

Investing in Capacity

All of us at the Olin Group, like so many of our colleagues in the nonprofit sector, are ready for good news. And in the first newsletter of 2010, we have much good news to share. Yet, while the worst of the recession may be behind us, nonprofits still face challenges stemming from the complete restructuring of the economic landscape. After a year of downsizing, abandoned programs and stalled progress, the sector needs to focus on building its infrastructure again and explore new ways to bolster capacity through innovation and growth. Our newsletter title is more appropriate than ever, as we all work to move beyond survival, to thrive and grow.

Program Related Investments: Strategies for a Changing Landscape

Last year, we saw how the downturned economy gave rise to innovation and “creative management” strategies in the nonprofit sector, as executives and philanthropists alike worked to do more with much less. With the decrease in grant funding and private donations, many nonprofits turned to in-kind donations and volunteer support to keep programs running. Others considered earned income strategies for the first time. Donors and institutional philanthropists have worked quickly to shift from traditional program funding to emergency support, speeding due diligence processes and grant cycles, or closing grant programs altogether to provide more targeted, immediate support.

But as the focus shifts from merely surviving, the same key discussion continues to occur across the nonprofit sector – in a changed economic landscape, how do we strategically sustain and grow our operations to serve the community?

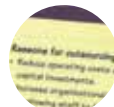
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Texting for a good cause



Orange County
Shared Spaces
Foundation



The Possibilities
of Outsourcing

Program Related Investments: Strategies for a Changing Landscape (continued)

Enter a new strategy being entertained by individual and institutional donors: program-related investments (PRIs). With donations down, and social infrastructure fragile, the need for investment, equity, capacity, and capital has taken on new urgency, and charitable investing is becoming a newly popular vehicle to support the sector's needs.

PRIs have been in the news since the Tax Reform Act of 1969, which established parameters from which to fine foundations if they made investments that jeopardized their ability to complete charitable activities. In recent years, The Program-Related Investment Promotion Act of 1998 popularized guidelines for promoting charitable investment according to three criteria:

1. The investment's primary purpose must be to advance the foundation's charitable objectives.
2. Neither the production of income nor appreciation of property can be a significant purpose.
3. The funds cannot be used directly or indirectly to lobby political interest or for other political purposes.

Typically, program-related investments are higher risk, with lower returns, and with an ultimate charitable impact in mind. While private foundations tend to provide program-related investments to public charities, it is not a legal requirement of the investment, as long as the criteria are met.

The Olin Group has recently purchased the new Foundation Center PRI Directory in hard copy form, which has more

Most recently, The Gates Foundation made a bold and public announcement regarding its plan to distribute \$400 million in program-related investments to both nonprofit and for-profit entities to further the foundation's charitable goals both domestically and abroad. In response to current events and increased interest, The Foundation Center published its first directory of Foundations who entertain PRIs.

Resource Sharing:

information than the online subscription offers. You are welcome to visit our library if you would like to research PRI opportunities.

As more for-profit ventures and social entrepreneurs adopt the language of social impact to describe their business goals, and as more funders entertain the idea of investment in for-profit ventures as an equal and viable alternative to grants, the playing field will get even more crowded. Several states (California is not yet among them) might soon allow the

formation of low profit, limited liability corporations, or L3Cs, for-profit entities with an incorporated social purpose. This new tax status would allow and attract the charitable investment of foundations. Another variation

on the theme, B-Corporations (where B stands for social Benefit) possess a similar construct – namely, a for-profit status for a social impact purpose. And an emergent lobby seeks to create a special and beneficial tax category for the entity.

While the due diligence required to prove charitable intent of for-profit investments is greater than that needed when giving to public charities, it is not insurmountable, and expands the foundation's ability to further its charitable mission. Nonprofits should be cautious as they move to embrace the idea of investment as a new avenue to gain working capital. Investment, traditionally, has required more due diligence on behalf of the investor than do most grants. Most importantly, nonprofits should be ready for the conversation. The landscape has radically changed, and with that change comes new opportunities.

Resources to Review:

- PRI Makers Network (www.primakers.net)
- Program-Related Investing for Funders (www.grantcraft.org)

The Possibilities of Outsourcing

A recent study commissioned by The Meyer Foundation identifies how outsourcing can help smaller social change organizations address their back-office support needs. Back-office needs such as finance and administration, human resources, and information technology are areas where outsourcing can make a significant financial difference to small nonprofits. Other functions, such as public relations, marketing, and development are not traditionally considered “back-office,” but can also be outsourced for substantial cost-savings.

The report indicates that many nonprofits, often hyper-focused on programmatic efforts, may not appreciate 1) how poorly they are performing internal back-office functions and 2) the long-term impact of this poor performance on operations. Nonprofits choose not to outsource for a variety of reasons – cost of expertise, lack of time to vet seasoned contractors, prior bad experiences with consultants, or loss of internal control are among them. Yet the many benefits of outsourcing (see box) seem to suggest that braving these waters is worth the effort.

Several models exist to bring the expertise and cost-savings inherent in outsourcing to the nonprofit community. Grant maker subsidies can fill the gap between nonprofit budgets and provider fees. Bundling clients or negotiating costs as a cohort of organizations can also bring expertise within reach. Fiscal sponsorship is another model to consider.

In calculating the costs and benefits of outsourcing, nonprofits need to consider both evident costs and the hidden costs of not competently performing functions in-house. Conversely, the selection, integration, and monitoring of providers can require a significant amount of labor and money.

Worth a careful read, the report encourages nonprofits to realistically assess their back office routines and to be open to new and more efficient ways of doing business.

Reasons for outsourcing

- *Reduce operating costs and capital investments.*
- *Increase organizational impact by allowing staff to focus on core business.*
- *Access to technology and skills not otherwise affordable.*
- *Increase flexibility and responsiveness.*
- *Improve quality.*
- *Improve management and control.*
- *Improve credibility.*

Source: Outsourcing Back-Office Services in Small Nonprofits: Pitfalls and Possibilities (Full Report by Management Assistance Group and the Meyer Foundation)

For information on how to leverage outsourcing through shared services visit www.nonprofitcenters.org/shared-services-guide.

Local Nonprofits Continue to Adjust to New Economic Reality

The Orange County Funders Roundtable has released the results of a new economic impact survey, which underscores the dramatic impact the 2009 recession has had on the Orange County nonprofit sector. Entitled *The Economy and Orange County Nonprofit Organizations: 2009 Update*, the report shows the effects of the economic downturn on nonprofit organizations and the anticipated impact of a slow economic recovery in 2010.

The report showed that last year was every bit as bad or worse than the survey respondents anticipated at the beginning of 2009. However, as nonprofits enter 2010 results show that they are adjusting to the new economy, as the statistics in the box at right clearly show.

For the full report, visit www.ocfunders.org

- 46.8% of nonprofits decreased staff and 24.6% cut hours of paid staff
- 30.5% of nonprofits increased usage of volunteers to more than 100
- 52.4% of nonprofits significantly reduced operating costs
- 37.3% of nonprofits tapped into spending reserves
- 36.5% of nonprofits provided more service to the community than 2008

texting for a good cause

More than \$30 million was raised to support Haitian relief efforts through text messaging, prompting fundraisers everywhere to take notice.

This astounding success raises an important question: Are we on the cusp of being able to raise more money for less money, in support of good causes? The answer? Yes and no.

Using text messaging to solicit donations — allowing the donor to text permission to tack on a donation to his or her cell phone bill — is a technique that has been recently shown to be effective in severe crisis, but has not yet proven effective in traditional annual giving campaigns.

The immediacy and desperation of the Haitian crisis provided urgent impetus for text donations. But outside of that context, individual donors, many still suffering themselves from economic fragility, are cautious in their giving. In addition, phone carriers waived the traditional fees associated with text message fundraising making the campaign much more cost-effective.

Text messages and tweets are now being used as “touch points” to engage and involve stakeholders. These outgoing messages have proven effective connectors, most especially with Millennials. This does not necessarily translate to dollars but can be effective ways to spread information and action items very quickly. Messages are easily forwarded and spread within minutes.

Viral technology has the potential to revolutionize the way in which the sector raises funds and awareness, most notably when it is used in context and with an understanding of emotional motivators. Technology continues to evolve almost faster than we can follow, and so will the discussion on how we can best use it.



Agency in Action

Created in 2008, the Orange County Shared Spaces Foundation is committed to developing quality, affordable and stable multi-tenant nonprofit centers that will strengthen Orange County nonprofit organizations. For the past two years, the Orange Foundation has been working to identify centrally located office space that could house the administrative offices of Orange County nonprofits. In January, with the purchase and renovation of an office building in Santa Ana, California, the Foundation realized its dream of opening its first Multi-Tenant Nonprofit Center.

ORANGE COUNTY SHARED SPACES FOUNDATION

With the purchase of this 33,800 square foot building, The Shared Spaces Foundation joins a network of at least 150 Multi-Tenant Nonprofit Centers in the United States and



Canada. These centers offer reasonable rents and attractive leases, having landlords whose policies and rates are driven by a philanthropic aim rather than strictly market focus.

For Foundation and tenant information please contact Deena Margolis, Project Director at 949-553-4202 x53 or SharedSpaces@oc-cf.org.

To read more on Shared Spaces visit www.nonprofitcenters.org or www.tidesharedspaces.org

COMMUNICATING WITH FUNDERS

Foundation giving in 2009 dropped more than 10%, and in some cases, halted completely. Foundation giving may decline further in 2010, as funders work to rebuild their assets. Many funders have shifted to support basic needs and emergency support in an attempt to address the most critical of local issues. But as the worst of the crisis moves behind us, you will see foundations begin to return to program funding, and hopefully, capacity building efforts, to support a severely shaken infrastructure.

In this philanthropic context, it is important to communicate your critical capacity needs to funders in addition to the community needs you serve. Tell your funders about your efforts to bolster and strengthen your infrastructure. Stay in close contact with your funding partners about how your capacity needs fit with their current funding focus, and whether unrestricted dollars are an appropriate request. While funders traditionally have preferred to support programs over general operating, unrestricted dollars allow for the most organizational flexibility as we work to meet the challenges in our communities.



*Building a Foundation
for Social Change*

Our vision is to promote effective business strategies and collaboration among organizations seeking social change. Our services include:

PROGRAM AND FUND DEVELOPMENT

STRATEGIC PLANNING AND EVALUATION

FOUNDATION AND GRANTS MANAGEMENT

MARKETING

Visit www.theolingroup.com for more information.

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