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Economic Q&A: The Crisis and Nonprofits

Thursday, October 9, 2008

Q&A with Changing Our World professionals regarding current economic environment and its effect on philanthropy.

Questions of Fact

Changing Our World professionals have been through economic downturns and recessions multiple times in their careers. Experience teaches that it is always important to start with the certainty of facts before crafting strategies to respond to an uncertain future.

Q: What is the worst case scenario for philanthropy?

A: In 2007, Americans donated more than \$306 billion to charity despite uncertainty in the housing markets and the rising price of oil. In the last forty years, the worst one year decline in inflation-adjusted philanthropy was the period 1973-74 during the oil embargo. The decline was 5.4%. If 2007-2008 sees an equivalent decline, the total amount of charitable giving in 2008 will be \$289.5 billion. This will be approximately the amount of philanthropy available in 2005.

Q: Still, a decline could be real. How should we react?

A: The fact is that the only rational reaction is to move forward. The nonprofit sector is one of increasing resource competition that has built over the last 25 years. Between 1982 and 2007, the number of public charities has increased by 194% while the real dollar value of philanthropy increased by 141%. The competition for resources is long-standing.

Q: But is philanthropy not deeply tied to the economy?

A: Yes, in the sense that philanthropy has changed within a fairly narrow band, always being between 1.7% and 2.2% of the economy, so it is economic growth of the large number (gross domestic product) that has fueled growth in the smaller number (philanthropy). But, in fact, there have been only two periods in the last forty years with more than a single year absolute decline in giving, during the oil embargo of the mid 1970s and after the terrorist attacks of September 11, 2001. No other decline has lasted more than a single year. Philanthropy in America is more deeply rooted in culture than in equity share prices.

Q: Maybe that is true, but has not the current market taken all of the appreciation away from wealth?

A: The value of most mature stock portfolios has increased by 70% to 100% in the last 10 years despite current drops. Remember, in 1993, just 15 years ago, the Dow's "record high" was 3764 and it never closed over 6000 until 1996.

Q: Has everyone been affected equally?

A: No. Some businesses continue to do well. Investors with diversified portfolios are relatively well protected. People who saw the decline coming and favored cash are now investing heavily in real estate and securities.

Questions of Focus

Facts provide context, but they do not provide strategy. Changing Our World's experience is that times of economic challenge require nonprofits to be particularly focused on five core principles.

Q: How shall we look at our revenue streams?

A: Diversification is the key. This means both diversification of sources of revenue (contributions, government grants, fee-based services), and diversification of sources of private contributions. Management's attention must be on widening the net of sources and types of contributions.

Q: How shall we communicate?

A: It is time to re-examine your case for support. Does it make the strongest, most updated statement of who you are and the value you bring? Does it contain your most recent accomplishments? Does it emphasize the seriousness and immediacy of your needs? Does it demonstrate clearly the emotional impact of changing lives?

With all nonprofits under pressure, your donors are going to be inundated with requests from a wide variety of worthwhile causes. How does your organization stand out in the crowd? Is your story inspirational, does it convey hope? Is it donor centric?

Positive messages and conviction in your mission not panic from the markets must be the message. View your donors as investors who require constant reassurance that their funds are being used efficiently. Constant reinforcement through a structure communications and "moves management" system is essential to maximizing the generosity of your closest supporters.

Q: How shall we keep our supporters focused on our work when the economy is so distracting?

A: Now is the time for dedication to building relationships. Reach out to your supporters of every level and type. Emphasize your commitment to mission. Tell your story every day. Communicate your results and impact. When donors have limited means, they invest their philanthropic dollars in areas and programs that can show or best convey tangible results.

Thank, thank, and thank again. The general rule is that every donor should be thanked 7 times for their gift. Be creative in your approach by using both hard data and real life examples of your success. Make outreach personal. Pick up the phone and personally communicate with your key donors on a regular basis to reinforce the importance of their continued generosity.

Q: What are the implications of economic change for our governance?

A: Your vision must be set to the future. Begin to identify and cultivate potential Board members from among those sectors of the economy and the community that will recover more quickly and strongly. Read the economic press widely and regularly to identify patterns of recovery, and use that knowledge in building Board strategies.

Be candid. Board members must LEAD with their own personal resources to set an example of generosity that will inspire others to have confidence that your organization is important and worthy of their investment. The strength of your organization is directly tied to the commitment of your voluntary leadership. If 30% - 40% of your board is not engaged, serious consideration must be made to moving those who do not contribute out, your organization's survival is at stake.

Q: What shall we do internally?

A: There are always improvements to be made in even the most well managed organization. Now, however, it is critical to demonstrate to your Board and supporters that you are instituting efficiencies wherever possible in the organization. Conduct a top-to-bottom audit of all operations, streamline, and document the effects on budgets and resources for operations. Be sure your development effort to be more donor focused. All of your development efforts should be geared toward making your supporters feel special. They must believe that their dedication and generosity is appreciated and crucial to your organization's work.

Questions of the Immediate Future

Still, facts and focus do not necessarily answer immediate questions about aligning today's priorities with tomorrow's conditions. Changing Our World believes that the practical must always stand side-by-side with deeper strategy.

Q: Shall we postpone our capital campaign or go forward.

A: The case is just as urgent this week as it was last month. There are 900,000 public charities in America. Those who hold back will lose ground to those who move forward. Tactics need to be revisited and strategies adjusted. But those who hesitate will find that re-starting efforts in the future will make fundraising more difficult. There are in fact benefits to getting bids for capital projects during this period when the construction industry is slowing. This could be an economic benefit created by moving forward with the capital projects.

Q: In going forward how can we accommodate donors' changed circumstances and the reality of their uncertainties?

A: Adjust pledge payment periods. Negotiate the terms of giving. Work with donors. Communicate your willingness to meet them more than half way to make their desires and your needs meet in a practical way. Be proactive; don't wait for a donor to come to you. If you anticipate trouble, you will have more time to develop answers. For example, if your donor works for a financial institution that is struggling, meet with the donor before they come to you to cancel a gift. The donor will appreciate your concern and flexibility and you

will have a friend and donor after the recovery begins.

Q: Are there certain types of gifts that fit particularly well in these economic circumstances?

A: Suggest gifts of depreciated securities, which can build value over time. Develop annuities strategies that are funded with real or personal property. Gifts such as depreciated real estate (to help alleviate tax burdens), insurance and cash would also be attractive for some. This is a time when many donors and prospects are reviewing their estates and a good time to help them see where planned gifts may help diminish estate tax consequences.

Q: Should we do or re-do our campaign study if we have not yet begun fundraising?

A: If you have completed the study in the last year and have not begun fundraising, re-examine the findings and proceed with appropriate cautions. What is needed is not replication of past work, but flexibility. Move ahead with the understanding that the market has shifted and your campaign may have to be phased or may take a bit longer to reach its final objectives.

Remember, the weaker institutions flee the marketplace first leaving the stronger ones to collect what is available.

Q: How do we present our decisions to our Board?

A: Acknowledge the issues that we all face. Be clear about strategy. Be practical about tactics. Invite suggestions for strategies and tactics, and consider a Board mini-retreat to address how your institution will adjust and continue to move ahead. While you invite Board participation, the professional staff should develop the unemotional, calming strategies for advancing the organizational mission. Remember, the Board should be a part, not a victim, of these decisions.

Sources:

Raw data from:

Giving USA, 2008
Bureau of Economic Analysis, US Department Commerce

Additional Information:

[Also read Michael Hoffman's letter regarding the current economic climate's effect on philanthropy.](#)

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