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Foundations and the Great Recession: context for our current crises

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If the world were fighting only the coronavirus (Covid-19) at the moment, that would be challenge enough. But we are not just battling a disease, we are also in the midst of a historic economic meltdown. What does this mean for the social sector?

At Candid, we've documented the work of institutional philanthropy across half a dozen economic recessions since 1980. And we've watched how the sector responded to numerous disasters dating back to 9/11. Now, we find ourselves confronting a perfect storm. So, it's hard to predict with any confidence what exactly lies ahead for the sector.

But we're not starting from square one. The Great Recession is still very much a living memory for most foundations and nonprofits. The sector did in fact persevere through that period, emerging stronger than ever. Although foundation giving dipped slightly in 2009 and 2010, since then it has grown from $46 billion in 2010 to more than $80 billion in 2018. This 76 percent increase doubled the GDP growth rate (37 percent) over the same period.

Foundations, of course, are not the sole source of support for nonprofit organizations. In fact, they account for just 18 percent of all philanthropic giving in the United States. So the sector does not stand or fall solely on the basis of how foundations perform. But there is precious little room for margin in the budgets of most American nonprofits, and many would not survive without reliable support from foundations.

Although the past is an imperfect guide to the future, a look back at how foundations responded to the Great Recession may provide some insight into the role these institutions could play during the current crisis.

Drawing on research studies (see the list at the end of this post) conducted by Foundation Center (which joined with GuideStar to form Candid in 2019) during and after the 2008-2009 economic downturn, a picture emerges of a philanthropic sector that took extraordinary steps to minimize the impact of the Great Recession on U.S. nonprofits. A survey taken in September 2010, after the worst of the recession was over, showed that more than 40 percent of large U.S. foundations—by and large, those ranking among the top 1,000 by total annual giving—had provided support specifically to address problems related to the economic crisis. Substantial numbers of foundations found ways to hold giving steady despite endowment losses of up to 20 percent between 2007 and 2008. Many chose to increase their payout rates—the percentage of their endowment assets distributed for charitable purposes—beyond the standard 5 percent. As a result, foundation giving fell by just 2 percent from 2008 to 2009 and held steady from 2009 to 2010.

The value of asset averaging

One foundation practice in particular made a huge difference in holding giving steady over the two rockiest years of the recession—using rolling averages of a foundation's annual assets to set its annual grantmaking budget, rather than the size of its asset base at the end of the most recently completed fiscal year. Because assets typically increase from year to year, a foundation's average asset level over a three- to five-year period is usually lower than its asset level for the most recently completed fiscal year. Conversely, when a foundation's assets go down, its three- to five-year average asset level may be higher than its asset level during the most recently completed fiscal year.

James Canales, then president of the James Irvine Foundation, explained that as a result of asset averaging, "Our grantmaking may not increase as quickly as our endowment value during the good years, but conversely, the formula protects us from having to decrease our grantmaking significantly in times such as these. This approach is specifically designed to minimize disruptions to current and prospective grantees when the economy is bad, precisely the time when many nonprofits experience reduced income from a variety of sources."

Foundation Center surveys conducted in 2003 and 2009 showed that somewhere between a quarter and one-third of U.S. foundations (including many of the largest) based their grant appropriations budgets on the average value of their endowments over two or more years. This practice, coupled with the decision by a number of foundations to increase their payout rates to 7 percent or more, allowed foundation giving to remain steady even as asset values plummeted.

Foundation giving during the recession

The Great Recession kicked off in earnest with the collapse of Lehman Brothers, the fourth-largest investment bank in the United States, in September 2008. Nonprofit organizations immediately grew worried about the potential impact of large declines in foundation assets on their giving budgets for 2009. Early in 2009, Foundation Center scoured the websites of the largest 100 foundations in the country for indications as to whether they expected their giving to decline in 2009.

Only one foundation was in a position to guarantee that its funding would increase despite suffering asset losses of about 20 percent in 2008. In his 2009 annual letter, Bill Gates announced that the Bill and Melinda Gates Foundation had decided to increase its spending in 2009 by increasing its payout rate. He wrote: "Our spending in 2008 was $3.3 billion. In 2009, instead of reducing this amount, we are choosing to increase it to $3.8 billion, which is about 7 percent of our assets." It would be hard to overstate the steadying impact of Gates's decision to increase giving during the toughest year of the recession. Gates's grantmaking in 2009 accounted for more than 7 percent of all foundation giving that year and set a powerful example for others.

As the economic crisis unfolded, foundations with the flexibility to mobilize resources quickly focused much of their giving on such efforts as providing emergency assistance to cover heat, rent, and/or utility expenses; reducing the number of foreclosures; shoring up food banks and services for the homeless; and providing financial counseling. A subsequent analysis of foundation giving during the economic downturn showed that housing and shelter (including foreclosure protection) organizations received just over 50 percent of crisis-related grant dollars, while emergency assistance (including food assistance) nonprofits received one-quarter.

By July 2009, about 10 months into the recession, Foundation Center had documented more than 1,700 grants and program-related investments (PRIs) totaling $322 million in response to the crisis. These figures represent only commitments that foundations had publicly announced. The actual amount of foundation giving in response to the crisis was likely much higher. At a time when total grantmaking by U.S. foundations was about $46 billion per year, these numbers suggest that foundations may have been able to repurpose close to 1 percent of their total giving in response to the recession.

A common concern of nonprofit organizations during the downturn was that the area of work they specifically focused on (e.g., the arts, education, or the environment) might be disproportionately affected by temporary changes in foundation giving priorities. What we learned, however, was that overall grantmaking priorities did not shift suddenly in the face of reduced resources; they were remarkably consistent over the long term.

During the crisis, we asked funders to tell us what factors mattered most when making decisions about their grantmaking budgets. The three most important (rated by respondents as either somewhat or very influential) were board and leadership decisions (88 percent), the economic climate and market conditions (88 percent), and their respective foundations' strategic priorities (80 percent). Foundations tended to stay true to their missions even under changing circumstances.

The crucial role of community foundations

Although foundations of all types played a role in blunting the damage to nonprofits during the Great Recession, community foundations in particular stood out.

1. **Community foundations were first to act.** More than one-third (35 percent) of community foundations surveyed in April 2009 indicated they were engaged in special initiatives to help their communities cope with the local fallout from the crisis. Such activities included making exceptional grants or offering loans and other program-related investments in direct response to the crisis. This was at a time (six months into the downturn) when just 14 percent of all foundations said they were engaging in such initiatives.
2. **Community foundations were most likely to engage in the practice of asset averaging.** More than half (56 percent) of community foundations said they engaged in this practice, compared to independent (17 percent) or corporate (8 percent) foundations.
3. **Community foundations dug deeper.** Where community foundations, at the time, typically represented about 9.5 percent of total foundation giving each year, they accounted for 13 percent of total dollars committed by foundations in response to the economic downturn.
4. **Community foundations took harder hits.** Community foundations were nearly twice as likely to have suffered staffing reductions during the recession (29 percent) compared to independent and corporate foundations (15 percent).

In the aftermath

At the end of 2009, one full year into the recession, we surveyed foundations to find out how the crisis had affected their operations. More than two-thirds said they had reduced their operating expenses to shore up giving for other purposes, most commonly by reducing staff travel budgets and/or limiting staff attendance at conferences. About one-third said they had also reduced staff training and professional development opportunities.

At the end of 2010, we conducted a final survey of foundations to see if the recession had made any lasting impact on their operations or grantmaking philosophy. For most foundations, the answer was no.

Few foundations expected to make any changes to their grantmaking priorities, although a small number of funders said they intended to provide greater support for safety-net activities and vulnerable populations going forward. Some funders noted that they were tightening their grantmaking focus to eliminate funding that fell outside of their existing priority areas. And a few said they planned to increase the amount of operating support they provided.

Most foundations that made operational changes during the downturn said they expected those to be temporary, but 12 percent anticipated that at least some of these changes would be longer-term. They cited making fewer site visits, attending fewer conferences, reducing or eliminating printing of annual reports and other publications, and increasing efficiency through technology.

Tackling the present crisis

The current situation presents unprecedented challenges. Many more variables are in play, which makes it almost impossible to chart a clear course through the crisis. Philanthropy will have to do the best job it has ever done to make sure that relevant, timely information about its work to address this crisis is clearly communicated and widely shared. Collaborating closely with key networks and information hubs in the sector, such as United Philanthropy Forum, Candid, Independent Sector, Council on Foundations, regional associations, and affinity groups is essential to maximizing the effectiveness of our interventions.

Foundations have just passed through an extraordinary period of economic growth, seeing their assets grow by 58 percent from 2010 to 2018, putting them in a favorable financial position as this crisis unfolds. Clearly, the current market is highly volatile and invested assets are likely to take a hit. But to the extent that foundations have been practicing asset averaging when setting their grantmaking budgets, many should be able to keep giving levels reasonably stable over the coming months.

Nevertheless, there are clear limits to foundation flexibility when it comes to mobilizing resources for unplanned interventions. A few of the very largest foundations may have the option to increase their payout rates temporarily, but we found that during the Great Recession foundations on the whole managed to repurpose perhaps 1 percent of total annual giving. Total giving in 2018 was $80 billion, which suggests that crisis-focused foundation contributions during the first year of the current crisis could amount to $800 million or more. That said, the current situation is far more complex than what we experienced in 2008 and 2009. Philanthropic giving in response to this crisis could reach unprecedented levels.

At least one of the changes foundations said they might make to their grantmaking practices after the Great Recession appears to have happened. Giving targeted to economically vulnerable populations has grown from 27 percent of total giving in 2010 to 33.5 percent in 2017. Meanwhile, though, general operating support has remained flat since 2010. (Figures based on data collected from an annual set of 1,000 of the largest U.S. foundations, as ranked by annual giving.) These figures suggest that the safety net for vulnerable populations may be a little stronger than it was a decade ago, but is it as strong as it needs to be?

A key finding emerging from this retrospective analysis is that community foundations play an especially critical role in challenging times. They are first to step up, and they mobilize proportionately more resources than other types of foundations. Unfortunately, they are also more likely to take a substantial financial hit in the process. Considering how central community foundations are to developing and coordinating effective local responses during times of crisis, it is worth considering how the field as a whole might shore up their work by supporting their efforts on the front lines.

Finally, we are obviously operating under starkly different circumstances now than during the previous economic recession. Two crises are unfolding simultaneously—a public health crisis and an economic crisis. It will be tempting for foundations and others to want to direct funds to combat the immediate health crisis, in particular, because it looms so large in the foreground. Philanthropists, however, will want to give careful thought to how their funds can make the greatest difference both now and over time as we deal with both the long-term public health issues and the economic fallout that lay ahead.

Foundation Center research studies

- Sara K. Gould, "Diminishing Dollars: The Impact of the 2008 Financial Crisis on the Field of Social Justice Philanthropy" (Nov. 2011).
- "Foundation Leaders Address the State Budget Crises" (Sept. 2011).
- Steven Lawrence, "Moving Beyond the Economic Crisis: Foundations Assess the Impact and Their Response" (Nov. 2010).
- Steven Lawrence, "Foundations' Year-end Outlook for Giving and the Sector" (Nov. 2009).
- "The Foundation and Corporate Response to the Economic Crisis: An Update" (July 2009).
- Steven Lawrence, "Foundations Address the Impact of the Economic Crisis" (Apr. 2009).
- Lawrence T. McGill and Steven Lawrence, "Grantmakers Describe the Impact of the Economic Crisis on Their Giving" (Mar. 2009).
- Steven Lawrence, "A First Look at the Foundation and Corporate Response to the Economic Crisis" (Jan. 2009).
- Steven Lawrence, "Do Foundation Giving Priorities Change in Times of Economic Distress?" (Nov. 2008).

- Steven Lawrence, "Past Economic Downturns and the Outlook for Foundation Giving" (Oct. 2008).

Editor's note: for information on philanthropy's response to the coronavirus (COVID-19) pandemic, visit Candid's coronavirus pop-up webpage.

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See bio

Tags: Nonprofits and the economy; Novel coronavirus (COVID-19)