

# How Funders Can Cope

## *Leadership in Difficult Times*

As foundation endowments erode, funding dwindles and new initiatives are postponed, foundations face the mounting challenges of responding to increased needs. How can foundations reassure their grantees when they themselves are struggling? TCC Group works with many funders to address issues brought to the forefront by the economic downturn and help foundations apply effective strategies for achieving program goals.

A January 2009 survey by the Council on Foundations found that foundation endowments had declined an average of 28.8% in 2008. While this drop is not as steep as the 39% decline in the stock market last year, it is nonetheless alarming. And because foundations typically base their payout rates on average returns over three to five years, many expect further declines in both endowments and grantmaking budgets in 2010.

Even if a foundation cannot maintain or increase its level of grantmaking, there are approaches TCC Group recommends to help achieve the greatest impact and realize objectives:

### *Consider increasing a foundation's payout rate*

The Bill and Melinda Gates Foundation has stated that it will increase both its spending and its payout rate in 2009. Other funders as varied

as the Robert Wood Johnson Foundation, the California Endowment, the Oregon Community Foundation, and the Ford Foundation have indicated that they will increase their payout rates in order to keep their funding at levels similar to those in 2008.

Certainly increasing payout rates is difficult to do in light of the steep declines in endowment values. Keep in mind, however, that the decision to protect an endowment is not just a financial one but a mission-driven one as well. Perhaps increasing grantmaking now in order to meet community needs is a better fit with the founder's intent – and mission – than preserving the corpus.

### *Provide more flexible funding to nonprofits*

Most nonprofit organizations are struggling to make ends meet these days, and overly narrow project-related funding can complicate that effort, even as it generates revenue for an organization. Consider instead making more general operating support grants that organizations can apply to their most critical needs. The Los Angeles-based Weingart Foundation decided to award general operating support grants without the usual expectations it places on these grants in order to help recipients sustain existing operations.

Providing general operating support does not mean you have to forego accountability; the

funder and the recipient can agree in advance how the funds will be used and what the outcomes will be. Program-related investments, short-term loans, and other flexible mechanisms can help struggling nonprofits survive the crisis and continue serving the community.

### *Help strengthen the financial sustainability of grantees*

“Struggling through” is not always a reliable strategy, particularly in a crisis. Many nonprofit organizations need support to become financially sustainable over the medium- to long-term, and there are many ways that foundations can help in this area. Funders can help their grantees consider mergers, back-office consolidations, and other forms of strategic restructuring. They can also provide access to financial management consultants or ongoing workshops to help them assess their financial management systems, develop useful reports to better inform decision-making, and improve their business plans. Such support can also help grant recipients access federal stimulus funding grants, since these have demanding reporting and auditing requirements.

Funders can also structure their grants in such a way as to enhance financial sustainability. For example, the San Francisco-based James Irvine Foundation adjusted its Arts Regional Initiative (ARI) to reflect the impact the economic downturn is having on the Initiative’s target grantees – medium-sized arts organizations. While in previous years ARI encouraged growth and expansion among its grantees, the Irvine Foundation has now clarified that organizations are not being asked to expand with these grants, but rather to develop plans for

sustainability based on the local context and opportunities.

### *Focus giving on emergency relief organizations*

Many safety-net organizations, such as food banks and social service providers, are seeing dramatic increases in demand for their services at the very moment when funding is drying up. In response, some funders are responding by providing priority funding to organizations that meet basic human needs in the community. For example, funders in Jacksonville, Florida, formed a collaborative Community Safety Net Fund to support local nonprofits that provide emergency assistance to residents in need. By pooling their resources and working collaboratively, they are maximizing the impact of their funding in the community and avoiding duplication of efforts. Last February the Chicago Community Trust launched the Unity Challenge - a \$1 million initiative to fund organizations that provide food, shelter, and heating to needy area residents.

### *Balance safety-net funding with investments in advocacy*

By funding advocacy, civic engagement, and public policy efforts, funders can help communities take action on the root causes of core problems and develop systemic rather than piecemeal solutions to problems. For example, the Rockefeller Foundation has funded Oxfam America to promote policies that support solutions to the climate crisis. And to address the mortgage foreclosure crisis, the John D. and Catherine T. MacArthur Foundation is funding the Center for Responsible Lending to promote fair and sustainable lending practices.

### *Gather grantees for discussions*

Bringing grant recipients together to talk about how to stay on track through the economic downturn has numerous benefits. It can break through the isolation many nonprofit CEOs experience; help them see that others are facing similar problems; learn from each other about how to address those challenges; and inform a foundation about how to best support its grantees. The Dyson Foundation in Millbrook, NY, is partnering with community foundations in the region to offer organizations a series of workshops on essential management issues like human resources, fundraising, technology, and facilities management.

### *Communicate frankly and frequently with grantees and others in the community*

Let stakeholders know how circumstances are changing and how foundations are responding. Will there be adjustments to grantmaking strategies? Will grantmaking budgets increase to meet greater community needs? Will an organization sunset some initiatives earlier than expected? Keep stakeholders informed so they can plan accordingly. For example, the William and Flora Hewlett Foundation in California communicated early and clearly with its stakeholders about how the economic downturn would impact its grantmaking commitments.

Another way to communicate with stakeholders is to directly ask how to best support them at this time. Last December the California Community Foundation surveyed its grantees about their needs and challenges. Based on feedback it received, the Foundation decided to offer its grantees no-cost back office support for planned giving and access to low- or no-cost consulting services.

### *Let past achievements (and mistakes) guide your future direction*

As foundations face the need to cut back on programs and initiatives, it helps to know what works and what doesn't. The ongoing improvement that evaluation can provide also comes in handy when tough decisions must be made about how to allocate limited resources.

### *Revisit endowment investment strategies*

Almost 150 organizations invested some of their assets with Bernard Madoff; at least two of them – the JEHT and the Picower foundations – were forced to close when the source of their endowments disappeared. If there are any doubts about how a foundation's assets are invested, now is a good time to ensure that its portfolio is diversified and that the due diligence on specific investment opportunities has been thorough. Poor due diligence may not just be a bad investment practice; it may also land a foundation's Board in legal trouble for failing to live up to its fiduciary responsibility.

### *Consider reducing administrative or overhead expenses*

Is it feasible to lower the foundation's overhead? Are staff reductions in order? Is it possible to share office space and administrative staff with another organization? Can certain staff functions be outsourced such as proposal review or capacity building? Faced with a significant decline in assets, the San Francisco-based Pottruck Family Foundation decided to close in January and shift its remaining assets to a donor-advised fund in order to save on staffing and overhead. The time for mergers is ripe and offers small foundations an opportunity to remain solvent by joining forces with a larger group or sharing resources.

### *Seize the moment and take leadership*

Challenging times can be an amazing opportunity for the philanthropic world to transform itself. Too often, foundations are afraid to try new things or phase out a program. Now is the time for foundations to take a greater leadership role and consider new models of philanthropy. There are numerous opportunities to take action on issues such as education, energy, healthcare, and the environment. There is a critical need for new approaches to funding the arts and scientific

research, as well as opportunities to leverage the federal government's new investments.

While many foundation endowments are now two-thirds the size they were a year ago, foundations cannot afford to be only two-thirds as effective as they once were. During these challenging times, foundations have the opportunity to step up, exercise leadership, and embrace new approaches to achieve their missions.

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