

Helping Grantees Cope with the Economic Downturn

The Four Freedoms Fund (FFF) has been ahead of the curve in helping grantees to cope with the “new normal” of the recession. We were fortunate in that our Capacity Building Initiative (CBI) began focusing in early 2006 on organizational health and sustainability. For three years, CBI has provided add-on grants, technical assistance and peer learning to eleven anchor grantees. In November 2007, we began partnering with the Nonprofit Finance Fund to conduct Nonprofit Business Analyses of CBI grantees and to train them to become stronger non-profit enterprises. So we had a solid foundation of focusing on grantees’ finances and fundraising from which to “pivot” when the recession hit.

This is a summary of CBI’s recession-related activities over the past six months:

September: Monthly CBI conference call includes discussion of the online article *Five Recommendations for Nonprofits in a Recession* at www.massnonprofit.org and how grantees are preparing.

October: Learned that a CBI grantee had laid off two staff people. Expedited communications grant to rehire for one position. Met with Board of Directors by phone. Hired management coach to help remaining staff and Executive Director to regroup and move forward.

December: Made round of fact-finding calls to CBI executive directors about how the recession is affecting their organizations and how they are responding.

January: Briefed FFF steering committee on findings. Sent NFF’s online recession webinar and toolkit to CBI grantees. Invited nonprofit management expert Jan Masaoka , formerly E.D. of Compasspoint Nonprofit Services, to lead CBI monthly call on how to exercise leadership in tough/uncertain times.

Learned that a CBI grantee was experiencing cash flow crisis and expedited grant payment.

February: Invited two senior trainers from Nonprofit Finance Fund to lead 60-minute webinar, *Coping Tools for Turbulent Times* on CBI monthly call. NFF makes calls to all CBI grantees to plan one-on-one follow-up work for 2009.

Learned that a non-CBI grantee is facing serious deficit and considering laying off staff. Arranged for Nonprofit Finance Fund to provide consulting to help them assess their options.

March: Programmed CBI monthly call on the topic of *Talking to Funders in a Downturn*, i.e. positioning your work for future support when funders’ endowments are shrinking. Speakers are Magui Rubalcava Shulman of FFF, Cathy Cha of the Haas Jr. Fund, and Taryn Higashi of Unbound Philanthropy.

March - April: Expanded recession management webinar to 90 minutes with more content on “Finance 101” and “Hidden Opportunities.” Offered on three separate dates, webinar is attended by 42 individuals from 20 Four Freedoms Fund and 10 American Dream Fund (FFF’s sister fund) grantees, including several board members. Evaluation data now being collected and analyzed.

Topics we're considering for future CBI peer learning calls:

- Benefits and costs of mergers and/or restructuring
- Going after federal stimulus dollars – what are various CBI groups planning?
- How advocacy coalitions can function more like trade associations (many of our grantees are structured as coalitions and are trying to help their member groups survive the downturn as well).
- Alternatives to layoffs (reducing hours/pay across the board, voluntary furloughs, etc.)

Lessons Learned - Overall

- Prepare yourself and your grantees for a *sustained economic downturn* unlike past recessions.
- Think in terms of a minimum two-to-three year time horizon (i.e. surviving this year is not enough).
- Negative impact is only beginning to materialize. Next year will likely be even more painful.
- Don't assume that you know how grantees are faring. Ask them directly.
- Even grantees that you consider close may not tell you when they face a crisis.
- Among grantees, there is high anxiety about 2009 and near panic about 2010.
- Many grantees have already gone to their Plan B austerity budget this fiscal year.
- Staff levels are dropping through hiring freezes and/or layoffs.
- Organizations that in the past would have used unrestricted funding to get a project going are now holding off until dedicated funds are secured.
- Grantees need concrete tools to help them: 1) assess their financial exposure and risk tolerance; and 2) *use that information* to make responsible decisions.
- Most grantees have some of the tools and processes they need but usually not all of them.
- Most grantees needed these resources two to six months ago.
- Options decrease as time passes. It's much better to face the situation sooner, rather than later.

It's Bad Out There and Getting Worse

- Revenues are dropping in every category: foundations, corporations, individuals, events, public contracts, earned income.
- Groups that have amassed reserves are now using them.
- Cuts in city, county or state funding are hitting grantee infrastructure budgets. Many groups used public contracts to help pay for administrative overhead across programs.
- Grantees with very close relationships to their communities are being called on to provide new kinds of help (e.g. foreclosure assistance).

Be Creative in Supporting Grantee Leaders

- Nonprofit leaders are under tremendous stress from funding cuts and extreme uncertainty.
- Important for funders not to equate cutting back with failure.
- Better metaphor for these times: *tacking toward the target*. Progress may not be a straight line.
- Having the courage to make tough survival choices demonstrates leadership and commitment.
- Affirming and supporting nonprofit leaders in non-monetary ways is also important.
- Fostering peer support is a low-cost way to share information and provide emotional support.

Finding Opportunity in Crisis

- This is also an opportunity for organizations to focus on what they do *well*.
- Doing *more* with *less* is unsustainable.
- Grantees need to define their core work and how it can be sustained.
- Important for funders to give grantees permission to do *less with less*.
- Grantees may need help to create a process for taking stock and prioritizing core work.
- Releasing staff members from lower priority work can relieve stress and boost morale.
- *Going all in* (tapping all reserves & resources/allies) as opposed to cutting back is also a valid choice if conditions warrant (e.g. this may be best chance to pass federal immigration reform for years).
- Important for grantees to continue developing the *next big thing* (e.g. immigrant integration strategies). When funding resumes, they'll need to be ready with right frame & track record.
- Some grantees are strategizing about how to tap stimulus dollars, which may offset other cuts.

Lessons from *Nonprofit Finance Fund*

- Strength of balance sheet determines options, not income & expense statement.
- Diversity of revenue is not as important as *reliability* of revenues.
- Risk is defined as “not having cash when you need it.”
- Cashflow management is key. Frequency generally needs to increase to monthly, weekly or even daily in a crisis.
- There is no one-size-fits-all response. Organizations must determine their own financial exposure and risk tolerance.
- Scenario planning is a collaborative & iterative process (e.g. should involve multiple staff & board members and be repeated as conditions change).
- Organizational size if not necessarily correlated to financial sustainability. Larger groups may be more vulnerable because their cost of doing business is higher. Smaller groups with relatively liquid assets may be more flexible in responding.

Top Ten Things Grantmakers Can Do to Help Grantees Cope with the Recession:

1. **Forward links** to online recession management tools to all grantees as soon as possible.
2. Offer **online or in-person recession management workshops**. Webinars are the most accessible and cost effective to provide group education—about \$1000 each.
3. **Include grantee board members** in learning opportunities (especially online) so their knowledge keeps pace with that of staff members.
4. Offer access to **one-on-one follow-up support** to grantees e.g. via phone support or short term consultancies (e.g. for financial management, ED coaching)
5. Encourage grantees to hold **workplan retreats** to prioritize core work & how that can be sustained (help to pay for good facilitation if possible).
6. Form **peer learning groups** so grantees can share information about what other non-profit leaders are doing.
7. **Expedite the payment of grants** that you've already budgeted.
8. Be creative in **supporting and affirming nonprofit leaders** (not necessarily expensive but much appreciated).
9. Help grantees **improve their communication with donors** by serving as a sounding board.
10. Encourage grantees to have a plan for possible **cash flow gaps** (e.g. to establish a line of credit before they need it).