission, Rockefeller Philanthropy Advisors has grown into one of the world's largest philanthropic service organizations, having overseen more than $3 billion to date in grantmaking across the globe.

Rockefeller Philanthropy Advisors provides research and counsel on charitable giving, develops philanthropic programs and offers complete program, administrative and management services for foundations and trusts. It also operates a Charitable Giving Fund, through which clients can make gifts outside the United States, participate in funding consortia and operate nonprofit initiatives.

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