

# GIVING *in the* RECESSION

 Tough times call for smart giving



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# *How the downturn is* AFFECTING PHILANTHROPY

Why now is the time to think strategically

At the Institute for Philanthropy, we work with donors to help them become more strategic and effective in their giving. Maximising the impact of your philanthropy by working in a tactical and considered way, to achieve as much as possible with what you have to give, is always important.

During times of economic crisis such as this, however, with the recession taking its toll on vulnerable people across the globe and many charities facing increased need for their services along with rising costs and falling incomes, it becomes an imperative.

This publication aims to inform, encourage and inspire readers, with practical advice and real-life examples of strategic philanthropy carried out by some of the inspiring philanthropists and foundations in our networks. We begin with a short overview of the impact of recent economic events on the non-profit sector; and the situations in which organisations and individual and institutional donors find themselves, followed by an exploration of ways in which funders can constructively respond to the crisis.

We present ten tips for strategic funding through the downturn – ideas to help funders think creatively around ways to achieve impact – and finish with six case studies of donors putting strategic philanthropy into action in a variety of ways.

## **Non-profit organisations and those they serve are suffering as needs rise and incomes fall**

The recession is tearing its way through all sectors of society, exacerbating the huge challenges faced on a daily basis by non-profit organisations, those they serve and those that fund them. Need for services offered by charities is rising to unprecedented levels as many of those losing their homes and jobs as a result of the credit crunch turn to them for help, while income from all sources is being affected.

The growing number of UK families unable to afford basic necessities has prompted Save the Children and Family Action to launch a 'Families in Crisis' fund for the first time, providing cash grants to the poorest families struggling with the recession<sup>1</sup>. The housing charity Shelter reported a 20% jump in demand for services by December 2008 at the same time as substantial corporate support was withdrawn<sup>2</sup>, and in the USA, emergency assistance organisations such as food banks are being overwhelmed with demand<sup>3</sup> as more and more people find themselves unable to make ends meet. The sector that is used to having to do more with less is finding its resources stretched ever thinner, in some cases to breaking point. In the UK, according to the Charity Commission, more than 1,000 charities closed in England and Wales during the last quarter of 2008<sup>4</sup>, and in February the *New York Times* reported that increasing numbers of US non-profits were facing bankruptcy and being forced to shut down<sup>5</sup>.

*'This publication aims to inform, encourage and inspire readers'*



### **Recession has far reaching social effects**

In order to understand the circumstances in which non-profit organisations and funders are now operating, it is important to consider both direct and indirect consequences of the economic downturn. The recession will have repercussions in many different areas, some of which may not be immediately evident. Charities are experiencing more demand for services directly related to the crisis, such as housing, debt and unemployment advice, and these problems can lead to an increased need for other services, such as health and relationship support. The National Council for Voluntary Organisations (NCVO) reports concern among voluntary organisations that the recession could exacerbate social tensions, having a negative impact on tolerance, social cohesion and attitudes towards immigration<sup>6</sup>. A paper published by the Young Foundation in January 2009 also warns of the impact of recession on Britain's psychological wellbeing, reporting that fear of unemployment and financial worries are contributing to rising levels of stress and anxiety that is damaging families and communities.

The report, entitled 'Receding Tide: Understanding Unmet Needs in a Harsher Economic Climate', shows that unemployed people are 2-3 times more likely to die by suicide than those in employment, and that men exposed to major financial stress are three times more likely to suffer from debilitating levels of anxiety and depression, and women two and a half times more likely<sup>7</sup>.

### **Giving is likely to be affected, but the sector is more prepared than ever before**

Historical evidence from the USA, where Giving USA Foundation has been collecting data on philanthropic giving since 1967, shows that philanthropy has traditionally been affected by economic conditions, but that donations do not tend to decline by as much as market contractions. Overall charitable giving has not decreased in real terms during previous recessions over the last four decades, but after adjusting for inflation giving does decline, and the longer and deeper the recession, the greater the fall in donations<sup>8</sup>.

The scale and severity of the combined market crashes and widespread economic contraction suggest that the current recession may well be the worst since the Second World War, and although authoritative data is not yet available on the impact it is having on giving, anecdotal evidence indicates that giving is decreasing. While this is undoubtedly bad news for the non-profit sector, it is heartening to note that there are now more people engaged in philanthropy, more money put aside in foundations and donor-advised funds, and more resources to help and encourage givers than ever before, and this will hopefully help to mitigate the effects of the recession on philanthropy. In the USA alone the number of private foundations has increased by three quarters since 1990<sup>9</sup>.

*'The recession is tearing its way through all sectors of society'*

# 'The number of individual donations to emergency assistance organisations has increased'



## **Donors have less, but many are still doing what they can**

The recession has had a huge impact on income, private wealth, corporate profits and foundation endowments, meaning that the majority of individual, institutional and corporate donors have less than they did before. This has of course meant that many are cutting back on their giving; Rapidata reports that December 2008 saw a 67% increase in the number of cancelled UK direct debit donations compared to average pre-recession years<sup>10</sup>. In the face of the increased need evident in their communities, however, others are stepping up to give what they can to help victims of the crisis. Reports from the USA show that in many cases, the number of individual donations to emergency assistance organisations have increased as people respond to rising need in their communities. The average amount donated is substantially smaller; however, meaning that charities' incomes are still falling<sup>11</sup>.

## **Declining foundation assets prompt cutbacks, but a significant minority are giving more**

The US Foundation Center estimates that US foundation assets declined by 21.9% in 2008, far less than the 37-47% decreases in the world's stock markets, but still a substantial blow representing the loss of almost \$150bn of philanthropic resources<sup>12</sup>.

Findings from the Center's annual "Foundation Giving Forecast Survey", however, suggest that in line with historical precedents (see above), foundation giving in 2009 will not fall as much as drops in asset value, but will decrease in the range of the high single to low double digits, and while 67% of foundations plan to decrease their grants budgets, 11% will hold steady and 22% will increase donations this year<sup>13</sup>. A survey by the Council on Foundations also found that 92% of foundations were making grants to aid families and individuals suffering from the recession in the USA<sup>14</sup>. Some foundations are taking measures such as cutting staff and administrative costs in order to free up more funds for grant-making, such as the Ford Foundation which has announced the closure of two overseas offices.

## **A leadership moment for philanthropy**

While some donors are slashing their grants, others are giving more, an important fact that cuts straight to the heart of philanthropic giving: need does not fall with the stock market. Despite a decline in endowment value, the John D and Catherine T MacArthur Foundation will increase its grants in 2009, having also recently invested \$38 million in foreclosure prevention and relief in Chicago.

In a clear message of support and direction for the vital role of foundations in difficult times, Jonathan Fanton, its president, has expressed readiness to award a higher percentage of assets than usual, and to dip into the Foundation's endowment if necessary. "I believe that foundations that have flexibility as we do should be countercyclical," maintains Fanton. "When things are bad, we ought to step up and help the good organisations that are doing important work on the front lines."<sup>15</sup> In February the Boston Globe reported that Ken Nickerson of the Boston-based Eos Foundation had donated an additional \$10 million to his foundation, and committed to spending an extra \$15 million over the next five years to fight poverty, despite a 30% decline in the value of Eos's endowment. Nickerson was inspired to do so after hearing the story of a man receiving free food from a local food bank who insisted on donating \$5 in return, stating that there were others who needed it more than he did, and inspiring many others in the queue to follow his example and give what they could<sup>16</sup>. Leading by example and giving what you can is particularly important now, when a knee-jerk reaction to the downturn is causing many others to cut their funding to conserve diminished assets.



*'This is an excellent opportunity for donors to reaffirm the values and mission that inspire their philanthropy'*

### **Stating your intentions**

While it is obviously important to keep giving through the crisis, it is also helpful to let others know what you are doing, stating your actions and intentions and reiterating the values behind them. This inspires and sets an example to other funders, and can help to reassure grantees, combating the negative and possibly self-fulfilling cycle of doom and gloom that Cathy Pharoah and Beth Breeze of the ESRC Centre for Charitable Giving and Philanthropy fear could lead society to talk itself into a giving recession<sup>17</sup>. The Oak Foundation, an international foundation which has its headquarters in Geneva, has released a statement to reassure grantees, promising: "we will fully honour all current grant commitments. We expect in 2009 to maintain as a minimum the level of our grant making in 2008, while rigorously ensuring that resources are used in the most effective manner."<sup>18</sup> In the USA, Bill Gates has published his first annual letter, where he states that although the Gates Foundation lost 20% of its asset value in 2008, it will increase its spending in 2009 by half a billion dollars, taking its payout percentage from 5% to 7%.

He articulates the foundation's strategic priorities, writing: "although spending at this level will reduce the assets more quickly, the goal of our foundation is to make investments whose payback to society is very high rather than to pay out the minimum to make the endowment last as long as possible".<sup>19</sup>

### **Time to focus on what is really important**

In times of crisis and volatility, all sections of society will be taking stock and reassessing what is really important. This is an excellent opportunity for donors to evaluate their strategy, and reaffirm the values and mission that inspire their philanthropy, and for non-profits to eliminate any wasteful or unsustainable practices or programmes. With fewer resources to go around, it is vital that those that are available be used effectively and strategically, with funders and organisations continuing to strive for impact, leverage, added value and increased efficiency in every aspect of their work. In philanthropy, as in life, there are no clear rules or sure-fire methods to ensure this, and each situation must be taken in its own context.

In some circumstances, the way forward could be to fund an innovative idea to find a new solution to a problem, while other cases might call for the replication or continuation of a tried and tested model, or even a combination of the two approaches. Some organisations may wish to slim down their workforces to direct resources to other areas, while others will decide that hiring additional talented individuals will strengthen them to better weather the storm. For many non-profits, however, the challenge will be just staying afloat and continuing to provide their services to those in need, so funders must work with their grantees and appreciate that innovation and growth are not always possible or appropriate; sometimes organisations doing good work should be supported to continue doing just that.

*'It is helpful to let others know what you are doing, stating your actions and intentions...'*



### **With challenge comes opportunity**

The next few years will undoubtedly be difficult, and it is possible that many organisations will not survive the downturn, but it is important to remember that crisis and change always present opportunity. Charities and those that fund them will have to become more effective and transparent, and to find still more innovative and strategic ways to solve the problems that they face. It may make sense for organisations doing similar work to merge, increasing effectiveness and getting rid of duplication, and funders can play an important part in facilitating this. Collaboration between foundations and between individual philanthropists can also be an effective way to tackle large-scale problems, and consultation between funders to share expertise and experience becomes even more important in times of change and uncertainty. Old assumptions will have to be questioned as the landscape shifts, and it is possible that the crisis will stimulate the cooperation and innovation needed to address entrenched social problems.

### **Strategic thinking and consultation with stakeholders are key**

Philanthropists are encouraged to think strategically, and reflect carefully on how they can react constructively to the economic situation. Consultation with stakeholders is vital in working out how best to support them, as it is the charities themselves that will be bearing the brunt of increased need and decreased resources. Foundations may consider exploring new types of financial support, such as programme related investments and emergency credit for non-profits, or increasing the flexibility of

*‘Consultation with stakeholders is vital in working out how best to support them’*

grants as grantees adapt to changing circumstances. It may also be necessary to review grant-making cycles, and consider off-cycle grant recommendations to be able to accelerate responses to the impact of the crisis.

*‘It is possible that the crisis will stimulate the cooperation and innovation needed to address entrenched social problems...’*

# DEALING *with the* DOWNTURN

Ten strategic tips for funders

○ Responding to challenges is always a central part of strategic philanthropy. Here at the Institute for Philanthropy, we believe that the current economic downturn presents an opportunity for funders to take stock of their grant-making, and to introduce new measures to make it more effective now and in the future.

The following pages contain ten tips for strategic funding, and a collection of case studies showing donors putting them into action. We hope that they will inspire you to think creatively and strategically about ways in which you can keep your own philanthropy on track during the downturn.



*'The current economic downturn presents an opportunity for funders to make their grant-making more effective now and in the future'*



### Research thoroughly

The first tenet of strategic philanthropy is to research thoroughly what's going on in your chosen area of funding. This will help to ensure you're not re-inventing the wheel, and enable you to focus your grant-making at a time when you can't afford to make mistakes. It'll also help you find out what's most needed in these tough times.



### Fund collaboratively

If you find you have less to give this year, don't assume you can't still make a difference. Pooling your resources can help make them go further, and can be a fun and fulfilling way of boosting your philanthropy in the economic downturn. Try joining a giving circle or participating in a funding collaborative: if you can't find one, set one up.



### Work to influence public policy

Promoting policy change is one of the best ways funders can leverage their philanthropy, and a highly efficient way to use limited resources. The new economic landscape will also see governments and the corporate sector realigning their priorities. Keep your eye on the ball to make sure that the issues that are important to you don't fall off the public radar.



### Promote partnership and mergers in the non-profit sector

As many charities struggle to stay afloat during the recession, partnerships and mergers can be a way of ensuring their survival. Funders can play a key role in promoting such partnerships, bringing together stakeholders and offering financial and non-financial support to ensure their success.



### Assume a leadership role and build on relationships with grantees

Don't forget your non-financial resources. Now is the time to mobilise your contacts, share expertise and lead by example. Show others that the downturn isn't going to stop you dedicating time and resources to the issues you care about. This is also a great moment to spend time building closer partnerships with your grantees. Create positive environments for conversation, building channels for communication and feedback loops to help them through this difficult period.



### Support charities' general operations

Many charities are being forced to reassess their spending priorities in order to stay afloat in the economic downturn. Find out if charities you support are suffering and make emergency grants to help see them through. Consider releasing binds on grants you've already made, allowing charities to redirect funds towards urgent operating costs.



### Think about adopting a spend-down strategy

Philanthropists who adopt a spend-down strategy, choosing to give away a fixed sum during a designated time frame rather than to build a philanthropic endowment, often do so because they feel the issues they care about are too pressing to wait. Spending down is about creating maximum impact in the here and now, and by choosing to spend down – or just increasing the level of your grant-making in the recession – you could be creating a lifeline for the charities you support.



### Evaluate your grant-making

If there's less capital available for your grant-making this year, you'll want to make sure that every penny is well spent. Step back and take the time to evaluate what is and isn't working in your current funding strategy, and make the necessary changes to ensure that future grant-making is really designed to meet your objectives.



### Power your assets

The economic situation may have forced you to cut back on your grant-making this year, but don't forget that invested assets can still work to create change. Consider mission-related investment – capital investment into funds and projects that provide a financial return and work to create social impact at the same time – as an alternative way of supporting the issues you care about during the downturn.



### Transfer innovations across geographies

If the economic downturn has forced you or the charities that you support to put the design of new projects on hold, consider using your funds to replicate tried and tested ideas from other places. Helping great ideas to move across geographies is a highly efficient and strategic way to achieve impact with your philanthropy.



Dr. Helen Bowcock :  
*Hazelhurst Trust / Surrey Community Foundation*

# RESEARCH

## *Thoroughly*

Dr. Helen Bowcock and her husband Matthew live in the British county of Surrey, just outside of London. They set up the Hazelhurst Trust a few years ago, and began funding through the recently established Surrey Community Foundation.

They soon discovered, however, that the Community Foundation's local strategy meant that it received applications from a huge range of local organisations. "That was all fine in the beginning", says Helen, "but at some point we began to think, what is the most acute need here? And where can we have the greatest impact?"

The Surrey Community Foundation decided to carry out a needs assessment survey to identify funding priorities in the region. Helen, who has research experience and a PhD in sociology, offered to take on the project. She designed the research survey with an emphasis on qualitative data, to ensure that the results would reveal the pockets of poverty that can easily be hidden by statistics in Surrey, and to add a human dimension to her research that she felt would be more engaging and compelling to donors.

With the economic downturn threatening the resources of Surrey's donors, there couldn't have been a better time to help the Surrey Community Foundation develop a real understanding of the problems in the area and the organisations working to combat them. Helen surveyed trustees and supporters of the Foundation, conducted a literature review, and investigated the social changes currently taking place in Surrey. Finally, she carried out 25 case studies of Surrey charities, exploring how they defined and strategically addressed the problems they were working with. She found that Surrey's apparent affluence camouflages pockets of deprivation, where inhabitants experience high levels of child poverty, poor mental health, low literacy and income and other significant problems. They are also extremely marginalised as the county's infrastructure and services are geared towards the affluent majority.



In her conversations with charities, Helen discovered how eager they were to engage in dialogue and build constructive relationships with funders. She also gained an insight into the uncertainty that non-profits are currently feeling, and their frustration with the emphasis placed by many funders on project grants and new initiatives. “There’s a really strong case here for saying: develop a dialogue, build up the trust, back the leaders to do what they want to do and build some flexibility in there so they can adapt to changing circumstances”, she says.

Researching thoroughly has given Helen and the Surrey Community Foundation “a real sense of the current order of priority in (their) local area”, helping to identify where to direct funding in order to meet need and increase impact. Researching the area you want to fund, asserts Helen, is an essential step towards defining your priorities and developing an effective funding strategy – especially important when funds are scarce. She is also quick to reassure others that you don’t need a PhD to do your own funding research: “In the end, the only skill that I was really using in my research was the capacity to talk to people, and we can all do that!”

*‘What is the most acute need here? And where can we have the greatest impact?’*



Valerie Gordon : Next Generation  
Philanthropy Funding Collaborative

# Fund COLLABORATIVELY

For Valerie Gordon, being part of the first cohort of the Institute for Philanthropy's Next Generation Philanthropy (NGP) programme was not only an important learning experience in strategic grant-making, but also a great opportunity to meet and learn with a group of like-minded people of her own age.

The cohort got on so well and were so inspired by NGP that, as the programme drew to a close, they decided they weren't ready to disband quite yet. The group decided on the perfect way to carry on learning together: they would set up a funding collaborative and begin to put the skills they'd learnt into practice.

With the economic downturn looming on the horizon, the group could see clear financial benefits to working collaboratively. By pooling their resources, says Valerie, the group created funds for their first grant that totalled eight or nine times what each member had to contribute individually, giving them the chance to make a much greater impact with their resources than if each one had been working alone.

The collaborative began to look for a funding area that would appeal to all members of the group and that would provide interesting challenges, but which was also an area they could engage with locally, allowing them to visit and get to know charities before deciding whom to fund. The group settled on the issue of poverty and isolation among the elderly in London, an issue that felt significant to everyone in the group and that resonated with the intergenerational themes they had been discussing on NGP.

After a period of research involving all members of the group, the collaborative identified four possible charities. Valerie and the others carried out site visits to each one, and finally settled on Contact the Elderly, an organisation that runs outings for isolated, elderly people in the friendly surroundings of volunteers' homes.

The collaborative provided a grant to support Contact the Elderly in rolling out a new communications strategy, helping them to attract more elderly people to use their services and more volunteers to help provide them.

Valerie's experience with the NGP Funding Collaborative has shown her a number of benefits to funding in a group. Beyond the obvious advantages of pooling resources, she says, "being in a group also motivates you to keep the momentum up", a particularly important factor in the current gloomy financial environment. Funding collaboratively also means being able to share the workload when searching for organisations and deciding who to fund. "Collectively you just get more done", says Valerie, "the output of the group in just a few months was so much greater than if any one of us had been doing it on our own."

*‘With the economic downturn looming on the horizon, the group could see clear financial benefits to working collaboratively’*



Working in a group also creates a natural forum for sharing ideas and talking through difficult decisions, as when Valerie and the other members of the collaborative found themselves concerned about the strength of leadership in some of the organisations they were visiting. “The perspective you get when you’re all working together is really interesting”, says Valerie.

Finally, Valerie asserts that funding collaboratively is also particularly valuable during the recession because it safeguards against rushing through grant-making decisions, and provides a natural mechanism for ensuring that funds are well spent. “You can’t be rubber stamping things at the moment”, she says, “so you’ve got to spend a little more time working things out. If you’re funding collaboratively, there are always other people there to make you think a bit more and make sure you come to the right decision.”



Catherine Zennström :  
*Zennström Philanthropies*

# Assume a LEADERSHIP ROLE

and build on relationships with grantees

The driving force behind Catherine Zennström's philanthropy is her desire to see an end to the abuse of human rights. Catherine oversees the human rights portfolio at Zennström Philanthropies, which she set up with her husband Niklas in 2007, and which also has a funding stream for climate change.

The decision to focus on these broad and complex issues was not accidental. From the beginning, Catherine and Niklas were drawn to the idea of developing a truly engaged style of philanthropic leadership, through which they would become advocates for the difficult causes that they cared most deeply about.

During an economic downturn, the principle of assuming leadership becomes more important than ever for engaged philanthropists. The recession brings an opportunity to reassess philanthropic objectives and how they can best be achieved even if funds become more scarce, remembering that, as Catherine says, "money isn't the only tool in your philanthropic toolbox". Catherine lists a number of resources beyond the financial that she has drawn upon in her philanthropy. Among them are her time, network of contacts, the use of her name in the public defence of human rights and the ability to bring key actors together around the same table.

Becoming a public ambassador for the causes you support is particularly important within this list. During Zennström Philanthropies' first year, Catherine and Niklas chose to stay out of the public gaze in order to concentrate on developing their funding strategy. They soon began to realise, however, how much more of a difference they could make by going public about their work. Catherine's confidence around using her name to endorse the work of the organisations she supports has since grown, and she now recognises the value of assuming this public persona in convincing others of the need to protect human rights.

*'Becoming a public ambassador for the causes you support is particularly important'*

*‘During an economic downturn,  
the principle of assuming leadership  
becomes more important than ever’*



Strong philanthropic leaders build strong relationships with their grantees, and the way funders approach these relationships can be key to their success. For Catherine, the philanthropist-grantee relationship is best defined as a working partnership, with both sides committed to the pursuit of a common aim. “For us”, she says, “the basic reason for building a philanthropic structure is to advocate on behalf of particular issues, and the non-profits are the partners you choose to help you do this.” In a downturn, such relationships can help philanthropists to sit down with their grantees, discussing openly how they can work together to optimise reduced philanthropic funds.

An example of Catherine’s approach can be seen in the committed partnership she’s built with major grantee Human Rights Watch, which led her to become an International Board member of the organisation. Zennström Philanthropies has supported Human Rights Watch on two fronts: by granting seed money for the opening of a new office in Paris and by acting as a sounding board and engaged advocate in ensuring the successful expansion of its work in Europe.

Human Rights Watch’s Paris office is now up and running, and counts among its many early achievements the key role it has played in bringing about the ratification of the convention on cluster munitions in December 2008. “Zennström Philanthropies’ work is not just about investing in non-profits”, says Catherine, “but about really working with them in the pursuit of a particular objective that we have in common. That for me is being engaged and a real advocate for change.”



Nicholas Ferguson :  
*Kilfinan Trust*

# THINK *about* SPENDING *down*

Spending down means committing to give away a fixed sum during a designated time-frame rather than building a philanthropic endowment. It's a personal decision, but one that Nick Ferguson thinks philanthropists should at least consider. Many take it for granted that their foundations should live on in perpetuity, he says, but have never stopped to ask themselves if that's what they really want.

Nick is the Chairman of the Institute for Philanthropy and a trustee of the Ferguson family's Kilfinan Trust. He and his wife Jane have recently adopted a spend-down strategy, choosing to give away the Trust's assets within their own lifetimes. They and their three children do most of their grant-making through the Scottish Community Foundation, funding principally in the Argyll region where their home in the village of Kilfinan is located.

They've invested in projects such as a job creation scheme supporting small entrepreneurs in the region, designed to help combat the area's high levels of unemployment, and the successful British Home-Start scheme, a programme which trains volunteers to support vulnerable families with small children. Thanks to the Fergusons' support, this latter project has recently begun operating on the nearby Cowal Peninsula. The decision to spend down has given the Fergusons the resources to invest heavily in the issues they care about today, without having to worry about reserving funds for the distant future. Also, says Nick, "It's much more fun to give it all away in your lifetime!"

When the markets crashed last year, Nick and Jane discussed lowering the Kilfinan Trust's spending rate, but decided not to. "Charitable needs go up not down in a recession", he says. "It might be easier to do philanthropy when times are good, but it's more important when they're hard." Deciding to spend down, or to step up your grant-making during the downturn, can free up funds to support charities at a time when they need it most, and the injection of financial resources could mean the difference between life and death for some organisations.

*'It's much more fun to give it all away in your lifetime!'*

*'It might be easier to do philanthropy when times are good, but it's more important when they're hard.'*



Spending down or increasing funding levels during the recession does of course mean that philanthropic funds may be depleted more rapidly than during better financial periods, but Nick is prepared to take that risk. "And if the market stays down?", he says, "Well, that will just mean we'll be out of the game earlier! It's not written anywhere that the Fergusons have to be in the charity field forever."



Even for philanthropists not thinking about spending down, Nick argues that there are still excellent reasons for keeping giving levels steady at pre-recession rates during the downturn. Not only do charities need financial support now more than ever; he asserts, but if funders sit down and do the maths, they'll see there's no financial logic in making cuts either. In the UK, corporate gifts make up on average only 0.5% of a company's profits. So even if profits are down by 30%, says Nick, that's not going to make that much of a difference in real terms for philanthropic spending. While the story becomes a little more complex in the case of foundations and charitable trusts, where capital values have fallen, even here Nick argues that there's no real need for cuts. Rather than setting a spending rate based on last year's asset value, as is common practice in many UK foundations, Nick suggests

using a four-year trailing policy to determine spending rates, such as that employed by many university endowments in the USA. This is the system in place at London's Courtauld Institute of Art, where Nick is chairman of the governing board, and it has enabled the Gallery to operate flat without any one year creating fluctuation.

Nick also urges philanthropists to take a long-term view when considering foundation spending rates. "Obviously if the stock markets were going to zero this would be a problem", says Nick, "but they're not. [Foundations will] have a few years where their spending rate is higher than it should be, then when the markets recover there'll be a few years when it's lower than it should be and things will balance themselves out." Nick gives the example of the Gates Foundation, which is in fact increasing its spending slightly this year; to encourage philanthropists to reassess the true level of risk involved in maintaining their spending rates during the downturn. "I know there's a knee jerk reaction to reduce everything in a recession", he admits, "but it really shouldn't happen if you take the combination of need going up and the necessity of cut simply not being there."



Luther M. Ragin Jr :  
*F.B. Heron Foundation*

## POWER *your* ASSETS

With the endowments of many trusts and foundations plummeting in value, philanthropists are being forced to find new ways to carry on making an impact during the recession. Few foundations have been as creative in this respect as the F.B. Heron Foundation in New York.

Heron's mission is to promote wealth-creation strategies for low-income families in urban and rural communities in the USA, through programmes in the areas of home ownership, enterprise development and access to capital. Since 1992, the foundation has been developing a highly effective system designed to achieve this mission, which combines conventional grant-making with different forms of mission-related investment.

Luther Ragin, Jr., Vice President of Investments at Heron, defines mission-related investments (MRIs) as those made with the dual purpose of advancing the goals of the foundation and of securing a financial return. To this end, MRIs are made to projects and funds that have a social purpose in line with Heron's mission, but that are also financially competitive.

Competitive in this sense can mean either able to perform at market rates – which is the case with 80% of Heron's MRIs – or able to perform but at lower than market rates, as is the case with the other 20%. These latter investments are called Programme Related Investments (PRIs) and sit somewhere between an MRI and a conventional grant. This system enables Heron to make its financial resources go further – bringing return on assets that can then be recycled into other programmes – whilst simultaneously working towards its philanthropic objectives. And it also gives the foundation the flexibility to work with a much wider range of models for creating social change. As Luther says, “we believe we can achieve greater impact around our mission by using a broader philanthropic toolbox than we can by grant-making alone.”

Evaluating the success of a mission-related investment is not so different from measuring the success of a conventional grant, says Luther. In both models, Heron will agree benchmarks in advance with organisations and look for grantees who will hold themselves accountable to these goals and commit to reporting on their progress. The difference lies in the expectations of return that accompany an MRI, a PRI and a grant. “If we are underwriting a transaction as a market rate mission investment we expect it to be able to achieve market rate financial performance”, says Luther. “In the case of the below-market PRIs, we are consciously and willingly giving up market rates of return because we have made a judgement that the use of these funds and the social objects that will be generated as a result are really worth it.”

It's a system in which each opportunity that comes Heron's way is examined in terms of its potential for generating financial and social return. Based on this evaluation, Heron will choose the most suitable mode of investment into the project – MRI, PRI or grant – designed to help that project have the biggest impact in line with the foundation's mission. "Going back to the metaphor of the philanthropic tool box", says Luther, "it's really about matching the right tool to the problem."

An example can be seen in Heron's work with the charity Habitat for Humanity International, which seeks to eliminate poverty, housing and homelessness by building houses using volunteer labour and donated money and materials. The houses are then sold to partner families at no profit and financed with affordable loans. In recent years, the charity has used some of these loans as collateral to raise capital to build more homes. Habitat has so far built over 300,000 houses around the world. The charity had always depended, in part, on loans from the banking sector to underwrite its work, and although it had never had any difficulty in repaying them, this source of support dried up suddenly when the markets crashed last year. Considering the work of Habitat to be perfectly aligned with their mission and a sound financial investment, Heron stepped in and began supporting Habitat through its MRI model.

Mission-related investment has obvious benefits during an economic downturn, as it provides a way of protecting reduced philanthropic funds and making them grow, while simultaneously working towards a philanthropic mission. The experience of the F.B. Heron Foundation provides a particularly strong endorsement for this approach, as the foundation has decided to expand its MRI programme during the recession, increasing the 35% of its endowment currently

Luther often hears foundations that don't work with mission-related investment assert that they wouldn't have the technical capacity to roll out an MRI programme, and to this he answers that it is simply a matter of thinking creatively about the resources that foundations already have to hand. All foundations have financial staff, whether they be on the pay roll or brought in as advisors, and Luther asserts that "finding ways to get programme and financial staff working together can unlock tremendous value and

*'It's really about matching the right tool to the problem.'*

invested in MRIs to 50% by the end of this year. This decision is based on sound financial evidence from the performance of Heron's MRIs over recent years and the availability of high-quality investment opportunities. "The foundation has discovered in the crisis that some of our best-performing assets have in fact been the mission investments," says Luther. In fact, Heron's total return has consistently exceeded that of the median US private foundation over the last three, five and seven year intervals, and in 2008, the foundation's below market PRI portfolio made a positive 4% return, when the foundation's overall portfolio was down by more than 20%. "If anything," says Luther, "the PRI portfolio provided ballast to the overall portfolio last year."

expertise within a foundation." With the markets in flux, MRIs provide an excellent way for philanthropists to carry on working towards their mission without further depleting their funds. There's never been a better time to think about how to power your assets through methods such as these.





Jo Mackie :  
*Wood Family Trust*

# TRANSFER

*innovations across*

# GEOGRAPHIES

When Jo Mackie first heard about the Youth and Philanthropy Initiative, she immediately saw the potential for bringing it to Scotland. Jo is chief executive of the Wood Family Trust, established by Scottish philanthropist Sir Ian Wood and his immediate family in 2007.

One of the trust's funding streams is Developing Young People in Scotland. The trust sees the promotion of citizenship values among young people as central to their work in this area, and to a broader mission of supporting Scotland in becoming more active at a global level.

Many miles from Scotland, the Youth and Philanthropy Initiative (YPI) was designed by Canadian philanthropist Julie Toskan-Casale in 2002. It operates in schools, getting students to identify social need in society, visit charities in their communities and design fundraising presentations on their behalf. The students split into teams to work with different organisations, and the winning team in each class receives \$5,000 (£3,000) to grant to the charity they've chosen. The unique appeal of the programme is its emphasis on students' learning around citizenship, and how this is incorporated into a strategy of support for small, local charities. YPI currently runs in 200 schools in Canada, and in 2007, the Toskan Casale Foundation funded the Institute for Philanthropy to bring YPI to the UK.

Here, with additional support from Credit Suisse, it now runs in a further 50 schools, with another 50 set to take on the programme this coming school year. On learning about YPI, Jo and the trustees of the Wood Family Trust saw that it fitted perfectly with their objectives, and rather than funding a new programme that risked reinventing the wheel, they decided to fund the Institute for Philanthropy to replicate YPI in Scotland. The Wood Family Trust and the Institute for Philanthropy are currently piloting the programme in ten schools in Aberdeen, and plan to roll it out across Scotland in subsequent years and rising to 50 schools in year three.

*‘When you’re working with citizenship and the global awareness agenda, it can be very beneficial to draw on ideas that have come from another country.’*



Jo sees clear benefits to transferring innovation across geographies during the downturn. When the Wood Family Trust began the pilot programme for YPI in Aberdeen, the city’s council was actually facing financial difficulties that predated the downturn, making it even more important that any programme brought into state schools came with a proven track record. Although the move from Canada to England might sound like a far bigger event for YPI, Jo points out that bringing the programme from England to Scotland also came with a set of challenges. Unlike English schools, Scottish schools do not work from a centralised curriculum and do not offer a General Certificate of Secondary Education (GCSE) in Citizenship. Cultural differences also meant that changes had to be made to the content and language of programme materials.

In choosing to pilot YPI in Aberdeen where the Wood Family Trust is based, however, the trust has been able to draw on existing connections with local government and key community leaders, making the transfer of the programme across the Scottish border much smoother. “Having a chairman and an operational management team in Aberdeen has also helped”, says Jo, “and we’ve been able to attract a significant amount of publicity for YPI.” Jo also sees a further benefit in replicating YPI, which relates to the trust’s objectives of promoting citizenship values in Scotland.

“When you’re working with citizenship and the global awareness agenda, it can be very beneficial to draw on ideas that have come from another country”, she says. “There’s an automatic knowledge transfer in this process that is very relevant to teaching citizenship values.” One of the biggest testimonies to the success of YPI came at a recent meeting held at the trust, for the teachers who are running the programme in Aberdeen’s schools. “We had 36 teachers from just ten schools in our boardroom, at 6pm on a Thursday night!” says Jo. “To have the teachers so enthused by this has been phenomenal.”

# ABOUT *us*



## **The Institute for Philanthropy**

We are one of the world's leading organisations providing international donor education. We believe that if you give people the skills, knowledge and networks to give, they will increase the impact and size of their giving. We work closely with a global network of almost 200 wealthy families, and partner with companies, trusts, foundations and schools.

We also act as a forum for the development of new ideas and produce original and practical research on a range of issues, including the management of charitable assets and funding during an economic downturn; we have also convened gatherings for learning with several leaders in the field, including accomplished philanthropists and academics.

## **OUR VISION**

We look towards a world in which philanthropists from around the globe have the skills to make significant contributions to the pressing issues of their time, in their own giving and in networks and partnerships with others.

## **OUR MISSION**

We work to increase effective philanthropy in the United Kingdom and internationally. We do this by

- Providing donor education
- Building donor networks
- Raising the awareness and understanding of philanthropy

If you have any questions about our donor education programmes or to find out more, please email us:

[contact@instituteforphilanthropy.org](mailto:contact@instituteforphilanthropy.org)

Or visit us at:

[www.instituteforphilanthropy.org](http://www.instituteforphilanthropy.org)

## **Institute for Philanthropy**

2 Temple Place  
London  
WC2R 3BD

Tel: + 44 (0)20 7240 0262

Fax: +44 (0)20 7240 8022

## **Institute for Philanthropy US**

100 Broadway, 17th Floor  
New York, NY 10005

Tel: +1 212 513 0020

Fax: +1 212 202 4313

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