JEWISH LEADERSHIP ACADEMY

In a K-Shaped Recovery, Nonprofits Should Lean on Major Donors

By Alan Cantor

America's nonprofits are under enormous pressure.

More than six months into the pandemic, those that provide direct social services are finding themselves overwhelmed by increased demand, because vastly larger numbers of families now need food, shelter, health care, and other forms of basic support. Many other nonprofits, such as performing-arts centers and choral groups, are simply unable to fulfill their missions during the pandemic. These organizations are hibernating, laying off staff, shepherding their cash, and holding their breath until the pandemic is over. Schools and colleges, meanwhile, are whipsawed between the options of opening in person and remotely, with all the obvious and subtle financial, pedagogic, and public health consequences. Virtually every nonprofit is struggling to deliver its services as safely and effectively as possible in a time of physical distancing, balancing its responsibilities to the public, its staff, and its mission.

And nearly every nonprofit is worried about money. Earned income is down, because people aren't buying theater tickets or museum admissions. Fundraising events have been cancelled or are being held online, generally with a vastly smaller haul for the organizations. Federal aid through the CARES Act, particularly the Payroll Protection Program, kept many nonprofits from going under through the spring and summer, but governmental funding is winding down, and stress levels among nonprofit executives are correspondingly rising.

When nonprofits are under-resourced, their natural response is to turn to their donors. But is it realistic to expect a healthy stream of charitable contributions in the midst of the worst economic situation since the Great Depression?

Absolutely — if you approach the right people. Because even as unemployment soars, as tens of thousands of businesses close, and as default and eviction rates rise, a small but significant portion of the population is doing just fine, thank you.

Welcome to "the K-Shaped recovery," in which the experience of the fortunate few is vastly different from the reality faced by the miserable many. Most of us are doing badly —some, desperately so — but others are doing well.

Those at the top of the socio-economic heap have seen their investment portfolios recover from the early 2020 stock market crash. Tech companies are soaring. (Don't you wish you'd bought a few shares of Zoom in January?). Amazon and national retail chains are thriving, even as the revenues of locally owned stores crater, and as corner bakeries and hairdressers close their doors. Workers who have been able to transition to home-based offices are getting by nicely; those who can't, among them dishwashers, hotel housekeepers, and Uber drivers, have been hit hard and have yet to stagger to their feet. And some entire sectors, most notably the hospitality and travel industries, are struggling to gain traction.

People naturally project their personal financial worries onto others and assume that everyone around them is feeling the same degree of pain. But if you're a nonprofit leader marinating in financial anxiety, I can assure you that many of your supporters are not feeling any financial pinch at all. In fact, those wealthy few may even be a bit more comfortable than usual, because their travel and entertainment plans have been curtailed by the pandemic.

This bifurcated economic recovery will undoubtedly amplify the trend of the last 40 years, where more and more charitable giving is coming from fewer and fewer donors. "Gilded Giving 2020," a report from the Institute for Policy Studies, details this trend. The percentage of American households donating to charity dropped from 67% in 2002 to 53% in 2016, a decline that the report's authors, Chuck Collins and Helen Flannery, blame largely on the increased economic precarity of the middle class. The report also notes that the 2017 Tax Cuts and Jobs Act, which effectively removed the charitable-deduction incentives for tens of millions of taxpayers by doubling the standard deduction, served to dampen charitable giving further among middle- and upper-middle-class families. It does not take much imagination to presume that this troubling trend will accelerate in the era of Covid-19. Many Americans got out of the habit of giving to charity in the Great Recession. Many more will join them in 2020 and beyond.

Meanwhile, the very wealthiest in our society are giving an ever-larger percentage of the charitable dollar — but often their philanthropy is not for causes that ameliorate the dire conditions caused by the economic crisis. In fact, Collins and Flannery report that nearly a quarter of charitable gifts in 2019 went not to operating nonprofits — that is, those that deliver services — but to private foundations and donor-advised funds controlled by the donors. This represents a tripling in the last 30 years of the percentage of donations going to private foundations, and a tripling *in the last eight years* of the percentage of donations going into donor-advised funds. Clearly, these entities, which critics disparagingly refer to as charitable warehouses, are doing very well, but their success arguably comes at the expense of charitable organizations that are actually working in our communities.

There are significant societal and political consequences to the growing dependence of the charitable sector on donors from the top 1% of the socio-economic scale. Many of us find the enormous and growing wealth inequality — and the related dominance of donations from the wealthiest donors — to be deeply troubling. It's possible that in the next decade, new tax policies will serve to narrow the wealth divide. But this larger socio-economic change won't come in time for nonprofits to survive into 2021 and beyond.

So what are nonprofit leaders to do? Here are seven recommendations:

1) **Recognize that your wealthiest donors are likely to be unaffected by the economic downturn.** Remind yourself that those at the top probably have as much or more wealth today than a year ago.

2) Keep in mind that top donors may well be more eager than usual to make gifts that have significance. The pandemic has caused us all to be more conscious of our mortality. We're thinking about what is truly important in our lives. Many donors will be open to supporting causes that will live on beyond themselves. Many are without a doubt considering adding charitable bequests to their estate plans.

3) Approach those donors with larger requests than in the past. In his book, *Thinking, Fast and Slow*, the Nobel Prize–winner Daniel Kahneman writes of the importance of "anchor points" in suggesting the price range that people are willing to consider. The anchor point is the starting point in financial transactions, such as the listing price for a house. Like a ship at anchor, the price may move from that first number, but not much. The anchor point — the first number mentioned — sets the buyer's sense of what the final price will be. So too with fundraising: It's important in 2020 to ask your wealthy donors for a large amount. Raise their expectations. If someone typically gives $1,000, ask for $2,500. If the top suggested giving level for your organization in the past was $5,000, make it $10,000. If it was $50,000, make it $100,000.

4) Explicitly ask your supporters with donor-advised funds and private foundations to distribute more from those funds than they have in the past. These are assets that are under the control of your donors, but the dollars have already been committed to charitable purposes. Suggest to your donors that these funds should not be considered endowed in perpetuity, but rather should be available as resources for a rainy day, and that, for nonprofits in the U.S., that rainy day has arrived. You might even mention the effort known as #HalfMyDAF — popularized recently by David and Jennifer Risher and other philanthropists — which encourages people to spend down at least 50% of their donor-advised funds in 2020 to meet the national emergency.

5) Don't forget to remind your prosperous donors of the larger community needs. This might seem unnecessary — you might assume that everyone must be aware of the economic suffering in the wake of the pandemic — but ours is a largely compartmentalized society, and high-net-worth individuals tend to socialize with their peers. The very wealthy can grow detached from what is happening across town. Don't hesitate to remind them of the challenges the community faces.

6) Give your less-wealthy donors ample opportunities to stay involved as supporters — and be empathetic to their situations. Approach your middle-class donors by acknowledging the difficulties everyone is facing in the pandemic. Ask after their health and welfare. Be sensitive to their probably reduced capacity to donate. Give them an opportunity to make a modest gift, one that may be smaller than in the past, and show appreciation for whatever they manage to give. Keeping these middle-class donors today will help you to draw from them in future, and presumably more prosperous, years. It also allows you to keep a broader base of supporters, something that provides both financial and moral benefit.

7) Give everyone a sense of hope. Ours is a traumatized society. The overlay of the public-health crisis, the economic disaster, the searing demands for racial justice, existential environmental fears, and the grinding, depressing, election-year political rhetoric has everyone on edge and looking for a better future. Do what you can to provide that vision of "The After," once the pandemic is in the rear mirror and the economy begins to work better for everyone, not simply the few. Paint a picture of what your organization will provide in the post-pandemic world. In doing so, you will be implying how important it is, yes, to keep your organization from going under. But your focus should not be on your organization's current financial challenges. Rather, you want to show how ensuring that your organization is vibrant, now and in the future, will provide enormous benefit to your community.

As we turn the corner into the cooler days of autumn, and as the public health and economic crises show little sign of abating, nonprofit leaders need to be strategic in approaching their donors. They need to go where the money is. They need to be unabashed about seeking support, while remaining respectful and appreciative to all. And, through it all, they have to remember to paint a hopeful picture of the future. Our donors desperately need a dose of optimism — as do we all.

https://hbr.org/2020/09/in-a-k-shaped-recovery-nonprofits-should-lean-on-major-donors