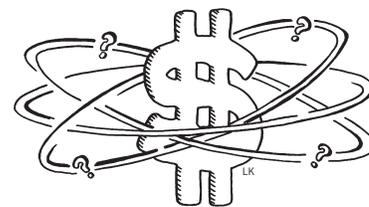

RAISING MONEY

In Uncertain Times



BY KIM KLEIN

September 11 marked the beginning of a new era characterized by an awareness of how little control any of us really has. Of course, from the day we are born none of us really knows what is going to happen tomorrow or the next day. Will we catch a cold? Trip and break a bone? Hear that a loved one has died? Die ourselves? In many ways, the United States has now joined a great portion of the world community. Palestinians and Israelis, the people of Ireland, India, Spain, and many other countries live with the threat of terrorist acts. People in dozens of other countries live with civil war, often close by their towns and villages. Even in many neighborhoods in the United States, people live with the very real threat of drive-by shootings, gang warfare, and police brutality. Women always live with the threat of rape, and millions of women live in fear of domestic violence.

For our purposes, the events of September 11 raise two questions: What effect does all this have on fundraising? And, How shall we change our fundraising plans and strategies to cope with it? I will reflect on the overall picture and then suggest, strategy by strategy, things to take into account as you adjust your fundraising plans.

OVERALL

In these times, one would expect three important factors to affect the ability of small nonprofits to raise funds: the September 11 attacks, the subsequent “war on terrorism,” and the state of the economy. Interestingly, none of these factors is likely to have a great or lasting effect on fundraising overall, although in the short term and for a cross section of groups, they may exact a high toll.

The economy has been sliding into a recession for more than a year. September 11 added a major blow to an already fragile economic picture. Fortunately, history shows us that giving by individuals is not generally affected by recessions. Although we have gone through several recessions in the last 40 years, in all but one of those years giving has gone up. Since most gifts are from middle-class, working-class, and poor people, the stock market has little effect on their incomes or their giving.

People with a lot of money in the stock market will cut

back on their giving, but those who held diversified portfolios will be able to continue giving by taking money from money markets or when their CDs roll over. Of course, people who are left unemployed because of the recession will have to cut back on their giving, but those who still have jobs often give more during hard times. Region by region, economic downturns may take a toll on giving by individuals, but overall there will be little change.

The American Association of Fundraising Counsel (AAFRC) has examined the impact that major events of terrorism or war and major political and economic crises since the fall of France in 1940 have had on giving. They note that the stock market has dropped immediately following most major crises, and within one year has recovered. Many experts believe we are moving into a global recession and so the market may stay depressed, but the AAFRC data simply indicate that the market will recover most of the value it had before September 1, not that it will come back to where it was in the late 1990s.

A question in the minds of many nonprofits today is whether the immediate outpouring of donations to relief efforts following the September 11 attacks will diminish the generosity of donors to other causes. Last fall the AAFRC reported, “A significant outpouring of support for relief efforts from donors making small gifts, perhaps \$25–\$100...will be relatively short term and have little impact on total giving or on distribution of giving (i.e. what proportion goes to education, health, the environment, and so on) this year.” (You may read their full report at www.aafrc.org.)

While some organizations have noted significant drops in contributions since September 11, others have noted no drop at all. There is no pattern to these reports. For example, in the San Francisco Bay Area, two fairly similar organizations are having very different experiences: the Salvation Army reported a large drop in donations after September 11, whereas Goodwill Industries reported being right at their target goals for that time of year even one month after the attacks. Other organizations are doing better than anticipated. Alan Becker reports in the AFP Bulletin that the San Francisco Chapter of Physicians

for Social Responsibility had their annual dinner the night the bombing of Afghanistan started. Attendance was up by 20% from the previous year. The amount of money brought in by events for Strike Out for Breast Cancer and Amfar are projected to exceed last years' by significant margins. I have heard from a wide variety of organizations that, much to their relief, they have not seen a decrease in donations.

Of course, this is not everyone's experience. I have also received calls and e-mails from groups that were having a hard time raising money after September 11. Often on further probing, however, I discovered that they had been having a hard time for quite a while. A development director called to ask me how she could motivate board members who were reluctant to make their calls since the tragedy. It turned out these board members had consistently been unwilling to do fundraising. September 11 has just provided them a new and very dramatic excuse for their foot-dragging. Whatever problems your organization had prior to September 11 will be more acute now.

To be sure, some organizations have reported that some major donors have decided to give their big gifts to relief efforts. Organizations located in and around New York City and Washington, D.C. had a harder time gearing up for fall fundraising, and they will suffer some loss.

All in all, with some obvious exceptions, there is no inherent reason to think that September 11 will have much of an impact on an organization's ability to raise money from individuals over the long term.

STRATEGY BY STRATEGY ANALYSIS

Though much fundraising will remain unchanged in the aftermath of the September 11 attacks, certain sources of funding are going to change dramatically and most strategies will need some fine-tuning to be sensitive to both the attacks and the current recession.

Foundation Fundraising

Foundations are required by law to pay out 5% of the value of their assets annually. The 5% is based on the average of the value of the foundation's assets during the previous five years. This safeguards foundation giving from spiking in a good year and being dramatically reduced in a bad year. It also allows the endowment of the foundation to grow so that it keeps pace with or, as in the past several years, exceeds inflation.

From 1995 through the middle of 2000, foundation assets grew at a record pace, as did the creation of new foundations. In 1999 alone, 3,300 foundations were created, bringing the number of foundations in the United States to 50,200. (When I started my fundraising career in 1976, there were only 15,000 foundations.) For years, foundation giving accounted for about 5% of all giving; in the last three years, however, that percentage has more than doubled, so that foundation giving in 2000 accounted for 12% of all giving.

As the large number of foundations and their huge assets made grantseeking in the last five years much easier than it had ever been, many organizations came to rely on foundation funds. One development director said, "The question became not whether we would get the grants, but could we keep up with the money we were able to generate?"

The five-year average asset value that foundations are using this year still includes some very high-earning years. But by 2003 and 2004, foundation giving will drop dramatically, as the stock market's decline means their endowments are reduced in value each year. Some foundations have already cut back on grant-making, particularly those heavily invested in technology stocks. (A similar pattern occurred after the stock market drop of 1987. The years

1988 and 1989 showed little change in foundation giving, but by 1990, there were major cutbacks.)

If your organization relies heavily on foundation funding, you have one or at most two years to develop other income streams. My advice is to get busy because the days of lots of foundation funding are, at least temporarily, over.

Direct Mail

Direct mail experts are all reporting that mail is performing as well now as it was before September 11, but it will be some time before we can know for sure the full impact. Acquisition mailings are still getting 0.7-1% returns, and mailings to current donors are getting returns of 10% or better. They note that there are a few new things groups will want to do with their mail to ensure it is delivered and opened. Whereas in the past we have suggested adding suspense by not including a return address, that advice is no longer valid. Without a return address on the outer envelope, many people will not open a letter. If you write addresses by hand (which I have often recommended), make sure that the recipient can easily tell who sent the letter by having a clear return address. In the body of the letter, you can acknowledge the war (and whatever the latest manifestation of it is), but don't dwell on it. Focus on what your organization does and why it is important.

With any direct mail appeal in these times, there is the

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chance that your mailing will arrive on the day that something terrible has happened. To spread out the risk, you may not want to send thousands of pieces at once.

Major Gifts

Your major donors will continue to be loyal and giving if you intensify your efforts to see them and to let them know how important they are. Some donors who have been giving stock may postpone or cancel their gifts. In order to keep your cash flow from taking a nosedive, you may want to discuss with donors you are close to whether they could give some money now and some later.

One organization with a lot of donors who give stock shows these donors a chart of their monthly cash-flow needs and their monthly expected income from all sources. They then see if the donors are willing to give \$100, \$500, \$1,000 or whatever is possible every month or every other month to help meet these cash-flow needs. In this way, they have managed to piece together enough gifts to get them through the next few months without having to borrow money. One donor who normally gives \$10,000 in stock is giving \$200 a month for the next six months. He will then evaluate whether he can make his stock gift. Obviously if his stock suddenly shoots up, he will make that gift sooner. It is important to be sensitive to the fact that many people who were heavily or entirely invested in the stock market, particularly the NASDAQ, are not doing very well financially.

Many other major donors are still doing fine. If their large gift is derived from their income and they still have their job, they can still give. In fact you will want to focus a lot of attention on the middle range of major donors: those who give \$100–\$1,500, who are giving from income, and who have secure jobs. Last year the *Chronicle of Philanthropy* reported that donors in the \$500–\$1,500 range were the most neglected. They did not give enough to merit attention as major donors at many groups, but they were giving enough that they were often pulled out of the regular direct mail stream. Make personal contact with these donors. Tell them how important they are to your work and do more personal solicitation in this gift range.

Special Events

Somewhat surprising, to me at least, is that special events seem to be doing well. While some groups cancelled events right after the attacks, those who went ahead with their events later in the fall report that they did well. It seemed that people wanted to come together to see each other and affirm that life does go on. If your event is well planned and carefully thought through, it should do well.

To err on the side of caution, though, some groups are scaling back the cost of their event so that if they have to cancel, they won't be out as much front money.

Corporations

Corporate giving is going to vary greatly from one corporation to another. Because of the current economy, many corporations will not be in a position to give for the next couple of years. Others are doing very well and even increasing their giving. They will continue to seek publicity for their gifts. Corporations continue to be under pressure from consumers to be more generous, which is part of a wider consumer concern about corporate ethics. Whether or not corporations are actually more generous is up for debate, but that they want to appear to be is not. Any group that can help them appear to be good corporate citizens probably has a good chance of getting some funding. (See related article in this issue, "Fundraising Medicine: Creating Gift Acceptance Policies," by Rick Cohen.)

EFFECTS OF THE WAR ON TERRORISM RELATED TO PROGRAM

Far more scary to me than the state of the economy are the sweeping powers that law enforcement agencies have sought, and so far won, to investigate terrorists. These new laws may have a profound impact on a broad cross-section of nonprofits. *OMB Watch* reports that the USA Patriot Act, passed by the House and Senate in October, "gives the government broad powers to investigate for intelligence purposes, without requiring probable cause that a crime is involved. The Attorney General or Secretary of State could designate a group as a terrorist organization...and there are no procedural safeguards to protect against a wrongful designation."

Organizations working with immigrants, or critical of US foreign policy, or working to lift the sanctions against Iraq, or with any number of other missions, could find themselves caught up in these "intelligence" investigations. All

nonprofits, but particularly those working on social justice issues, will want to set aside staff and board time to learn the potential impact of these laws and to protest any violations of constitutional rights inherent in new legislation.

In the end, as it always has been, staying focused on fulfilling the mission of your organization must remain the driving element behind all fundraising and program decisions. **GF**

*Giving by
individuals is
not generally
affected by
recessions.*

KIM KLEIN IS CO-PUBLISHER OF THE JOURNAL.