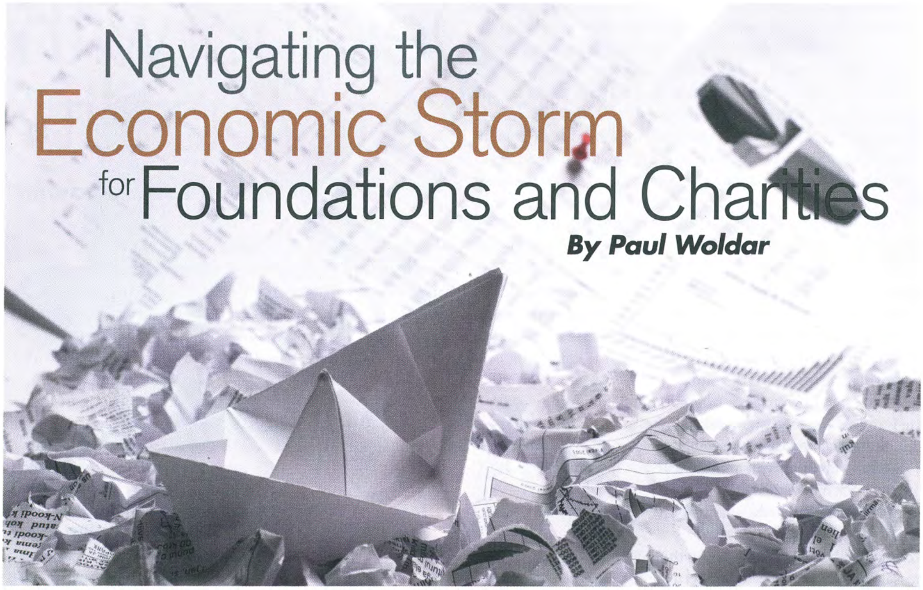
Navigating the Economic Storm for Foundations and Charities



By Paul Woldar

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We're taught that God helps those that help themselves, but what about those that help others? During this economic crisis, foundations and charities may need help as much as anyone and instead of motivational rhetoric, they need some concrete suggestions on how to protect and maximize their endowments, continue to raise funds for existing programs as well as capital projects, and manage cash flow needs.

Foundations should normally be taking a "principal protection" approach to managing their endowments, now that's more important than ever. Many endowments are down by 25-40 percent conservatively. Reasonable investment rates (with managed risk) are at approximately three-to-four percent. Given the need to donate five percent of asset value annually, many foundations are on a slippery slide to "paying down" without realizing it. Charities are looking at fundraising prospects in a shrinking philanthropic environment, their maintenance and survival just as precarious. These organizations need some real answers.

Foundations: I have been asked by foundations with endowments of $3 million and foundations with $700 million about what to do right now to help stop the bleeding in their endowments, and the answer is the same; you need to have the tough talk with your investment advisor. What exactly do we have and what is its long term viability? Are we invested in instruments that may not be around much longer or are we in securities that are down with the market but have real economic and investment value, therefore sustainability and will come back over time?

Areas of concern; the finance sector, U.S. auto industry, structured mortgages, and structured asset backs. Structured pieces should be scrutinized most closely. Not only should the collateral be examined, but also the investment structure and the particular tranche invested in. This is not to say that all pieces are bad and will fail but rather that they need to be monitored more closely right now and possibly liquidated. Discuss sectors with your advisor that may have better short term (and long term) returns, such as utilities, phones, defense, alternative energy and consumer good corporations. Also, the use of mutual funds affords you a "specialist" manager while inherently giving you diversification, as opposed to buying individual stocks or bonds.

Many foundations are looking into short term lending to "double dip". A short term loan to one organization with cash flow needs early in the year and then the funding of their grant to a second organization later in the year is one way to maximize the impact of your giving dollar. A quickly growing approach to gaining impact is through the use of mission related investing (MRI) or program related investing (PRI), the act of investing your funds with those vehicles more aligned with your donating goals than your investing goals.

Charities: All charities should be establishing databases of foundation donors in their sector. Have an intern go to the Foundation Center (or find out if you are eligible to access it on line) and start developing a mailing list and e-blast list. Communicating with organizations that support your sector, letting them know you are out there and the work you are doing is crucial. You want to put yourself in position to receive funding from them in the event that the charities they are currently supporting fail. Even if their current grantees survive, they may add you when their asset values rise and their giving increases.

Look to borrow funds to get you through cash-poor times if anticipating grant funding later in the year. A two-to-eight month calendar loan may be an option some organizations that are looking to get involved with you will make, allowing them to fund their own commitments later in the year. While this may not be a funding solution, it can be a cash flow solution. Finally, think smaller and "out of the box" when it comes to fundraising. Individuals may not be able to make the size donations they have made in the past, therefore, smaller bites, more often through the year, may get you your funds. More creative, intimate opportunities may add up over the course of the year. Instead of relying on your one large fundraiser, you may need to add three-to-four smaller ones throughout the year, also allowing you to broaden your target base. CPAWP

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