

The Impact of the Recession on Endowment Raising for Grassroots Grants

by Helen Sender

Grassroots Grants is a £130 million programme running between 2008-2011. It is funded by the Office of the Third Sector (OTS) and being managed by the Community Development Foundation (CDF). It is divided into two parts; an £80 million grant scheme for distribution by local funders to small voluntary and community groups, and a £50 million endowment match challenge element. CDF is undertaking a wide ranging evaluation of the programme using quantitative and qualitative research methods over the three years.

This paper is based upon fieldwork undertaken with a range of organisations¹ in ten top-tier local authority (TTLA) areas in England between October and November 2008, and responses from a baseline questionnaire that was distributed to all local funders looking after the Grassroots Grants endowment match challenge. This paper discusses some of the issues and challenges facing organisations trying to raise donations as part of the Grassroots Grants endowment match challenge.

How the Grassroots Grants Endowment Works

All TTLA areas in England, have a local funder who is managing the Grassroots Grants endowment match challenge for the area. This involves the local funders raising donations from individuals and businesses that will then be matched by government on either a 1:1, 2:1 or 3:1 match challenge ratio (depending on the option chosen by the local funder at the application stage)².

The amount of capital endowment available is allocated at TTLA level on a per capita basis and is available on a yearly basis from 2008 until 2011.

All the donations gained are to be invested by the local funders and the returns should be used to provide grant funding to small, local community groups.

The Economic Situation and Impact on Potential Donors

A recurring theme from interviews with local funders is how changes in the wider economy were not anticipated when applying for Grassroots Grants. Consequently, some local funders stated that their

¹ Fieldwork was conducted in 10 TTLA areas across England. 49 semi-structured interviews were carried out with Grassroots Grants local funders, other funders in the area, infrastructure organisations, local authorities and larger voluntary organisations.

² On the 13th February 2009 local funders were given the opportunity to change their match challenge ratio to 1:1. This included having the option to retrospectively change to this ratio and/or for the rest of the financial year and/or for the next two upcoming financial years. The response to this has been very good so far and the majority of local funders who were not already on a 1:1 match ratio have chosen to take up this option.

expectations of how they were going to fare with the endowment match challenge changed once they became more aware of the economic climate:

“I mean I was so excited, we were just going to blow the doors off the targets, and then all of a sudden as of summer [the economic situation changed]” *Grassroots Grants Funder*

The finance industry was identified by some interviewees as being one of the main sources for possible donations. However, many recognised that the impact of the economic downturn meant many businesses or individuals were being more cautious and making cutbacks, leading to an anticipated decline in donations. As such, some local funders have found their approaches to potential donors to be unproductive and that the process is a lot slower than they had initially thought it would be.

“... the economic climate needs to settle a little bit so that people are prepared to move money somewhere, ‘cause we can do everything we can do but people just daren’t move, everybody’s in the headlights like frightened rabbits, paralysed” *Grassroots Grants Funder*

Interviewees also stated that companies, who in the past may have been willing to give money but were now in the position of making people redundant, were worried about how it would look to give money to charity in this current situation.

When asked in the baseline questionnaire about the impact of the economic climate on donations to their organisation, some of the local funders responded that: they are finding it harder to engage and obtain pledges from new donors; it is taking longer to gain donations from donors; both corporate and individual donors are being more cautious; and established donors are reducing the amount they donate. Some local funders claimed they were not seeing any differences and that it was too soon to tell.

On the positive side, some interviewees argued that now is the period that companies who are keen to donate will make donations. They may even do this to give them an advantage in how they are seen by the public and their own staff.

“...it’s now that you’ll find companies who are serious about it, I think the ones that are serious about it are using this period of economic turbulence to almost gain a competitive edge”
Grassroots Grants Funder

Furthermore some companies and individuals are performing well within the current conditions and may want to support their local community. One of the local funders highlighted that due to the economic climate they were actually finding it easier to talk to potential donors, who recognised the increased needs in communities during this time and the likely increase in demand for the services being provided by the voluntary and community sector.

Marketing the Match Challenge and Attracting Donors

A range of stakeholders felt that having the endowment match challenge during this current economic period was very beneficial and was something that could be used as a clever marketing tool. One organisation viewed the match challenge as giving funders a competitive advantage in comparison to other charities:

“It’s an interesting carrot and stick for fundraisers, to be able to go to a private business and say ‘Right, there’s this scheme, we can get all this money if you donate all this money’ ” *Larger Voluntary Organisation*

One local funder stated that they were finding promoting the endowment much easier to do than they had done in the past due to the match challenge element. They were also pleased that they were able to promote a message that was much more partnership based.

However, a lot of local funders were finding it more difficult to market the endowment match challenge as effectively as they had wished due to the economic climate. They were also conscious that there would be a fall in the amount of money that was available.

“...if everybody is constantly talking about being skint or how much their value is now compared to what it was, it’s a harder sell” *Grassroots Grants Funder*

Local funders recognised that due to the economic climate some donors were not currently in the position to give, or be as ready to give as they may have been in the past, however Grassroots Grants could open the dialogue and lead to ‘giving in kind’ from the donors. Although in-kind donations are not eligible under Grassroots Grants, it gives them opportunities to pass on their knowledge and experience to voluntary and community groups who may need it. One local funder highlighted the importance of recognising that gaining a donation may be a slow process and it is important to work with potential donors on activities or areas that they were interested in.

Some of the local funders that were receiving donations have found they need to be increasingly flexible in the way they advertise the donations they receive due to the change in the economic climate. They need to be more sensitive about the image of the donor e.g. by not publicly disclosing the amount of money donated by businesses which are making people redundant.

Time Frames and Restrictions

One of the main challenges of the Grassroots Grants programme for local funders are the annual targets. Due to the economic climate some local funders found that more people were deferring giving them money or reducing the amount that they were willing to give. Therefore local funders felt they would struggle to meet their year one targets.

One of the local funders stated that this was because when people originally pledged their money, the financial markets were very different:

“...there’s a few people deferring until the next financial year in April, and probably if the recession worsened will just keep getting referred to the next financial year and we might lose them from Grassroots Grants” *Grassroots Grants Funder*

Investing Money

The baseline survey provides information about endowment raising before Grassroots Grants, so that CDF can measure the impact of the programme. The baseline survey was completed in November and

December 2008 at the early stages of the recession. The baseline survey was completed by Grassroots Grants local funders only. The survey asked an open ended question regarding the impact the current economic climate has had upon the funder's investment strategy. The main responses related to local funders:

- Introducing cautious, risk adverse strategies;
- Seeing a fall in the value of their stocks and shares and choosing to move to cash deposits;
- Having lower returns from their bonds and fixed term accounts;
- Finding it difficult to know the most appropriate investment strategy for their endowments;
- Meeting more regularly with management committees to discuss finance or working increasingly closely with professional advisers.

From the ten local funders that were interviewed, there was an overall sense of wishing to keep the money from the endowment as secure as possible while being flexible in the way the money was being invested. Six of the local funders commented on their investment strategy: two of these were keeping their money in high interest yield bonds; one local funder had invested their money with a charity fund management agency and were intending to keep doing so; two local funders had their money in mixed portfolios and would be frequently reviewing this strategy, and the other local funder currently had their endowment money invested in a private bank but was looking at other options. In the short term they were thinking of putting all the money in deposit accounts.

One of the infrastructure organisations interviewed discussed the difficulties of deciding where to invest given the uncertain economic climate. The interviewee argued that it is now hard to know where to invest for the long term, as it is difficult to predict the stock market.

“What do you do? You invest it for a long-term return, don't you? I just think it's fascinating that all those bets are off, aren't they?” *Infrastructure Organisation*

The same interviewee then went on to say that they were pleased that they had played it safe, as they had generated £20,000 from reserves by keeping it in a high interest bank account.

Additional Barriers Faced

The Grassroots Grants endowment is an innovative approach to providing a sustainable source of funding for community organisations. Although a number of challenges, such as annual targets were exacerbated by the economic downturn, there were also some additional challenges associated with this programme that were raised during the in-depth interviews.

A representative from a Local Authority stated that they felt the biggest challenge of the Grassroots Grants endowment match challenge was that it was untried and untested.

Another main barrier identified was how to sell the concept of donating to an endowment fund that would benefit the local voluntary and community sector, rather than being able to raise money for a specific type of cause or a high profile charity.

One of the non Grassroots Grants funders interviewed also stressed that in order for the endowment match challenge to be successful, the person in charge of the organisation needed to prioritise and support the endowment building and that the right people were needed on the board of trustees.

Furthermore, two main issues raised by a local funder within a rural area were that a lot of their potential donors were land rich but cash poor, and that the need within their top tier area was not recognised by many potential corporate donors.

“...the larger businesses are part of national organisations and they don’t recognise really the need They would rather put their money in a more explicitly deprived area, and to be seen to be working there than to put money here” *Grassroots Grants Funder*

Progress of Grassroots Grants Endowment Raising

The Office of the Third Sector (OTS) and CDF will be announcing the year one performance statistics over the summer.

The local funders looking after the ten TTLA areas where the detailed exploratory research was conducted had mixed success regarding the raising of their endowment. In five of the TTLA areas local funders had gained over 95% of their year one endowment match challenge allocation. However, in two TTLA areas the local funders were unable to raise any donations.

During the fieldwork an important point regarding the viability of the endowment model within the current economic landscape was made:

“I think if it works in this climate then yes it’s a viable model for all times” *Non Grassroots Grants Funder*

The interviewee also commented that if the endowment model failed in this climate it could be due to a variety of different reasons. It could just be the point in the economic cycle or it could be due to individual factors affecting the organisations participating in the Grassroots Grants endowment match challenge. This is therefore a challenge to be addressed by CDF as the evaluators of the Grassroots Grants programme.

Some of the local funders interviewed were unsure about the chances of successfully succeeding in the Grassroots Grants endowment match challenge due to the economic crisis. Other local funders however were much more optimistic about their potential success in the programme.

Conclusion

The impact of the economic climate for both the investment and raising of the endowments will need to be closely monitored. It is important that money and resources keep reaching the smaller, more vulnerable voluntary and community groups, and that the success of the Grassroots Grants endowment is captured and evaluated so that appropriate support can be continued into the future. One of the Local Authorities interviewed summed up the importance of having the endowment, arguing that

because it has the long lasting sustainable connotation to it, the endowment could become a vital way of supporting the core funding requirements of voluntary and community groups.

Although the current economic situation raises many new challenges when trying to successfully raise and invest an endowment, it can also be a time when people who are very serious about grant giving to their local community come to the forefront. Having the Grassroots Grants endowment match challenge was viewed as being a real incentive for donors.

Although a potential donor may now only be able to give less money to charity than they had previously hoped for, through donating to Grassroots Grants their money can be more than doubled through the match challenge and when Gift Aid is taken advantage of. This is a great incentive to donors that is being emphasised by many of the funders when promoting the endowment match challenge.

The impact of the recession on the endowment will continue to be monitored throughout the programme and the performance of local funders in year one will be announced over the summer.

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