Measured Outcomes
Focused on results

Fund Development in a Time of Uncertainty

How the financial crisis of 2008 has affected charitable giving what can be done to ensure nonprofit viability.

Executive Summary
Total losses from the global financial crisis are estimated to run into the trillions of dollars. The evaporation of so much capital in such a short time has had a profound effect on the budgets of both business and individual nonprofit donors.

Based of figures from GivingUSA, an organization that tracks annual charitable giving, charitable contributions in 2008 have decreased 2% from 2007. This is only the second time that giving has decreased since the organization began publishing annual reports in 1956.

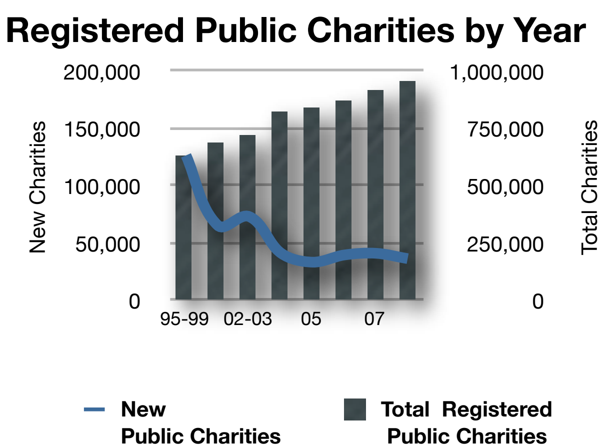
This sudden decrease in philanthropy has been exacerbated by an equally precipitous drop in government funding and has had a profound effect on operations of 501(c)(3) public charities.

This report will discuss the growth of nonprofits during the boom years, what effect the crisis is having on fund development, and what new strategies nonprofits can utilize to raise funds for the vital services they provide.

Definition of 501(c)(3) Public Charities
Public charities are those that (i) are churches, hospitals, qualified medical research organizations affiliated with hospitals, schools, colleges and universities, (ii) have an active program of fundraising and receive contributions from many sources, including the general public, governmental agencies, corporations, private foundations or other public charities, (iii) receive income from the conduct of activities in furtherance of the organization's exempt purposes, or (iv) actively function in a supporting relationship to one or more existing public charities.

Public Charity Formation 1995-2008
The 1990's saw the formation of an unusually large number of public charities (figure 1). While the number of new public charities moderated over the next fifteen years, the total number of public charities registered with the IRS rose steadily year over year.

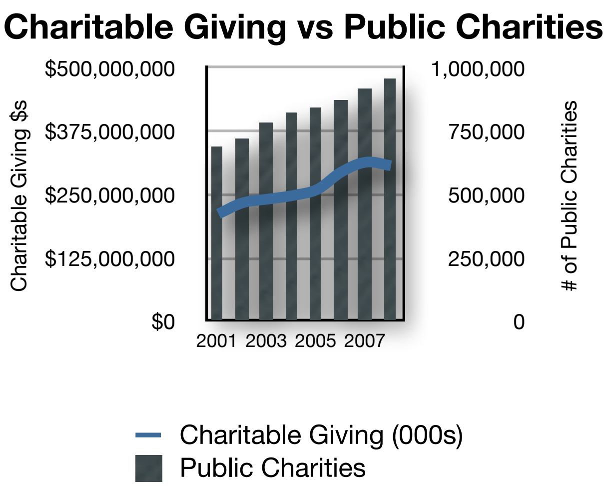
Figure 1
Source: IRS form 990 filings



This steady increase in nonprofits precipitated increased competition for funding among organizations. During these years the US economy continued to expand, with the exception of an 8 month period after the September 11, 2001 World Trade Center attack.

As a result of these relatively prosperous times the total amount of charitable donations increased (figure 2) driven by continuing growth in personal and corporate wealth. Thus muting the effects of increased demand.

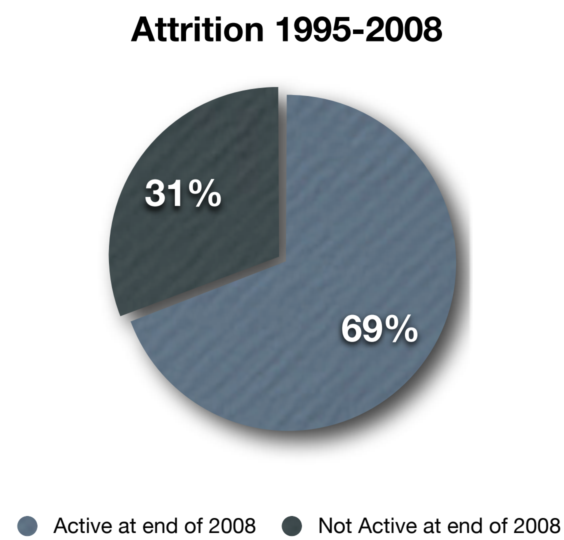
Figure 2
Source: GivingUSA



Despite the favorable economic conditions, the attrition rate for public charities between 1995 and 2008 was 31% (figure 3). Some nonprofit closures can be attributed to the natural life cycle of organizations formed for a single event or to achieve a defined short term goal.

Given the fact that for every 10 nonprofits established 3 ceased operations in a time of rising donor support and increased government funding, it is reasonable to conclude that the rate of attrition in a time of financial crisis will be significantly higher.

Figure 3
Source: IRS form 990 filings



Opportunities in a Down Economy
Shrinkage in the number of public charities presents challenges especially for the clients of organizations that are unable to weather the economic downturn.

At the same time this economic crisis provides opportunities for nonprofits to reevaluate how they go about fund development.

The most common development strategies utilized by nonprofits consist of fundraising events, capital drives directed at large donors, and other activities to solicit contributions on a transactional basis.

While all of these are potentially effective, many organizations are finding that event attendance is down, large donors are reducing their support, and individuals are unable to contribute at levels they have in the past.

In order to achieve success nonprofits need to partner with their donors by understanding their goals and keep them engaged in the organization's mission and achievements.

Donors make charitable contributions for many reasons; a desire to help the community, regulatory compliance, as part of an overall marketing plan, and others. It is vital to understand donor needs and create reporting that addresses them.

When economic conditions are less than favorable many potential donors will ignore transactional requests for support because they don't see the value, or they feel that they simply cannot afford to contribute.

By creating real partnerships that meet the needs of donors, organizations build lasting relationships based on shared goals and mutual success.

Conclusions

Over the past two decades the number of 501(c)(3) public charities increased at a steady pace creating increased competition for funding.

Relatively stable economic conditions produced gains in personal and corporate wealth that kept pace with this growth and charitable contributions continued to increase from year to year. This growth in philanthropy mitigated the effects of increased competition for funding.

GivingUSA reported a 2% decrease in charitable giving in 2008, for only the second time since 1956. The decline has been driven by the financial crisis and is likely to erode further in the near term.

Even under favorable conditions, for every 10 nonprofits formed from 1995 to 2008 there were 3 that ceased operations. As nonprofits struggle with reduced philanthropy and a substantial reduction in government support the rate of attrition is likely to increase significantly.

Most existing models of fund development are based on transactional interactions that fail to understand the underlying reasons why donors make contributions. Attendance at fundraising events are down, appeals go unanswered, and capital campaigns founder.

As the economy continues to struggle nonprofits must make the needs of donors central to their fund development efforts.

By developing reporting systems that address the needs of funders, nonprofits create partnerships that are based on shared goals and mutual success. These partnerships will help raise the funds necessary to survive the current crisis and position organizations for even greater success in the future.

About Measured Outcomes
Measured Outcomes is a for profit consulting firm, we work with businesses, foundations, industry groups, communities, and nonprofits to create better places for people to live, work, and play.

We provide business-class consulting, with the emphasis on results, by providing services that are comprehensive and tailored to the individual needs of our clients.

We are committed to double bottom line principals that ensure resources are effectively utilized for the maximum benefit of all stakeholders.

About the author
Stephen Blakley is an economic development and community investment professional. He holds a degree in Environmental Science from UC Davis.

Before starting Measured Outcomes, he worked for ten years at Wells Fargo, a Fortune 100 company, developing and monitoring the company's Economic Development and Community Reinvestment activities throughout the United States.

During his tenure the company received recognition as a leader in helping low- and moderate-income communities and families succeed.

Prior to Wells Fargo he worked in the nonprofit sector for agencies providing direct services to clients with severe disabilities.

He continues to serve on nonprofit boards and committees providing financial, compliance, fund development, grant management, and demographic expertise.