

foundations and the economic downturn

The United States is facing its most severe economic crisis since the Great Depression, and its concerns are similarly afflicting countries across the globe. The subprime mortgage crisis, a volatile stock market, and job loss are taking a toll on the nation's economy and the welfare of our most vulnerable communities. In mid-November the stock market hit its lowest level in more than six years and unemployment reached levels not seen since 1983 (Healy 2008; Goodman 2008).

Like the rest of the economy, foundations are feeling the squeeze: fewer resources coupled with increased need by individuals, families, and communities. Health foundations may face especially tough challenges if the level of uninsured and underinsured individuals begins to rise as the result of job loss and the weakening economy. In addition, public programs like Medicaid and the State Children's Health Insurance Program, as well as public health and other social services, are experiencing funding cuts due to tightening state and local budgets. How is this uncertainty affecting the role of philanthropy? What strategies can foundations use to support grantees more effectively? What can foundations do to address their own financial challenges? How can they do more with less?

One thing is clear: the role foundations can play as leaders is more important than ever. As Risa Lavizzo-Mourey (2008), president and CEO of Robert Wood Johnson Foundation, recently noted, "The long-term nature of our mission and our objectives, and the needs of and promises to our partners and grantees, dictate that we not react to daily fluctuations in the financial markets. The challenges we are addressing together are urgent." This essay provides a historical look at philanthropic giving trends in times of economic crisis and the factors that influence foundation grantmaking. It also presents examples of how foundations are responding to the current economic uncertainty.

THE CURRENT STATE OF PHILANTHROPY

There are more foundations today than at any point in history. In 2007 there were approximately 72,000 U.S. grantmaking foundations (Foundation Center 2008a). The number of private and community foundations in the United States doubled between 1992 and 2005. A large number of these were created after 1990, the result of increased giving

from the wealth of a new generation; the creation of new corporate foundations, especially in the pharmaceutical industry; and the conversion of nonprofit hospitals, health plans, and health systems to for-profit entities.

Foundations are also giving at unprecedented levels. Total giving in 2007 was an estimated \$42.9 billion, up from an estimated high of \$39 billion in 2006 – a 10 percent increase (Foundation Center 2008a). Giving between 2005 and 2006 grew by 7.1 percent from \$36.4 billion to \$39 billion. This significant increase in giving is largely attributed to strong gains in the stock market, the number of new foundations established in the last decade, and higher levels of foundation giving relative to assets than in the past (Foundation Center 2008a).

In the last decade, philanthropy has also seen the establishment of foundations with endowments of unprecedented size such as the Bill and Melinda Gates Foundation and the Peter G. Peterson Foundation. These large foundations may in fact continue to expand their grantmaking in the coming months despite the economic downturn.

FOUNDATION GIVING IN A WEAK ECONOMY

If history holds true, overall foundation giving trends may remain steady during the current economic uncertainty. Although foundations may have experienced asset reductions during past economic downturns, a number of factors helped mitigate the impact on total giving. For example, many foundations, including some of the nation's largest, determine their yearly grant budgets on a rolling average of their asset values over the previous two- to five-year period. This creates more stable levels of overall giving (Foundation Center 2008b). Second, foundations have shown a past willingness to use their corpus to ensure that multiyear grant commitments are met. Finally, as previously noted, the creation of new foundations has helped moderate the effects of recent downturns. In past recessionary periods, including 1981-1982, 1990-1991, and 2001, foundation giving in inflation-adjusted dollars increased slightly (Foundation Center 2008b).

This trend could be broken if the economic outlook worsens and the United States experiences a protracted recession. Moreover, in the current financial downturn, some foundations may be more vulnerable to market forces than

HIGHLIGHTS OF THE GIH SURVEY RESULTS

91 percent of GIH Funding Partners reported a decrease in asset base.

Effects of Economic Downturn on Grantmaking

- 61 percent are seeking new collaborations or partnerships with other public and private funders.
- 56 percent are convening funders to coordinate funding strategies.
- 43 percent are decreasing grants budgets.
- 37 percent are maintaining the percentage of the endowment that will be paid out in grants.
- 34 percent are delaying consideration of new initiatives or multiyear obligations.

Effects of Economic Downturn on Foundation Operations and Administration

- 58 percent report reductions in overall administrative expenses.
- 49 percent are building in new efficiencies such as moving toward electronic publications or telecommuting.
- 44 percent are reducing staff travel budgets.
- 40 percent are holding staff salaries at 2008 levels or reducing salary increases below level of recent years.

in past recessions, specifically corporate and community foundations. In fact, an October 2008 survey of U.S. community foundations found that most expect 2009 asset bases to be 10 percent below 2007 levels (Community Foundation Insights 2008).

Surveys conducted by a number of organizations in fall 2008 found that overall foundation assets declined from 2007 to 2008. The most common reason cited was decreased return on investments. Eighty percent of foundations in the Washington, DC metropolitan region, for example, experienced a drop in assets during this period (Washington Regional Association of Grantmakers 2008). About half of these foundations anticipate that their 2009 grants budgets will be the same or slightly less than 2008 budgets. In addition, surveys found that foundations expect asset bases to continue to decline into 2009. Since foundations generally determine budgets based on a rolling average of assets over the past two- to five-year period, 2009 grant budgets may not be significantly affected. As 2008 declines enter the equation, however, foundations may begin to experience more notable declines in giving.

GRANTMAKERS IN HEALTH SURVEY ON THE EFFECTS OF THE FINANCIAL CRISIS ON HEALTH PHILANTHROPY

In December 2008 Grantmakers In Health (GIH) surveyed

the field of health philanthropy to find out how the current economic crisis is affecting health funders.¹ Findings are consistent with other philanthropy surveys and reflective of recent statements issued by foundations. The survey revealed that 91 percent of responding GIH Funding Partners (defined as foundations and corporate giving programs that annually contribute general or program grants to GIH) experienced a decrease in asset base in 2008. As a result, 68 percent have taken actions to change programs or operations. Funding Partners are altering programs and grantmaking in a variety of ways. Forty-three percent of foundations are decreasing grants budgets, 34 percent are delaying consideration of new initiatives or multiyear grant obligations, and 30 percent report maintaining calendar year 2008 levels of grantmaking for 2009.

Meanwhile, GIH Funding Partners are finding alternative ways to support grantees and other partners during this difficult period. For example, 61 percent are seeking new collaborations or partnerships with other funding organizations such as corporations and government, and 56 percent are convening funders in their communities to coordinate funding strategies. In addition, 43 percent of Funding Partner respondents reported getting staff more involved in working with community or constituent organizations and coalitions, and 40 percent are increasing advocacy efforts or providing technical assistance to grantees on managing budget constraints.

¹ GIH surveyed its Funding Partners and other health foundations in December 2008. Of the 255 Funding Partners surveyed, 127 (or 50 percent) responded.

PHILANTHROPIC RESPONSE TO THE CURRENT CRISIS

Philanthropy involves more than just writing checks. Foundations are mission driven and, as a result, can act as a “countervailing force” in hard economic times (Guth 2008). This is particularly important as charitable giving by individuals and businesses decreases and as public agencies experience budget cuts. Foundations have an opportunity to not only award grants, but also provide leadership, support advocacy and policy work in new ways, and play other important roles.

In response to the turbulence of the financial markets, and as reflected in GIH survey findings, many foundations are holding 2009 budgets at 2008 levels. This approach allows them to maintain support for existing grants and initiatives without substantially reducing grant portfolios. It also provides stability for grantees and the communities they serve. This strategy, however, may prevent foundations from entering into new program areas or committing to larger multiyear grants and initiatives. It also may require foundations to dip into their endowments, with the knowledge that the foundation’s corpus can be rebuilt when the economy and stock market improve.

Another approach to the crisis is foundation flexibility and the application of resources in creative ways. Grantmakers can work with grantees to refocus or reprogram existing grant dollars to meet new and emerging needs. For example, nonprofits, such as community-based health care clinics, may experience revenue decreases, thus requiring more core operating support. Shifting grantmaking to emphasize short-term operational support can benefit organizations that rely heavily on public funding sources.

Foundations can also leverage their resources. Creating partnerships with other funders and developing a targeted response for meeting community needs can be an effective strategy to get nonprofits the resources they need most. Other innovative grantmaking strategies include program-related investments (PRIs). Used in the form of bridge loans, PRIs can help nonprofits facing revenue shortfalls, particularly organizations that can raise funds after the economy improves (Community Foundation Insights 2008).

Leadership is a valuable resource in the current economic environment. Foundations can readily bring community stakeholders together to discuss critical issues such as foreclosures, public funding cuts, and other issues of concern (Community Foundation Insights 2008). They can also lead coordinated efforts to address community needs resulting from the economic downturn. Opinion pieces in newspapers are another way to provide leadership and advocate for

TIPS FOR CUTTING OPERATIONAL COSTS

1. Shift to electronic forms of communication to distribute annual reports, newsletters, and other publications.
2. Make use of Webinars and other virtual meeting technology.
3. Reduce budgets for professional development, conferences, and other trainings.
4. Reduce annual events such as open houses and awards.
5. Cut down on use of consultants or temporary office staff.
6. Offer staff opportunities for unpaid leave.
7. Temporarily reduce some staff benefits or perks.
8. Establish a hiring freeze.

communities affected by job loss, foreclosures, and economic instability.

On an operational level, foundations can support and develop the skills of other nonprofits to help them work more efficiently and communicate the value of their work to a broader funding audience. Nongrant resources, such as office space and technical assistance from staff, are creative strategies to support grantees and other community organizations. Foundations that own their buildings can lease space to local nonprofits at a reduced rate or allow outside groups to use meeting space and conference rooms free of charge. Foundation staff can also provide technical assistance to nonprofits, working with grantees to increase access to the media or improve their Web sites. Helping grantees effectively tell their stories and share results, for example, can help nonprofits build the case for continued public funding or increase exposure to new funding sources. Other types of assistance include organizing workshops for nonprofits on grant writing, evaluation, or information technology.

The grantmaking budgets of corporate foundations may be hardest hit by the economic downturn. Their nongrant resources, however, can be very valuable. Product donations from pharmaceutical companies or manufacturers of medical equipment can assist community clinics or programs providing free medication to low-income populations. Corporate funders can also call upon staff to volunteer time and skills or provide pro bono health services (Council on Foundations 2008).

Finally, foundations can trim their operating budgets. As

reflected in GIH's survey results, almost 60 percent of GIH Funding Partners report reducing administrative expenses. Discretionary spending, such as staff travel, professional development, and meeting expenses, are areas where many foundations will cut back as budgets tighten. Webinars, podcasts, and other Web-based tools may be lower-cost alternatives to in-person meetings or training programs. Increased use of electronic communications can cut back communications expenses. Disseminating annual reports, newsletters, and other publications via the Internet and

e-mail are low- or no-cost alternatives.

As the economic crisis continues to unfold, foundations will play critical leadership roles. They must remain committed to their missions and be steady partners for grantees and other organizations. Remaining flexible is also important, and foundations may find new opportunities for budgeting and grantmaking. To do this effectively, foundation leadership must communicate clearly with staff, grantees, and the larger communities of which they are a part.

REFERENCES

Community Foundation Insights, *Making Informed Decisions in Uncertain Times: Helping Community Foundations during Economic Volatility* (Boston, MA: FSG Social Impact Advisors, November 2008).

Council on Foundations, *Weathering the Storm: Corporate Philanthropy and the Financial Crisis*, Special Webinar, October 15, 2008.

Foundation Center, *Foundation Growth and Giving Estimates* (New York, NY: 2008a)

Foundation Center, *Foundation Growth and Giving Estimates* (New York, NY: 2007).

Foundation Center, *Past Economic Downturns and the Outlook for Foundation Giving* (New York, NY: 2008b).

Goodman, Peter S., "Jobless Rate at 14-Year High after October Losses," *The New York Times*, November 7, 2008.

Grantmakers In Health, *Survey Results: The Effects of the Financial Crisis on Health Philanthropy*, GIH E-Mail Alert, February 2009.

Guth, Robert A., "EBay Founder's Philanthropic Firm to Donate More," *The Wall Street Journal*, October 22, 2008.

Healy, Jack, "Shares Near 6-Year Low with More Losses Feared," *The New York Times*, November 19, 2008.

Lavizzo-Mourey, Risa, Robert Wood Johnson Foundation, "A Message from Risa Lavizzo-Mourey on the Effects of the Global Financial Crisis on the Robert Wood Johnson Foundation," e-mail communications, October 30, 2008.

Washington Regional Association of Grantmakers, *How Is the Economy Affecting Philanthropy in Our Region?* (Washington, DC: 2008).