IN TODAY’S ECONOMY, SMARTER GRANTMAKING IS NOT JUST NICE — IT’S A NECESSITY.
After watching the value of their assets tumble, many grantmakers made short-term decisions to adjust grantmaking strategies for 2009. As uncertainty about the economy continues, grantmakers are feeling a tension between addressing their long-term visions for change and meeting the near-term needs that are emerging. Many grantmakers may need to revisit stopgap decisions made previously to set strategies for 2010 and beyond.

It seems the impact of the economic crisis is only beginning to hit nonprofits. A recent Nonprofit Finance Fund survey of nearly 1,000 nonprofit organizations found that only 16 percent of respondents expect to be able to cover their operating expenses in 2009 and 2010, and 52 percent expect the recession to have a long-term or permanent negative financial effect on their organizations.

Grantmakers for Effective Organizations has long focused on a single question: Which grantmaker practices make the biggest difference to nonprofit performance? The economic crisis hasn't changed the answers to this question — it only has served to heighten the urgency of our response. GEO believes that grantmakers succeed only when grantees achieve meaningful results. Since our success as grantmakers is dependent on the success of our grantees, we must focus on the things grantmakers can change that will help those on the front lines achieve more — especially as nonprofits struggle to try to meet increases in demand for services with fewer resources. It is with this belief in mind that GEO encourages grantmakers to show the steady leadership that our communities need.

We have produced this briefing, based on conversations we’ve had with hundreds of grantmakers, to provide foundation leaders with a framework and considerations to help guide decisions about how best to support grantees. As grantmakers look ahead to make tough decisions for 2010 and beyond, we hope the recommendations and examples in this briefing provide some useful insights.
Hold steady

No one knows where the current crisis will lead or how long the downturn will last, so consider holding your grants budget steady for the next two years or more. Nonprofits, unlike foundations, typically have no financial cushion to ride out times like these. A decision to hold steady will provide a small degree of breathing room as nonprofits themselves adjust to the changing reality. Many foundations — including the John D. and Catherine T. MacArthur Foundation — are holding their grantmaking steady in 2009. Others, such as the Omidyar Network and the Bill & Melinda Gates Foundation, see this as a clear time to give more. Paying more than the minimum 5 percent when assets are down sends a clear signal of support and commitment to nonprofits.

“I believe that foundations should maintain, even increase, their giving in difficult economic times. The issues the MacArthur Foundation confronts at home and abroad — human rights, conservation and affordable housing preservation, among others — grow more, not less, urgent when the global economy is in recession. The MacArthur Foundation’s endowment has declined, yet we remain committed to being a long-term, steady partner to the organizations we support. We chose to maintain our grantmaking levels in past recessions, and we intend to do so again now.”

Jonathan F. Fanton, president, John D. and Catherine T. MacArthur Foundation, in a letter to grantees

Questions to consider

- What is our philosophy about payout and perpetuity? Why? What are the tradeoffs between increasing funding to meet grantees’ immediate needs and decreasing funding to protect our endowment?
- What is the likely impact of cutting grants to the organizations we care about? How might holding steady or increasing payout impact our mission?
- Are there changes to the way we think about or calculate payout for the longer term that could make more dollars available to our grantees in the short term?
ENGAGE YOUR STAKEHOLDERS

Grantmakers can play an important role as conveners, connectors and collaborators. For many of the grantmakers we’ve talked to, the first response has been to reach out to grantees to get a clear picture of what they are experiencing and a better understanding of the help they need. The California Community Foundation, the Dean and Margaret Lesher Foundation, The Kresge Foundation and others have used feedback from grantees to design new programs and improve grantmaking strategies. These grantmakers recognize that, for the sake of their mission, they can’t let grantees suffer, and they are responding in ways such as providing unrestricted support, making higherdollar and/or multiyear commitments, and supporting grantee leadership.

Many grantmakers are also looking for creative ways to collaborate with grantees, other grantmakers and government to meet community needs. For example, in an effort spearheaded by the Pittsburgh Foundation, a group of area funders have come together to establish an emergency fund for local nonprofits experiencing surges in demand. History has shown that the greatest innovations often happen when people band together during challenging times, and philanthropy has the potential to play a powerful role as a convener and catalyst for collaborative breakthroughs.

“In 2008, the board of trustees and staff of Blue Shield of California Foundation reviewed our strategic direction. We examined the landscape, talked to grantees and other stakeholders, and reflected on the most constructive role we can play. We learned that we have gained traction by focusing on several key strategies:

• Cultivating leaders by providing them with the tools to be more effective and helping them build networks that magnify their individual impacts;
• Recommitting to core support and finding more ways to build institutional capacity; and
• Leveraging unlikely relationships across diverse stakeholders in order to build momentum for policy change.”

Crystal Hayling, president and CEO, Blue Shield of California Foundation

QUESTIONS TO CONSIDER

➤ How have we engaged our grantees and other stakeholders? What are we hearing from them?
➤ What information do we need to know to strengthen our commitments to what’s working best? How are we getting that information?
➤ What opportunities exist for collaboration with other grantmakers, nonprofits or government agencies to gain greater traction on the issues we care about?
PROVIDE FLEXIBLE FUNDING

Right now, the way grantmakers deploy money is critical. Access to unrestricted funding can be make or break for nonprofits in this uncertain economy. A recent survey of nonprofits by The Bridgespan Group found that 54 percent of respondents have three months or less of operating reserves, and 74 percent have less than six months of operating reserves.

To help give nonprofits the cushion they need during these rapidly changing times, a number of grantmakers, such as the Weingart Foundation, are increasing the amount of general operating support they provide or releasing restrictions on current grants. Additionally, stopgap measures like cash flow loans and access to credit may be just what a nonprofit needs to continue its important work. The Eugene and Agnes E. Meyer Foundation and the Marion I. and Henry J. Knott Foundation, for example, have both seen an increase in applicants to their cash flow loan programs.

“Several years ago we started providing lines of credit to nonprofits at a cheaper interest rate than banks but higher than our treasury-bill investments. It was a win-win for everyone. Recently, we have initiated two new lines of credit because the nonprofits’ banks fell on hard times and were no longer providing access to funds. Without access to short-term money, some nonprofits will have difficulty continuing operations.”

Tony Wells, president, Tony R. Wells Foundation

QUESTIONS TO CONSIDER

- What is our strategy for providing general operating support? What changes might we consider in this economic climate?
- Are our grantees experiencing problems with cash flow? If so, how can we be helpful in alleviating them?

FIND WAYS TO DO MORE WITH LESS

Just as nonprofits are making hard decisions about how they spend their resources, grantmaking organizations should do the same. Many grantmakers are already considering ways to cut back on administrative expenses without compromising the quality of their work.

In addition, grantmakers can consider other low-cost or no-cost changes they can make that will give grantees greater flexibility to weather the storm. For example, consider streamlining your application and reporting requirements or releasing restrictions on current grants, as mentioned above, to free up time and resources grantees might otherwise spend on grant applications, expense tracking and reporting to funders.

Some foundations are also thinking “outside the grant” and using mission-related investments as another way to deploy their assets in support of social good. In the last quarter of 2008, many foundations, such as the F.B. Heron Foundation, found that the
portions of their portfolios invested in MRIs outperformed traditional investment approaches by a significant margin.

“Our grantmaking staff has recommended two changes: 1) expediting the renewal of several recurring grants and 2) providing a three-month, no-cost extension for grantees who would likely encounter difficulty in meeting the objectives and outcomes of their awards. In addition, while the foundation typically has three grantmaking cycles per year, the board has expressed great interest in accelerating the foundation’s response to the impact of the economic crisis in the local nonprofit sector by reviewing off-cycle grant recommendations.”

Alvertha Penny, vice president of programs, California Community Foundation

FROM CRISIS TO OPPORTUNITY

The resources of any one foundation will never be enough to resolve the challenges that grantmaking organizations exist to address, and this disparity has only become more obvious in recent months. Now is an opportunity to look beyond the individual interests and resources of our organizations and ask how we can solve problems in combination with others. By showing bold, effective leadership at a time of such uncertainty, grantmakers have the potential to spark major breakthroughs on the issues we care about and entice others to join collaborative efforts to improve lives.

Learn more about innovative ways grantmakers are responding to the economic crisis and share your story at www.geofunders.org.

QUESTIONS TO CONSIDER

- How much time does our grantmaking process take from initial inquiry to receipt of check? What adjustments can we make to our grantmaking process that will provide our grantees with the increased flexibility they need?
- Does the foundation have a MRI portfolio? Should we consider increasing our MRIs?
- What other no-cost or low-cost changes can we make that could lead to better outcomes on the issues we care about?