



ML Brief December 9, 2008

Mather Leigh Perspectives on Philanthropy in Tough Economic Times

The projected economic outlook requires us to take a deeper look at the impact of the financial downturn (and the strong possibility of a longer term recession) on philanthropy. As fundraisers, we know and understand that the success of a small fundraising effort or major campaign is hugely dependent on proper planning. There is no more important time than now to plan effectively to be able to weather this situation and to continue to focus on the goal of sustainable philanthropy. We cannot underestimate the seriousness of the economic situation but we also must be well informed about the effects of economic downturns on charitable giving at large and also on the mindsets and practices of donors. While there is no way to predict how long the financial crisis will be nor precisely how it will impact philanthropy, we have reviewed the most relevant historical trends, studies and opinions on the subject of fundraising in tough economic times and we offer the following points and advice to our clients at this difficult time.

Our clients are mainly institutions in the higher education sector and non-profit organizations. The economy will undoubtedly slow the rate of growth in giving to education. With the further deterioration in the economic climate, we could actually see a decline in giving. In the last quarter century, giving to education has only declined twice. In both instances the decline was small (1 percent and 3.5 percent respectively) and in both instances the rebound was quick (one or two years). However, we may be in the midst of a downturn for which the historical models don't apply and this is worth bearing in mind. For non-profits, the impact of the economy will be felt differently depending on the sector, whether it is health, arts etc. Non-profit fundraising has always demonstrated resilience and innovative practices and these facets will be in deep need in the coming period.

Trends and Figures

- Changes in giving are linked to changes in the overall economy. During good economic times, giving tends to grow robustly. However, when the economy

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1250 Rene Levesque Blvd. West, Montreal, QC, Canada, H3B 4W8
Tel: +1 (514) 315-1916 Fax: +1 (514) 670-2237

&

U.S. Address: 9 Brighton Way, Savannah, Georgia, USA, 31406

www.matherleigh.com



grows at a moderate or slow rate, philanthropy continues, though at a slower rate of growth¹.

- Over the last 40 years, philanthropy in the aggregate shows consistent year over year growth and is not directly correlated to movements in the stock market.²
- Most households continue to give during times of financial insecurity, although some give less compared to periods of economic prosperity and some donors become non-donors, especially those earning less than \$50,000 per year.³
- There was an average annual increase in charitable giving for all years from 1967 to 2007 of 2.8 percent (adjusted for inflation).⁴
- When there is no recession, giving grows at an annual average rate of 4.3 percent (adjusted for inflation).⁵
- In years with a recession, the average annual change is a decline in total giving of 1 percent (adjusted for inflation).⁶
- In years with 8 months or more of a recession, the average annual decline in total giving is 2.7 percent (adjusted for inflation).⁷
- The period 1973 to 1975 was the longest period of continuous recession since the Great Depression. During the calendar year 1974, all 12 months of which were in a recessionary period, giving declined 5.4 percent (adjusted for inflation). This is the worst decline in giving on record.⁸

¹ Briefing on the Economy and Charitable Giving. Centre for Philanthropy. Indiana University. <http://www.philanthropy.iupui.edu/Research/docs/SpecialBriefingNovember2008.pdf>

² Voigt, Bradford William. "Resilient Philanthropy: How Various Economic Scenarios Affect Giving in the United States." *Advancing Philanthropy* vol. 15 (September-October 2008) p. 35-8.

³ *ibid*

⁴ Giving USA, Fall 2008

⁵ *ibid*

⁶ *ibid*

⁷ *ibid*

⁸ *ibid*

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- Each subsector of the nonprofit sector (health, education, arts, etc.) sees a slightly different pattern of changes in giving during recessions. The two that see a decline in giving are the largest recipients of charitable giving: education (a drop of more than 1 percent adjusted for inflation) and religion (a drop of less than 1 percent, adjusted for inflation). Other subsectors see a slower rate of growth, but on average, see inflation-adjusted increases in giving during recessions.

If we look at the history, we will see that in the last 40 years, recessions have given opportunity to many organizations to develop and in some cases to actually grow.

Exhibit 1.11 shows the philanthropy increase during and after the recession in last 40 years. ([Source: USA 2008 Report](#)).

Exhibit 1



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Table 1: Average total household giving in the U.S, before and after the recession of 2001
(Dollar values adjusted for inflation to 2007 dollars.)

Year Asked about in the survey	Percentage of households giving	Average total giving	Change in average total giving from prior period
2000	66.8	\$2,281	
2002	68.5	\$2,146	-6.3%*
2004	70	\$2,247	4.5%

*While the average gift amount reported here declined 6.3 percent, the combined effect of having a larger population and a larger share of the population giving led to a much smaller drop in total individual (or household) giving.

Data: Center on Philanthropy Panel Study, waves of 2001, 2003, and 2005

- Just after the most recent recession [in 2001], foundation giving did decline from \$30.5 billion in 2001 to \$30.4 billion in 2002 to \$30.3 billion in 2003. This marginal 0.6 percent reduction (4.4 percent after inflation) was quite modest compared to the inflation-adjusted 16 percent drop in foundation assets recorded between 2000 and 2002.⁹
- A number of factors helped to moderate the impact of reduced assets on overall foundation giving during the last economic downturn and will likely play a similar role during the current crisis. First, donors continued to establish new foundations — 3,000 grantmaking foundations were established in 2002 and more than 1,500 in 2003. Second, donors continued to direct substantial gifts and bequests into the endowments of existing foundations. Third, foundations that determine their grants budgets each year based on a rolling average of their asset values over the prior two-to-five years — including a number of the largest foundations¹ — helped to ensure more stable levels of giving by foundations overall.¹⁰
- Corporations only make up about 5 percent of all charitable giving, but the dollar amount they contribute is huge: more than \$15 billion last year, according to

⁹ Ibid

¹⁰ Foundation Centre www.foundationcentre.org

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Giving USA. But since most corporate giving is allocated a year out, the full effects of the current downturn won't be felt for a year or two.

Regroup, Reassess, Re-Strategize & Re-Invent

This degree of economic uncertainty and unpredictability may require us to shift our approach to fundraising, campaigning and prospecting. Campaigns for example traditionally move from large gifts to smaller gifts, with the majority of time initially being focused on the largest donors at each stage of the giving pyramid. Re-shifting our thinking and approach might include thinking more closely about donors with different capacity at earlier stages in our campaign. It may also require us to think more closely about:

Local context: While global economic forces will reach into every corner, institutions will be affected differently by economic impact in their local context. In some jurisdictions for example, prospective donors may not be as exposed to market forces and their ability to make charitable decisions may not be as greatly impacted. We can re-assess our prospective donors with a view to who may be more impacted by the economic slowdown at various points in our planning and who may be less so. This can only be determined if we have a strong relationship with our donors and if we understand and communicate with them well.

Changing the approach: Donors may want to hedge their bets. It may be more comfortable for donors to make a lesser commitment now with the view to perhaps doing more later. We should be receptive to allowing donors to think about their charitable giving in this way, with the onus on the institution to steward that gift well, continue to build the relationship with the donor and increase their engagement, until there is confidence again in the financial climate. Other donors may simply feel that it is impossible for them to make that gift commitment now but remain committed to the cause or the institution. Continued contact will be important until that donor is ready in the future. Regardless, there may be others whose investments in this bear market have left them in a very different situation financially and extreme sensitivity will be required to the personal situations of any prospective donor. In general, we may consider talking to donors about planned or deferred gifts with donors who were once considering major gifts; lengthening pledge periods; during annual fund drives, asking for a gift similar in size to ones made in the previous year rather than asking for a larger gift; or challenge

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gifts, which offer an incentive for additional donors to give, and can make people feel they are getting (and giving) more for their money

Maintain focus on long term objectives: Fundraising and campaigns are by their very nature long term endeavours. Well managed fundraising programs prevail among and across many different economic landscapes. The strongest institutions will maintain their philanthropic activities and adjust their approaches to the donor in this current context. It is critical to know your donors and be sensitive to their personal timing. Stay close to those who have supported you in the past and increase your stewardship activities. Some donors will continue to give, and most will re-engage when they are feeling more comfortable and confident. It is particularly important at this time to assure donors that their past support continues to have impact and is appreciated.

Organizations planning major campaigns should continue to invest in strategic planning in order to have ready a persuasive case for support and fundraising priorities to test with potential donors in the future. This period may buy you more time to ready and test your case for support; to cultivate and engage prospective donors in the life of your institution and to identify potential volunteers without the pressure to achieve campaign goals that may not be realistic at this time. But it is also important to continue to ask when there is a sense that a donor is ready and able to make a gift. Institutions in the quiet phases of campaigns should take stock of gifts and pledges committed, the state of the prospective donor pool, the timing of potential gift commitments and possibly a longer planning horizon and/or an adjusted goal.

We are already seeing significant effects of the economy on some large university endowments. Institutions should, of course, carefully and regularly monitor their investments and, barring dire circumstances, maintain a long-term view (steady pay out rates if at all possible) when it comes to their investment strategy.

Conclusion

Many higher education institutions and nonprofits are concerned that current economic and financial conditions will impact charitable donations in 2009 and for several years beyond. The overall picture that emerges from research conducted at the Center on Philanthropy at Indiana University is that economic and financial uncertainty does shape

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charitable giving. However, we also see that historically most households continue to give even during times of financial insecurity, although they may reduce the size of their donations. We are also seeing patterns in corporate giving which indicate increased targeting to charities of interest and increased donations to employee giving programs when combined with corporate matching programs. These are indications of a desire to continue to give but to give in more targeted and leveraged ways to those causes that seem to matter most.

While we cannot rely on history to predict the future, we should consider historical references and innovative practices as we re-think our approaches. We urge our clients to consider local conditions and individual factors affecting their donors and prospective donors; to redouble stewardship and long-term engagement and cultivation efforts; to change major gift approaches and strategies for donors that allow for increased giving flexibility and longer giving horizons; to think individualistically about particular donor's circumstances and propose and respond appropriately. Overall, we encourage you to stay the course and maintain fundraising as a high priority. This is not the time to consider cutting your investment in your fundraising efforts or eliminating fundraising staff as continued donor engagement, cultivation and improving the donor experience will bring philanthropic returns once the economy is back on track. Even in the current climate, we are certain that donors will continue to be as generous as their circumstances allow in responding to the needs of those organizations that continue to communicate their case for support in meaningful and impactful ways.

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