

Coping with Economic Uncertainty

It's never financially easy to be a nonprofit, but many are experiencing tougher-than-usual economic times lately. Cuts in the Illinois and federal budgets, an increased demand for services, and the recent downturn in the U.S. economy – expected by many to worsen – are adding to the financial stress many nonprofits feel. Adding to nonprofits' economic reality is the psychological effect that news of a possible recession can have on individual donors.

"I don't know whether we're in a recession or not, but it's obvious that we are in a period of difficult economy," said Edith Falk, President and CEO of Campbell & Co., a company that provides consulting services to the nonprofit sector. "Fundraising tends to lag behind the economy by six to nine months," she continued, adding that it will be well into Spring before nonprofits feel the full brunt of current economic conditions.

"It's important for our sector to be prepared," said Valerie S. Lies, President and CEO of Donors Forum. "And to that end, providing both our Members and Partners with ideas and coping strategies to deal with reduced funding has been a major part of recent discussions by our Board of Directors," she continued. Here, we've distilled comments from these discussions.

How Grantmakers Can Help

Several Board Members stressed the importance of grantmakers' funding **operating expenses**, and of nonprofits having an operating reserve. Also, a long-term strategy of awarding grants based on the previous 12 trading quarters (a "trailing average") can create a buffer against a changing economy.

But "regardless of the fall or rise of assets," said Carmen Prieto, Associate Director of the Wieboldt Foundation, "there has to be **transparency** of a foundation's grantmaking priorities and guidelines, so that nonprofits can plan accordingly."

For example, if market forces will affect the size or number of grants a grantmaker can award, grantees should be alerted to this. Similarly, grantmakers should give grantees ample notice if a grant will be an exit grant, or the last one the grantee can expect.

"It's also important for foundations to support **capacity-building** efforts so that nonprofits can develop a healthy infrastructure," continued Prieto.

To help grantees, funders can offer tools and information on developing a **planned giving program**. Funders can also give grants that can be used to generate **matching funds**, whether from a new or existing pool of individual donors.

Grantors are also encouraging and facilitating **mergers and partnerships that help grantees reduce expenses**. The Chicago Community Trust, along with The United Way of Metropolitan Chicago, recently committed to funding a partnership of nine large human service agencies that will consolidate back-office operations.

Strategies for Nonprofits

For most nonprofits, it has become vital to develop a **diverse revenue stream**. "More and more," said Prieto, "I see nonprofits moving toward developing some type of individual donor base; that can be through a variety of ways – personal solicitation, direct mail, or implementing a planned giving program."

"**Try not to cut your development budget or activities**," said Falk. "I know it's a tall order, but see if there are other places you can make cuts. Cut where the return on investment is the least productive." Each organization should figure out which activities are the most productive, and focus

on them. For instance, look at your special events. If they aren't productive, consider revising the format. Instead of working on donor acquisitions, concentrate on the donors you have. "At times like this, CEOs and development staff should be out the door and talking face to face with donors," Falk said.

Falk also stresses that for nonprofits, it's important to **stay in touch with donors**. Organizational newsletters are a great way to do this. And, if you have been collecting email addresses, now may be a good time to switch to an electronic newsletter. "Electronic newsletters allow you to send out information on your organization more often at far less cost," she said.

When you communicate with donors, Falk continued, be sure to remind them of your **mission** and why it's important to **keep funding in uncertain economic times**. For instance, social service organizations can experience cuts in government funding and a longer reimbursement period; they also typically experience a greater demand for services during economic downturns. Arts organizations can suffer from reduced ticket sales. "The economy can be tough because people stop spending, not only stop giving!" she said.

Two simple steps nonprofits can take to lessen the likelihood of reduced giving by current individual donors are sending out **pledge reminder** cards or emails, and offering to renegotiate a **longer pledge payout period**. It's also important to remind individual donors to check with their employers about a **matching gifts program**.

"In an uncertain economy," reminded Falk, "donors tend to take longer to make decisions – especially for large donations – and they tend to stick with those nonprofits they've funded in the past, and cut those that are new on their list."

It is vitally important for both grantmakers and nonprofits to continue to **support and conduct advocacy**. "After all," said Jean Kracher, Executive Director of the Crossroads Fund, "the economy is not a germ in a Petri dish. The government makes decisions about what and what not to spend money on, and those political policies drive the market and the economy."

In economic challenging times, it also behooves nonprofits to remain diligent in **practicing good governance and adhering to best practices**, as put forth in Donors Forum's *Illinois Nonprofit Principles and Best Practices*. Donors Forum workshops on leadership, management, evaluation, best practice how-tos and governance can also help nonprofit staffers develop and hone skills that become even more critical when funding is tight.

Additional Reading

- ["Bracing for Tough Times"](#) from *The Chronicle of Philanthropy*
- ["What a Recession Would Mean for Nonprofit Groups"](#) from *The Chronicle of Philanthropy*
- ["Human Service Agencies Merge Back-Office Functions to Save \\$20M Annually"](#) from *Crain's Chicago Business*
- ["Its the Economy Stupid"](#) from *The Nonprofit Quarterly*
- ["Giving in Times of Recession and Crisis"](#) from *Philanthropy Matters*
- ["What Matters and Some Bold Predictions"](#) from *Stanford Social Innovation Review*