Funders, the Time is Now to Talk Recession-Planning with Grantees

March 11, 2020 Ethan McCoy

Most economists believe the U.S. economy will enter the next recession by the end of 2021. Though that date is already fast approaching, the spread of the novel coronavirus (COVID-19) across the world — and the disruption and uncertainty it has brought with it — has suddenly thrust the impending threat of a recession into urgent clarity, and on a global scale.

On Monday this week, stemming from fears of the U.S. economy shutting down or slowing operations in an attempt to contain the virus's spread, U.S. markets saw the steepest single-day drop since 2008. As Neil Irwin wrote in *The Upshot* earlier this week, "These market prices are telling us that a recession is becoming more likely in the United States this year, and that it will probably leave scars on the economy for years to come."

This means that, among a host of other pressing concerns for nonprofits working on any number of issues in this uncertain time, questions about the economic health and sustainability of the organizations themselves are now front and center.

This concern about a recession, however, doesn't come as a shock to nonprofit leaders. When CEP surveyed nonprofit CEOs about several hot-button issues in philanthropy in November 2019, we learned that most nonprofit CEOs (90 percent) are concerned about the impact that a recession would have on their organization. Nearly two-thirds (64 percent) say a recession would increase the need or demand for their organization's programs or services. (Full findings of the survey, which also captures the nonprofit perspective on issues including the impact of recent changes to the tax code, anticipated changes in nonprofit revenue, and the pros and cons of donor-advised

funds, are available in the recently published *The Funding Landscape: Nonprofit Perspectives on Current Issues in Philanthropy*.)

Despite the recognition of the dangers that a recession might pose for nonprofits and the issues they work on, nonprofits are not necessarily prepared — or do not have the support they need — to navigate such a time. Only one-third (33 percent) of respondents to CEP's survey say their organization has a plan for how it would handle a recession, and, by and large, foundations are not doing their part to support grantees in recession planning. Only four percent of nonprofit CEOs say their organization's staffed foundation funders have talked with them about how a recession would change the way they support them. This is especially concerning considering that 89 percent of nonprofit CEOs who have not had these conversations say they would like to.

The lack of support for nonprofits in a time of recession would have consequences for the communities and individuals that nonprofit organizations serve. Among the nonprofit CEOs reporting having a recession plan, over one-fifth (21 percent) say that those plans involve having to reduce programs or services. Over one-third (38 percent) of organizations with a recession plan say they will tap into a reserve fund — something that fundraising and nonprofit experts are encouraging organizations to do in the event of a recession rather than making drastic changes to staff and programs. But not all nonprofits have that safeguard built in.

Given their ability to draw from endowments and help offset reductions in individual contributions, government grants, or other earned revenue that a grantee may be experiencing, foundations have the unique potential to be a countercyclical force in a downturn. Despite some historical examples of this happening during the Great Recession, though, few foundations are willing to play this role. As my colleague Phil Buchanan writes in his book, *Giving Done Right*:

> Givers tend to retrench when nonprofits retrench, essentially forfeiting one of their most powerful potential roles out of worry that they won't be able to claw their way back to the same endowment or asset levels afterward. In putting the preservation of their assets above all else — often…mistakenly believing that it's their fiduciary responsibility to do so — they simply exacerbate challenges for nonprofits during an already difficult time.

This needs to change. Foundation boards could and should be talking now about increasing payout and should take the long view on their endowment values. After all, foundations' top priority should be to support effective nonprofits working today to address shared goals, not "to have the

largest endowment or always be at peak real purchasing power relative to the past," as Buchanan writes.

In a must-read column for foundation leaders earlier this week, Nonprofit Finance Fund CEO Antony Bugg-Levine lays out six steps for funders to support nonprofits both through the current crisis and during the rebuilding phase that will follow. First among his recommended steps? "Check in with your grantees."

As CEP's recent data analysis shows, nonprofits want to be having conversations about recession planning with their foundation funders, but such discussions aren't happening. The current public health crisis and resulting economic impact only magnifies the need for funders to communicate effectively with their grantees.

The situation is quickly evolving and there is still plenty of uncertainty, but there is much that funders and nonprofits alike can do to plan for potential challenges as best as they can. The time is now for funders to initiate the transparent and honest conversations necessary to ensure that grantee organizations are prepared to weather a change in the economic winds that may be arriving sooner than anticipated.

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