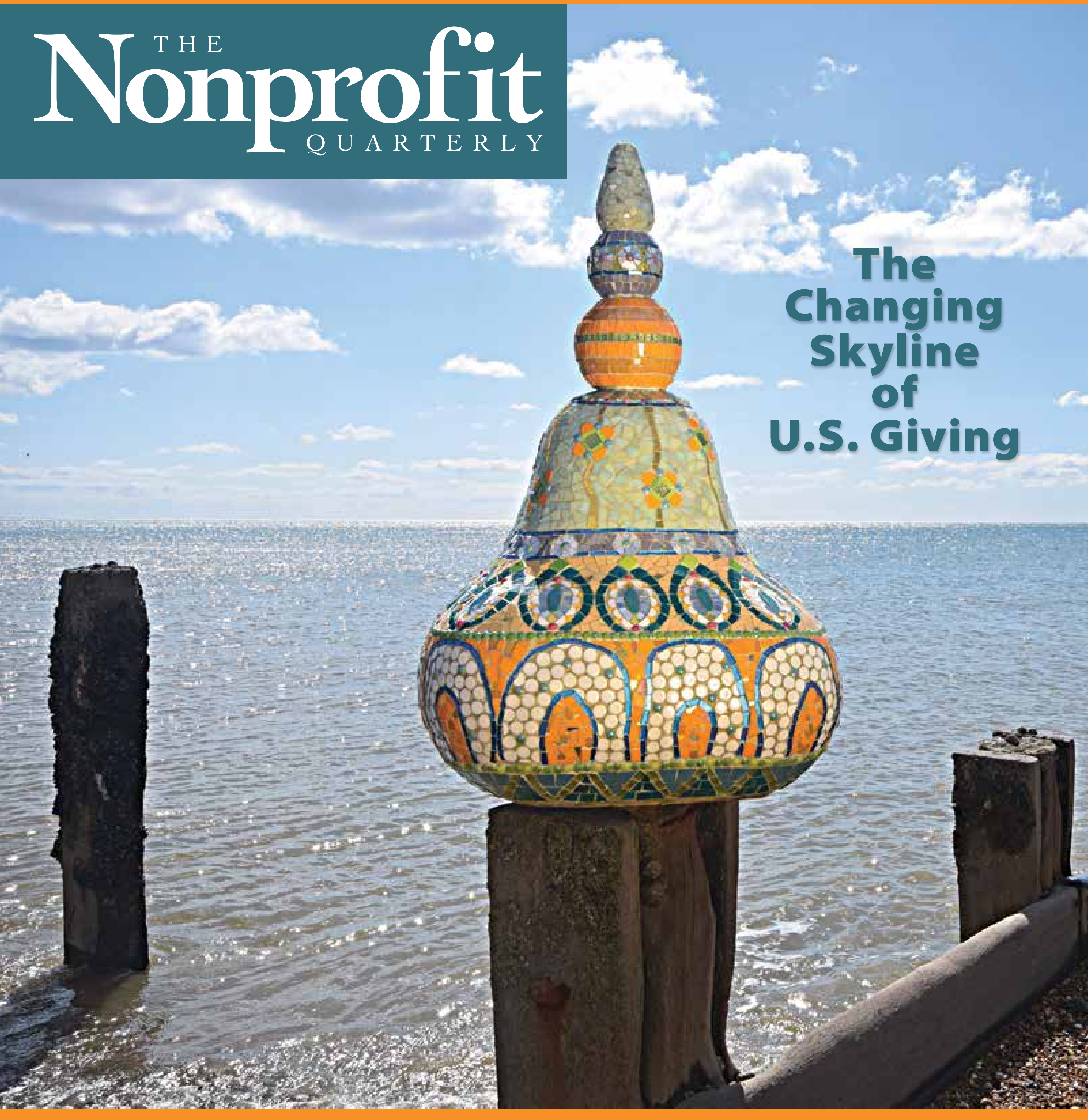
Promoting *Spirited* Nonprofit Management Fall 2017 $19.95

The Nonprofit Quarterly



The Changing Skyline of U.S. Giving

Soskis *on* Giving Flows in the United States

Rooney *on* the Donor-Advised-Funds Question

Conrad *on* Big Bet Grantmaking


EVERY DONOR
MATTERS.
Develop and grow your most
valuable relationships for free
at donorperfect.com/Quarterly.
donorperfect
fundraising growth platform

Volume 24, Issue 3

THE Nonprofit QUARTERLY

Fall 2017

Features

3 Welcome

4 Changes in Giving Patterns: Understanding the Dialectics

This article discusses trends in individual grantmaking as a lens through which to explore the efforts of so-called "experts" to corral giving, and asks, "Can we make donors act differently, and should we even want to?"

by Ruth McCambridge

12 Giving Numbers: Reflections on Why, What, and How We Are Counting

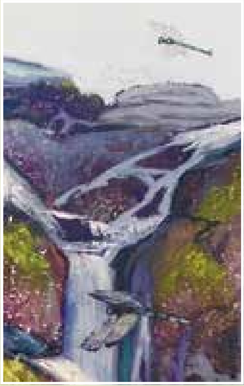
There are two main, and contradictory, trends in American giving: its steady ascent, and its relative flatness of growth. This historical reflection of U.S. philanthropy delves into what Soskis, of the Urban Institute's Center on Nonprofits and Philanthropy, calls "one of the great, enduring mysteries of philanthropy."

by Benjamin Soskis

22 Have Donor-Advised Funds and Other Philanthropic Innovations Changed the Flow of Giving in the United States?

While it appears that more dollars are being committed to private philanthropy, it seems they are being applied to their charitable purposes more slowly than in the past. Does the fault lie with donor-advised funds and other intermediaries?

by Patrick M. Rooney



PAGE 4

PAGE 12

PAGE 22

32 Philanthropic Disruptions: Everything and the Kitchen Sink

The impact of forces of disruption in modern-day U.S. society are, as the author writes, "causing shifts across the charitable landscape that are shaping new donor behaviors and trends." This article describes resulting new engagement opportunities that may—or may not—become part of a new order.

by Brandolon Barnett

38 Honing Fundraising Strategy through Collaborative Experimentation

What inspires donors to give? This article details the experiments and findings of two organizations that joined in an effort to test hypotheses across multiple types of causes and giving platforms.

by Chris Pearsall and Alison Carlman

44 Giving Away $100 Million: A Peek behind the Curtain at the MacArthur Foundation

"Tell us what problems $100 million can solve, and how." Thus began an experimental grantmaking process launched by the MacArthur Foundation in response to, as the author writes, "criticism that the philanthropic sector is too insular, not sufficiently focused on impact, and too risk averse." This article gives an insider overview of the experiment and its results, and offers lessons learned along the way.

by Cecilia Conrad

COVER DESIGN BY CANFIELD DESIGN
COVER ART: "TREASURE" BY LIZ TIRANTI/WWW.LIZTIRANTI.COM; PHOTO: DEXTER TIRANTI

Departments

51 Cash Flow in the Nonprofit Business Model: A Question of *Whats* and *Whens*

How does cash flow impact—and how is it impacted by—the way a nonprofit does business? Fiscal Management Associates' Hilda Polanco and John Summers discuss the number one critical component of any business: day-to-day liquidity.

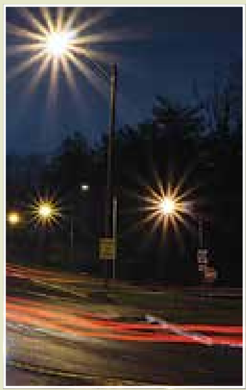
by Hilda H. Polanco and John Summers

56 Taking the Evaluation Leap: Lessons from Urban Alliance's Six-Year Randomized Controlled Trial

Stories, especially transformational ones, are a powerful tool for describing an organization's real-life impact, but another valuable tool is objective proof. In summer 2017, Urban Alliance completed a six-year randomized control trial (RCT)—the gold standard of program evaluation—and in the process were themselves tested. This article describes the ups and downs of this grueling process.

by Eshauna Smith

PAGE 32



PAGE 44

61 The Next Green Revolution: An Overview of the Rapidly Evolving Green Bond Market

For investors concerned with sustainable returns *and* making a difference in the world, green bonds may be just the thing. This article outlines how green bonds work, and offers a projection of the future of the market.

by Bhakti Mirchandani

The Nonprofit Quarterly

www.npqmag.org

The *Nonprofit Quarterly* is published by Nonprofit Information Networking Association, 112 Water St., Ste. 400, Boston, MA 02109; 617-227-4624.

ISSN 1934-6050

Nonprofit Information Networking Association
Joel Toner, Executive Publisher
Ruth McCambridge, Editor in Chief

The Nonprofit Quarterly

Executive Publisher
Joel Toner

Editor in Chief
Ruth McCambridge

Senior Managing Editor
Cassandra Heliczer

Senior Editors
Steve Dubb, Cyndi Suarez

Contributing Editors
Fredrik O. Andersson, Shena Ashley, Jeanne Bell, Chao Guo, Brent Never, Jon Pratt

Online Editor
Jason Schneiderman

Community Builder
Erin Rubin

Director of Digital Strategies
Aine Creedon

Graphic Design
Kate Canfield

Production
Nita Cote

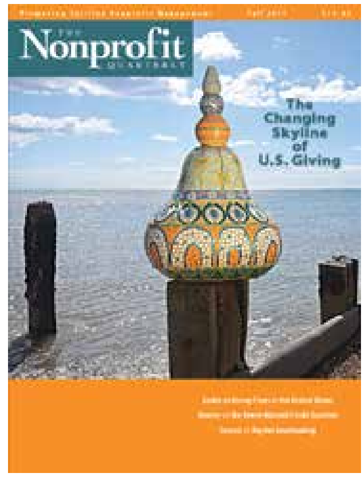
Marketing and Development Manager
Amanda Nelson

Operations Manager
Scarlet Kim

Copy Editors
Christine Clark, Dorian Hastings

Proofreaders
James Carroll, Dorian Hastings

Welcome



Dear readers,

This edition explores how the patterns of giving are changing in the context of some big societal shifts. Quite simply, the philanthropic landscape is being affected by some of the same movements we see elsewhere in our communications, economic, and employment environments. These include trends toward: understanding our donor selves as individual sentient agents, and not simply agents of larger and "more knowledgeable" systems; cocreating, and not just joining, communal efforts; and attempts at oligarchy through the philanthropic use of the spoils of outsized wealth gaps.

This translates into the Chan Zuckerberg LLC and other megaphilanthropic enterprises, the decline of the growth of general funds at United Ways and community foundations, and an acceleration in the use of donor-advised and donor-directed funds. There is also more giving through ad hoc communal endeavors and efforts that combine action and giving, such as MoveOn.org. For some, such trends have led to a sense of alarm—now more than a decade old—that giving is becoming sloppier or is not sufficiently informed by ratings and experts. Others worry that "elites" are trying to direct even the individual giving that comes from the pittance of wealth they do not already own and control. It is an interesting dynamic that, at the very least, calls for reviewing the complex roles philanthropy is playing in society—both for good and for bad—at a time when major philanthropic institutions are considering what constitutes appropriate transparency and accountability.

As we began planning the edition, it became evident that the topic required expert guidance, and Shena Ashley, director of the Center on Nonprofits and Philanthropy (CNP) at the Urban Institute, kindly agreed to take on the role of guest editor. Shena's invaluable editorial input and hand in the features lineup are at the heart of this issue. We also thank Joycelyn Ovalle and Keely Hanson, research associates at CNP, for their help during the editorial process and their work on the "Greater Giving Dashboard" poster (within). The resulting mix of features is a reflection of the tensions around different views of how to understand and measure giving: Ruth McCambridge explores the use of behavioral science and other strategies to promote "better" giving; Benjamin Soskis offers insights gleaned from the history of U.S. charitable giving; Patrick Rooney responds to concerns about DAFs and other philanthropic innovations; Brandolon Barnett considers how shifts across the charitable landscape may be shaping new donor behaviors; Chris Pearsall and Alison Carlman describe a collaborative experiment to learn about what inspires donors to give; and Cecilia Conrad presents important lessons learned during a challenging philanthropic competition run by the MacArthur Foundation. As always, let us know what you think!

Changes in Giving Patterns: Understanding the Dialectics

by Ruth McCambridge

There is an ongoing trend toward arriving at a "more strategic" and "better informed" philanthropy—but, as this article stresses, "individual giving is informed by any number of variables; it is as much a form of personal expression as anything else we choose to do with our spare treasure and time." Models of giving that emphasize creating social capital, positive connection, and collective work do better than those that attempt to reorient donors' giving behavior.

Nothing exists in isolation, and philanthropic or giving patterns are no exception to this rule. But even as systems strive to change they also strive to resist change, and this is one example of what we call a dialectic, or opposing forces that seek resolution. Hegel's famous dialectic, as the University of Chicago's Kim O'Connor describes it, "involves the reconciliation of ostensible paradoxes to arrive at absolute truth."[1] This dialectic comprises a three-step process—a progression from thesis to antithesis to synthesis.[2] The thesis and antithesis are bound together and "resolved to form" the synthesis.[3] Put another way, Hegel's dialectic "actualizes itself by alienating itself, and restores its self-unity by recognizing this alienation as nothing other than its own free expression or manifestation."[4] "This formula," continues O'Connor, "is infinitely renewable; Hegel contended it would only terminate upon the world's end":[5]

> Each time synthesis is achieved it 'generate[s] new internal contradictions, and then a further resolution (Macey 96)' [and] 'each later stage of dialectic contains all the earlier stages, as it were in solution; none of them is wholly superceded, but is given its proper place as a moment in the whole (Russell 731).' The infinite character of the dialectic reflects Hegel's notion of holistic truth and his optimistic belief in progress.[6]

U.S. philanthropy exists within the larger context of the country's social mores, and those,

Ruth McCambridge is the *Nonprofit Quarterly*'s editor in chief.

"DRAGONFLY FALLS" BY DENE CROFT/WWW.DENECROFT.COM

Nonprofits can conceivably use behavioral science regarding giving in two ways that sometimes overlap: they can understand what donors feel and think and build fundraising programs to respond to those findings, or they can try to change the underlying existing frames of behavior and belief with some sort of social marketing and build from precepts that they consider more desirable.

as we know, are also something of a mix of opposites—the intense longing for community and belonging and an equally intense drive toward individualism, for instance. They can coexist, of course, but even these constants have changed their forms a bit as technology has advanced and altered our options—for better and for worse.

So what does all of this have to do with philanthropy? It means that the longing for community decision making and independent decision making are constantly in play in much of our philanthropic space—but in alignment with the wealth gap, there are financial monarchs who believe that they deserve to stand outside of the general mix and who all too often apply outsized amounts to projects and processes that communities and people don't want or don't approve of.

These philanthropic monarchs with plans for the rest of us have become increasingly common, but this article does not address that far end of "giving"—the luxury giving that need not consult with nor know the will of others whose lives will be affected. In contrast, the topic of this article is about the public's resistance to being told what is best for them—where, for instance, they should give—and about their simultaneous urge to act and donate in voluntary groupings.

Some community foundations understand this trend and have been experimenting with various forms of participatory grantmaking, but these methods have not yet matured—there is a lot to unlearn before mastering over time what works. Meanwhile, we see methods of funding—that ostensibly are community based—struggling with the reality that the smoke and mirrors regarding what "participatory" means no longer works.

Thus, there is energy currently in the idea of individual agency combined with a community of like-minded folks who do not take kindly to being imposed upon by "experts."

How This Plays Out in Giving

An effective lens through which to explore these tensions is individual giving—the oldest form of support of nonprofits. Individual giving has been informed by all kinds of historical notions of charity, tithing, and other community norms, as well as by individual and communal self-interest and justice. These motivations and others influence how, where, and why individuals give. Nonprofits can conceivably use behavioral science regarding giving in two ways that sometimes overlap: they can understand what donors feel and think and build fundraising programs to respond to those findings, or they can try to change the underlying existing frames of behavior and belief with some sort of social marketing and build from precepts that they consider more desirable.

Over the years, efforts have been made to corral giving by individuals both through providing new vehicles for giving and by suggesting that there are "better" and "worse" ways to give. Generally, the term *better* has translated to *expertly guided*. In terms of guidance vehicles, individuals have over the past century been offered the opportunity of giving through intermediaries, such as community-foundation general funds, or to workplace solicitation campaigns (before donor-directed options came into being). Such intermediaries take direct decision making out of the hands of donors, placing the direction of the funds in the hands of committees or boards aided by "experts." But this type of intermediation is systematically giving way over time to donor-advised funds and donor-directed funds even as we write, as donors seek to have more of a hand in where their money goes. As that shift occurs, institutions like the Bill & Melinda Gates Foundation are invested in trying to advance ideas among individual donors about how to encourage "more strategic" and "better-informed" philanthropy. Specifically, what they want to promote is more attention to metrics and to having a plan.

So, is individual giving ill-informed, or just personally informed? The fact is that individual giving is informed by any number of variables; it is as much a form of personal expression as anything else we choose to do with our spare treasure and time. Some of us act out of personal commitments, emotion, and connection, and others act out of a strategic mindset—and then behind the scenes are any number of researchers trying to figure out what makes us respond one way or another to appeals. This article does a partial review of some of the behavioral research that has sought to locate the spigots that release the flows of individual giving among Americans (with the necessary cautionary note that research findings on fundraising usually include important caveats about context—what works in one place for one cause and at one time may not work for another). But even when we start at the level of the single individual, it is clear that contradictions between what donors think and what they do coexist.

What Donors *Think* They Think, and What They Do

Basic to our mindsets about giving is a shared norm about what we expect of ourselves and others, and even this exhibits an odd asymmetry in the way we view giving—for example, the strange stability of the percentage of disposable income Americans devote to charity (2 percent), which contradicts what Americans say *should* be the percentage given (6 percent).

Given this dichotomy, over the years many have speculated that good design could promote social norms by presenting meaningful benchmarks aimed at encouraging more generosity. (This approach differs from exposure to established norms, instead trying to set a norm that does not exist.) Some may remember the Give Five campaign (GFC) that the large nonprofit infrastructure group Independent Sector (IS) sponsored in the late 1980s. The campaign was aimed at getting people to give 5 percent of their income and five hours of volunteer time each week. Research on that campaign suggests that it did not succeed in convincing folk to give more—though it did manage to increase people's volunteering by half an hour a week.[7] As described by Barış Yörük in "The Effect of Media on Charitable Giving and Volunteering: Evidence from the 'Give Five' Campaign":

> From 1987 to 1995, the GFC was advertised with the collaboration of the Ad Council through a series of public service announcements on television and radio, billboard displays, bus-side posters, and magazine and newspaper ads. Local charities were also supplied with promotional materials and asked to support the campaign. The illustrated thin, red pie piece used in the "Give Five" logo emphasized the amount of time and income that people were encouraged to contribute, with the remaining majority of the circle indicating what people would have left over. The campaign ranked in the top 10 among the Ad Council's campaigns in 1988. With a dollar value from all media at $42 million, the GFC was eighth out of the 37 Ad Council campaigns.
>
> During the early stages of the GFC, IS officials announced a substantial increase in giving and volunteering. However, after eight years of promoting the GFC, the unchanging pattern in charitable behavior documented by the household surveys of giving and volunteering led IS officials to conclude that American donors do not and may never give 5 percent of their income and volunteer five hours a week. Hence, the IS announced that it was phasing out the GFC in 1995.[8]

Notwithstanding the GFC's failed campaign, it is conceivable that there may be ways to norm giving amounts; tithing has worked for generations as a norming practice—albeit one fully supported by a broader religious belief system. Arguably, the 2010 Bill Gates and Warren Buffett Giving Pledge, which was aimed at establishing a new and much higher norm for giving among the superrich, was also supported by a set-apart culture, in the sense that individuals were approached one-on-one by peers. In other words, where there is direct peer-to-peer modeling and recruitment by highly placed members, norming may work very well under the right conditions.

But trying to establish a new monetary goal for giving is not the only obvious asymmetry in the research on what donors think might be good to do and what they actually do vis-à-vis giving. For instance, when it comes to selecting a charity, donors say they think it would be good to do due diligence, but that does not mean that they actually do it.

Why do these kinds of gaps exist? Behavioral science suggests that other variables are always at work, and that context matters.[9] This complexity may resist any attempt to try to corral individual giving over any length of time by anything other than attraction and connection—again, *because*

Basic to our mindsets about giving is a shared norm about what we expect of ourselves and others, and even this exhibits an odd asymmetry in the way we view giving—for example, the strange stability of the percentage of disposable income Americans devote to charity (2 percent), which contradicts what Americans say *should* be the percentage given (6 percent).

If we pay attention to what we know about what motivates donors to behave the way that they do, two things will stand out: that giving makes donors feel good, and that complications in the giving process may deter giving. Thus, instilling doubt in donors about whether or not they are giving in the proper way . . . may take giving into the realm of the less fulfilling of human activities

context and preexisting motivation matter. For instance, even the largest gifts tend to be given locally and to institutions we (or someone we know) are involved with—so, geography and your social set are significant.[10] That said, there is no dearth of data among the findings about the motivations and variables behind giving (categorized as "prosocial behavior"[11]):

- We would rather give to save endangered attractive animals than endangered unattractive animals, even when the ones deemed heinous are more immediately at peril.[12] Another study suggests that sad-faced people in need evoke more of the kind of sympathy that causes people to give than do happy or neutral facial expressions.[13]
- Donors give more (and more readily) when they have to experience "pain" for the cause—as in the ice bucket challenge or polar plunges.[14]
- Republicans respond to different types of appeals than do Democrats.[15]
- Urgency matters for the one-time gift but does not establish a long-term relationship.[16]
- Information about what one's peers give can influence how much a donor gives.[17]
- Giving just plain makes folks feel happier, and when we do things that make us happy, we want to do them again.[18]
- The convenience of giving matters.[19]

In a nutshell: in the charitable space, the context (including the emotional and moral spaces) in which people typically make giving decisions can affect how donations are doled out.

These are things we know about individual donor giving as it currently exists in the United States, which arguably has the highest rate of giving in the world—and which, some argue, needs to be fixed.

Can We Make Donors Act Differently?

In practice, advertising norms on giving is a far from fully proven strategy, but that does not mean that norming through advertising cannot under any circumstances work—and some feel strongly that it should be done, at least with regard to promoting more strategic and data-driven giving. But there is little indication that this will be productive. In fact, it may be counterproductive. In "A Literature Review of Empirical Studies of Philanthropy: Eight Mechanisms that Drive Charitable Giving," René Bekkers and Pamala Wiepking write, "Survey studies reveal that a more coldly rational approach to life reduces giving and is related to a lower level of volunteering."[20]

Emotional Connections and Giving

There is every indication that the act of giving is partly motivated by very human impulses. The joy of giving (relative to keeping money for oneself) can be manipulated by benign thoughts. People are more generous after they have spent some time thinking about their own death,[21] about an act of forgiveness,[22] or about things in life for which they are grateful.[23] If we pay attention to what we know about what motivates donors to behave the way that they do, two things will stand out: that giving makes donors feel good, and that complications in the giving process may deter giving. Thus, instilling doubt in donors about whether or not they are giving in the proper way, and asking them to take an extra step in reviewing nonprofit metrics of effectiveness and planning, may take giving into the realm of the less fulfilling of human activities. In other words, social marketing that urges members of a community to be more cerebral about their giving may very well be a disincentive to giving altogether. Right now, through their giving, ordinary individual donors without staffs generally achieve a better self-image, greater sense of well-being, and a sense of having contributed to the whole through giving—and this encourages them to give again.

Marketing, generally, is designed around satisfying existing "consumer" or target audience interests—finding a sweet spot of resonance, and reinforcing it. When so-called "experts" are driving the message about what the public ought to do, they run the risk of creating a barrier in that the message may not only *not* hit home but also may actually depress the generosity of the public. There is currently no indication that the public wants any more advice about how to give, beyond being notified of a need and having a way to avoid scams and an irresponsible use of their money.

Further, there is no proof that metric-based giving in the long run will be better for the fabric of society—although, given the costs of evaluation, it does provide a way for larger philanthropic players to deem which charities are appropriate vehicles for donor money. Finally, the systems now in place for rating charities are far from unquestionable; based on this, philanthropy might better invest some money in supporting journalists and regulators to ferret out and prosecute those who defraud the public under a charitable banner. An article from 2010 by Cynthia Gibson and William Dietel puts it this way:

> A forthcoming book by Princeton University's Daniel Oppenheimer summarizes the research of several prominent social scientists on the determinants of giving behavior generally and finds that "no matter what objective information is available, the large majority of donors will give as a result of emotional or relational factors." A recent article in the *Economist* cites a study that found that donors "do good because it makes them look good to those whose opinions they care about"—what researchers call the "image motivation." And a recent study of 4,000 donors conducted by Hope Consulting found that few investigate nonprofits' performances, with only one-quarter of them saying they would consider switching their support to different charities if those groups improved in areas donors care about. Only one-third said they'd be interested in giving more if the nonprofits they supported improved their performance.
>
> Nonprofit leaders tend to agree. According to interviews with a diverse group of high-performing nonprofits [. . .] nonprofit leaders said that "while it's nice to have data," most of their donors continue to give "because of the relationships we cultivate with them." In fact, almost all said while high-performance data helped enhance their credibility in the business community, it wasn't instrumental in attracting donors, especially new individual donors. They also said that they continued to believe that ultimately, their financial support was going to come from relationships and "emotional connections," rather than from data about performance and impact.[24]

In contrast to the notion that donors need expert guidance, we could try to build on an existing trend, which is the development of giving circles and other modes of collective giving (complete with collective deliberations in place of expert opinions). This creates a different and less onerous dynamic.[25]

Giving circles are about more than simply donating to worthy causes. They assist the community beyond a monetary impact by providing volunteer opportunities, as members engage with local nonprofit organizations through grantmaking. There is a common element of providing educational workshops to teach donors about philanthropy and strategic grantmaking.

Giving circles often build a different kind of strategic giving, crafted through exploration of common interests and values, conversation, and research, among other things. They may encourage volunteering and other ways to collectively self-inform while pitching in. They can be mobilized as small groups to protect when things they care about are at risk. Thus, people can give deliberatively—making judgments based on inquiries that are guided not just by data but also by morality and a more personal consideration and knowledge of impact. This makes giving a part of community building—it creates small nodes of intentional philanthropic activity that ripple beyond the moment.

In general, attempts to reorient people into giving at a certain level or in a certain way may be doomed to failure when contrasted against giving that creates social capital, strong positive connection, and a sense of pride in work collectively done. New models of giving and doing emphasize this last approach, where people give to and volunteer for—or otherwise become engaged with—the same organizations. Any number of articles emphasize this as the direction that millennial givers are taking. The force, therefore, may be in this approach rather than in an imposition of a duty of care.

In contrast to the notion that donors need expert guidance, we could try to build on an existing trend, which is the development of giving circles and other modes of collective giving (complete with collective deliberations in place of expert opinions). This creates a different and less onerous dynamic.

Notes

1. Kim O'Connor, "dialectic," Theories of Media: Keywords Glossary, the University of Chicago website, Winter 2003, csmt.uchicago.edu/glossary2004/dialectic.htm.

2. Ibid.

3. Tom Bottomore, ed., *A Dictionary of Marxist Thought*, 2d ed. (Oxford: Blackwell Publishers, 1991).

4. Ibid.

5. O'Connor, "dialectic."

6. Ibid.

7. Barışş Yörük, "The Effect of Media on Charitable Giving and Volunteering: Evidence from the 'Give Five' Campaign," *Journal of Policy Analysis and Management* 31, no. 4 (April 2012): 813–36.

8. Ibid.

9. René Bekkers and Pamala Wiepking, "A Literature Review of Empirical Studies of Philanthropy: Eight Mechanisms That Drive Charitable Giving," *Nonprofit and Voluntary Sector Quarterly* 40, no. 5 (October 2011): 924–73.

10. Ruth McCambridge, "Million Dollar Gifts—What are the Trends?" *Nonprofit Quarterly*, April 22, 2013, nonprofitquarterly.org/2013/04/22/million-dollar-gifts-what-are-the-trends/.

11. Lara B. Aknin, Elizabeth W. Dunn, and Michael I. Norton, "Happiness Runs in a Circular Motion: Evidence for a Positive Feedback Loop between Prosocial Spending and Happiness," *Journal of Happiness Studies* 13, no. 2 (April 2012): 347–55.

12. Rose Eveleth, "Zoo Illogical: Ugly Animals Need Protection from Extinction, Too," *Scientific American*, December 8, 2010, www.scientificamerican.com/article/zoo-illogical-ugly-animal/.

13. Francis J. Flynn, "Getting People to Give—And Give Generously," Insights, Stanford Graduate School of Business, November 1, 2010, www.gsb.stanford.edu/insights/frank-flynn-getting-people-give-give-generously.

14. Christopher Y. Olivola and Eldar Shafir, "The Martyrdom Effect: When Pain and Effort Increase Prosocial Contributions," *Journal of Behavioral Decision Making* 26, no. 1 (January 2013): 91–105.

15. Michael Wyland, "Research Finds Different Charity Messages Resonate with Democrats and Republicans," *Nonprofit Quarterly*, June 4, 2012, nonprofitquarterly.org/2012/06/04/research-finds-different-charity-messages-resonate-with-democrats-and-republicans/.

16. Adrian Sargeant, "Donor Retention: What Do We Know & What Can We Do about It?" *Nonprofit Quarterly*, August 15, 2013, nonprofitquarterly.org/2013/08/15/donor-retention-nonprofit-donors/.

17. Amihai Glazer and Kai A. Konrad, "A Signaling Explanation for Charity," *American Economic Review* 86, no. 4 (September 1996): 1019–28.

18. Adam M. Grant and Sabine Sonnentag, "Doing good buffers against feeling bad: Prosocial impact compensates for negative task and self-evaluations," *Organizational Behavior and Human Decision Processes* 111, no. 1 (2010): 13–22; and Aknin, Dunn, and Norton, "Happiness Runs in a Circular Motion."

19. John M. Darley and C. Daniel Batson, "'From Jerusalem to Jericho': A study of situational and dispositional variables in helping behavior," *Journal of Personality and Social Psychology* 27, no. 1 (1973): 100–108.

20. Bekkers and Wiepking, "A Literature Review of Empirical Studies of Philanthropy."

21. Eva Jonas et al., "The Scrooge Effect: Evidence that Mortality Salience Increases Prosocial Attitudes and Behavior," *Personality and Social Psychology Bulletin* 28, no. 10 (October 2002): 1342–53.

22. Johan C. Karremans, Paul A. M. Van Lange, and Rob W. Holland, "Forgiveness and Its Associations With Prosocial Thinking, Feeling, and Doing Beyond the Relationship With the Offender," *Personality and Social Psychology Bulletin* 31, no. 10 (October 2005): 1315–26.

23. Adriaan R. Soetevent, "Anonymity in giving in a natural context—a field experiment in 30 churches," *Journal of Public Economics* 89, no. 11–12 (December 2005): 2301–23.

24. Cynthia M. Gibson and William M. Dietel, "What Do Donors Want?" *Nonprofit Quarterly*, September 22, 2010, nonprofitquarterly.org/2010/09/22/what-do-donors-want-2/.

25. JoAnna Ness and Jill Nicholson-Crotty, *Giving Circles: Beyond Philanthropy* (Bloomington, IN: Indiana University School of Public and Environmental Affairs, Spring 2016).

To comment on this article, write to us at feedback@npqmag.org. Order reprints from http://store.nonprofitquarterly.org, using code 240301.

GIVING NUMBERS:
Reflections on Why, What, and How We Are Counting

by Benjamin Soskis

"We may be witnessing a new wave of interest in charitable statistics," writes Soskis, and if so, we would do well to "think carefully about why, what, and how we are counting." For in so doing, we can ensure that when we measure American generosity, "we are measuring the things that matter most to us."

Two topographies define the landscape of American giving. One is marked by majestic ascent. Over the past half century, the amount of money Americans give to charitable causes has steadily increased each year, except during times of recession. The earliest comprehensive tabulations of annual total giving, prepared for the *Giving USA* reports in the 1950s, were presented under the heading "The March of Philanthropy," suggesting the confident spirit with which they were interpreted. That spirit endures. The 2017 *Giving USA* report announced a record high of just over $390 billion given to charitable causes in 2016, an increase of 2.7 percent from the year before. Even in such an "unusual year," the report's authors declared, "Americans continued to be generous."[1]

An alternative statistic, total charitable giving as a share of gross domestic product (GDP), describes another feature of the giving landscape—one that tempers that triumphalism. Instead of steady growth, its trend line is notable for its relative flatness. For the past five decades, total giving as a share of GDP has hovered around

---

Benjamin Soskis is a research associate at the Center on Nonprofits and Philanthropy at the Urban Institute, and cofounder and coeditor of *HistPhil*—a web publication devoted to the history of the philanthropic and nonprofit sectors, with a particular emphasis on how history can shed light on contemporary philanthropic issues and practice. Soskis is coauthor of *Looking Back at 50 Years of U.S. Philanthropy* (Hewlett Foundation, 2016) and author of *The History of the Giving While Living Ethic* (The Atlantic Philanthropies, 2017). He is also a frequent contributor to the *Chronicle of Philanthropy*.

"CALCULATOR IN THE USSR (ABACUS)" BY ANASTASIIA GRYGORIEVA/WWW.GRYGORIEVA.COM


Anastasiia Grygorieva

the 2 percent mark; for the last three years, it's stayed remarkably steady, at 2.1 percent.[2] Measures of individual giving as a share of disposable personal income have also generally held around 2 percent.

The persistence of this 2 percent figure is one of the great, enduring mysteries of philanthropy. No nation can claim a higher percentage, and runners-up routinely see 1 percent or less, so in many respects it's another register of American exceptionalism.[3] But our inability to move much beyond the 2 percent threshold forces us to confront an uncomfortable sense of charitable limits. It's the stubborn constraint on the index of American generosity.

The figure also presents a host of normative questions that the total aggregate number does not. Though $390 billion can buy a lot of mosquito nets, the number cannot tell us if we should be buying more. Considerations of charitable giving within the context of national economic accounts, on the other hand, move the conversation into an ethical register. They touch on a belief in certain defined responsibilities of wealth, much as tithing does in a religious context or progressive taxation does in a civic context. The 2 percent threshold compels us to probe the nature of America's giving culture more closely and to examine the numbers and metrics we use to do so.

The past century saw three main waves of interest in charitable statistics, each reflecting the perspectives and priorities of the fields that initiated them: early social work practitioners; midcentury state planners; and the fundraising community. In the late nineteenth and early twentieth centuries, a movement on behalf of "scientific charity" was at the forefront of collecting and compiling quantitative data on philanthropy. Its leaders were largely academics and practitioners—many within the nascent social work profession—who were just beginning to think nationally about the social ills they sought to attack, but lacked the statistical tools to do so with any rigor. They were, in any case, much more focused on how charitable giving functioned locally. Although the major work of the

The past century saw three main waves of interest in charitable statistics, each reflecting the perspectives and priorities of the fields that initiated them: early social work practitioners; midcentury state planners; and the fundraising community.

period—Amos Warner's 1894 survey *American Charities*—offers an estimate for total charitable giving (approximately $200 million, a figure Warner arrived at by extrapolating data from Massachusetts), it is an offhand calculation.[4] Warner marshals most of his statistics toward understanding the causes and extent of dependency and "degeneracy," and how charitable agencies should address those social maladies.

These scientific charity reformers were not primarily interested in increasing American giving; they were convinced that much charitable giving was unthinking, redundant, or wasteful, and sought to discipline giving by channeling it through centralized institutions. These institutions developed some rudimentary charitable statistics, but the accounting was not particularly demanding, partly because giving by the wealthy remained shrouded in privacy. Christian ethics dictated that the left hand should not know what the right hand was doing, which made it hard to compile accurate tallies.

In the twentieth century, the cloak of individual discretion long thrown over philanthropy began to slip away. Millionaire "giving lists" highlighted major benefactors, and community chests in cities across the nation carefully monitored giving levels by income. More important, a second wave of interest in tracking charitable statistics was sparked by the federal income tax established in 1913 and the charitable deduction introduced four years later. These additions to the tax code created a new data source channeled through and mediated by what was then the Bureau of Internal Revenue. From that point forward, the Internal Revenue Service (IRS) fundamentally shaped how we measure charitable giving.

By the 1930s, statistics had emerged as a more sophisticated discipline, incorporating probability theory, econometrics, advanced sampling techniques, and accounting, and was eagerly wielded by a rising corps of state planners. In the aftermath of the Great Depression and in the midst of the New Deal and World War II, these researchers took up a focus on charitable statistics and the role of philanthropy in broader economic life as part of an effort to determine the proper boundaries between the public and private sectors. They appreciated that the data available on charitable giving were incomplete. One of the leading scholars on philanthropy at the time, F. Emerson Andrews, announced in his influential 1950 monograph *Philanthropic Giving* that "accurate information on total giving in the United States does not exist."[5] But these researchers were committed to building on the data contained in the IRS's Statistics of Income to arrive at the most complete picture of national charitable statistics possible.

With funding from the Russell Sage Foundation, several researchers at the National Bureau of Economic Research (NBER) began to refine charitable statistics and aggregate giving figures from 1929 to 1959. Their focus on developing national economic policy shaped their methodology and the expansive definition they applied to charitable giving—one that went well beyond the boundaries established by the IRS. The NBER researchers combined private philanthropic giving with what they termed "public philanthropy"—that is, government spending on social welfare programs. Much like gross national product (GNP)—an indicator that the NBER helped develop—included governmental expenditures as part of the national product, so, too, would the NBER's figures on aggregate charitable giving incorporate governmental spending. With this spending included, total philanthropic giving routinely measured above 10 percent, and reached as high as 12 percent at the end of the 1950s. As Frank Dickinson, an economist who wrote a major study based on the NBER research, declared, "*The economy now tithes*. The scriptural one-tenth has been attained by a generous people!"[6]

The aggregate figures compiled by the NBER team also contained totals for "person-to-person giving," the act of "transfer[ring] payments from one person to another outside the family."[7] This giving went largely unrecorded by the IRS but became more common during the postwar years, often in the form of cash remittances sent overseas to war-ravaged communities. The researchers studied consumer expenditure surveys conducted by the Bureau of Labor Statistics in the preceding decades, and derived from them a standard ratio

In the twentieth century, the cloak of individual discretion long thrown over philanthropy began to slip away. Millionaire "giving lists" highlighted major benefactors, and community chests in cities across the nation carefully monitored giving levels by income.

All these efforts reflected a larger development within the field: leaders of the sector began to understand research—including giving statistics—as an important resource that must be collectively cultivated.

of institutional giving to person-to-person giving, where the latter was determined to be 40 percent of the former. When these person-to-person giving totals were included, the average share of private giving as a proportion of GNP from 1929 to 1959 stood at 2.7 percent.[8] During the late 1950s, it climbed above 3 percent.[9]

The NBER researchers acknowledged that this inclusiveness complicated the statistical challenge but insisted that "extending the concept of giving beyond the scope of giving to institutions brings the subject of philanthropy into a far more realistic setting."[10] At the very least, their definitions aligned well with their larger aim of understanding philanthropy in the context of a national economy.

Around the mid-twentieth century, another wave of interest in charitable statistics began to form, this one resolutely institutional in its orientation. It was led at first by the nation's leading fundraising organization, the American Association of Fund-Raising Counsel (AAFRC), which had been tracking its own version of total giving since the 1940s, and whose efforts led to the first publication of *Giving USA: Facts about Philanthropy* in 1956. Though it initially relied on some of the same research as the NBER team (such as the data in Andrews's *Philanthropic Giving*), AAFRC favored a more restricted scope of inquiry, and defined philanthropy as "private giving for public causes as distinguished from person-to-person giving or tax financed projects."[11]

These research efforts were bolstered by the coalescence and maturation of the nonprofit sector in the wake of the congressional investigations of philanthropy in the 1960s (which also triggered a wave of research on American giving).[12] In the early 1980s, a coalition of sector-wide organizations (including Independent Sector, the Council on Foundations, the National Charities Information Bureau, and the United Way of America) helped formally establish the National Center for Charitable Statistics (NCCS), which became a program of Independent Sector in 1986, and ten years later moved to the Urban Institute. The NCCS pushed to improve the reporting of charitable statistics by the federal government, and worked on a national classification system of nonprofits (which became the National Taxonomy of Exempt Entities). In addition, Independent Sector, which had been established in 1980 to represent the interests of both grant seekers and grantmakers, created a research program (led by Robert Payton and Virginia Hodgkinson) that sponsored national surveys of giving and volunteering.[13]

All these efforts reflected a larger development within the field: leaders of the sector began to understand research—including giving statistics—as an important resource that must be collectively cultivated. Although these sectoral organizations did support the resurgence of basic research on civil society and voluntarism coming out of a handful of academic centers, their emphasis was on applied research. Indeed, an instrumental logic lay at the root of much of the interest in the measurement of giving: improving the reliability and rigor of charitable statistics could help in the effort to encourage Americans to give more, and to give more efficiently.[14] At the same time, the research would help to delineate the limits of the sector in the face of the exaggerated notions of what voluntarism could accomplish that fueled Republican efforts at devolution and budgetary retrenchment.[15]

From these considerations emerged a partnership among academic researchers, sectoral organizations, and fundraisers that enhanced the sophistication of *Giving USA*'s methodology. In the mid-1980s, for instance, AAFRC revised its totals of individual giving since 1946 and worked with economist Ralph L. Nelson to build an econometric model for estimating annual individual giving, using indicators such as personal income totals, Standard & Poor's 500 Index (S&P 500) stock prices, the number of people between 35 and 64 years old, and even the political party of the president.[16] Throughout these developments, the AAFRC's focus on institutional fundraising, largely refracted through the prism of the IRS's 501(c)(3) designation, did not waver.

The NBER researchers had anticipated this institutional bias several decades before. They wondered whether the generally high ratio they assigned to person-to-person giving would need to be revised in light of the trend toward the institutionalization of charitable giving, perceptible as early as the late 1950s.[17] Their concern is an important reminder that quantitative measures can lag behind the vital socioeconomic trends they are designed to gauge.

Which brings us to the present day, when faith in institutions of nearly all types is waning, and the desire for disintermediation and person-to-person contact is on the rise. These developments, and nascent efforts to ensure that they are reflected in our giving numbers, suggest that we may be witnessing a new wave of interest in charitable statistics. If so, this is an important opportunity to think carefully about why, what, and how we are counting. Here are three questions to consider.

1. How Can We Take Advantage of Historical Insights?

The NBER researchers noted that even if one endorsed only the most restrictive definition of philanthropy, the data suggest that private philanthropic giving grew faster than the gross national product over the three decades they studied.[18] The data also indicate that giving as a share of GDP shrank in the early 1960s but rebounded at the end of that decade. It fell below 2 percent in the late 1970s, and did not begin to climb again until the 1990s, when increases in individual giving rates outpaced personal income growth. Scholars have tried to understand those trends, and their insights should be more firmly integrated into campaigns to increase levels of philanthropic giving.[19]

In fact, for all the impressive consistency of the 2 percent number, at higher resolution peaks and valleys begin to appear that can be surveyed. Giving as a share of GDP has fluctuated over the past fifty years between 1.7 percent and 2.2 percent (using *Giving USA*'s aggregate figures). Various explanations have been proposed for the upticks and downticks, ranging from changes in economic conditions, tax policies, and geopolitical crises to exceptional natural catastrophes. University of Chicago economist John List argues that nearly 40 percent of this variance in a given year can be accounted for by variations in the previous year's percentage change in the S&P 500 index.[20]

Such explanations must be mined further to determine which, if any, can serve as levers to increase giving levels and rates.

2. Where Is the "Give" in Giving Statistics?

The history of charitable giving in the United States can highlight opportunities for future growth. But the numbers themselves do not necessarily yield dispositive answers; they must be interpreted through our own preferences and priorities. Most important, researchers examining historical charitable statistics with an eye to increasing giving are confronted with a basic choice: Will those increases come from an amplification of existing trend lines, or a diminution of them? Do we take existing distributions as a given and attempt to wring more money out of them, or do we seek to transform those distributional patterns?

Two examples illustrate this choice, but it applies to nearly every discernable trend line. One of the most striking phenomena over the last fifty years is the steady decline in the proportion of giving directed to religious organizations. In 1972, giving to religious groups as a share of GNP had declined by about a third from the 1960s, when it made up around half of all giving. In fact, removing giving to religious organizations from aggregate charity totals props up the declining trend line of giving relative to GNP in the 1960s so that it appears level.[21]

Giving to religious organizations as a proportion of total charitable giving experienced a boost in the late 1970s and early 1980s, but then its relative decline recommenced. As the 2017 *Giving USA* report explains, "Giving to religious organizations has been declining as a share of total giving to recipient organizations since the five-year period beginning in 1982, when it reached 58 percent of the total. In the last five-year period, 2012–2016, religious giving comprised 32 percent of the total."[22] (The year 2016, nevertheless, could claim the highest inflation-adjusted amount recorded to date, suggesting that aggregate figures tell only partial stories.)

Such figures clearly reflect deep-seated cultural trends. For example, much of the early decline in religious giving stemmed from a drop

The history of charitable giving in the United States can highlight opportunities for future growth. But the numbers themselves do not necessarily yield dispositive answers; they must be interpreted through our own preferences and priorities.

For decades, scholars and activists have pointed out what GNP and GDP leave out—voluntary and domestic labor, citizen welfare, environmental impact, and inequality—and have suggested alternative measurements that more clearly reflect the researchers' values. Similar critical scrutiny should be applied to total charitable giving figures.

in enrollment in Catholic parochial schools, which had constituted as much as one-tenth of all private philanthropic contributions in 1950. More recently, increased secularization and a declining attachment to religious institutions have likely contributed as well.[23]

Should these cultural trends be taken as a given in efforts to increase giving as a share of GDP? Or do they represent an opportunity for charitable clawback? Which represents the greater opportunity for charitable growth: an emerging secular humanist ethos or an invigorated institutional religiosity? Obviously, the answer could be a little of both, but we should note that each represents a different way of interpreting and reacting to historical charitable statistics.

Changing income and wealth distributions over the past few decades present a similar choice. During the mid-twentieth century, the lower and middle classes supplied the largest share of charitable contributions. According to F. Emerson Andrews, in 1943, people with annual incomes below $3,000 were responsible for more than 60 percent of philanthropy received from living donors, whereas millionaires contributed only 0.2 percent. In 1958, taxpayers with incomes of $25,000 or more represented just 13 percent of all contributions.[24]

Since the 1980s, income and wealth have become increasingly concentrated at the top of the pyramid, and these distributional patterns have transformed giving patterns, as well. The Lilly Family School of Philanthropy at Indiana University now estimates that approximately half—in some years, more than half—of total annual giving by individuals or households comes from households with annual incomes greater than $200,000 or assets greater than $1 million. Should campaigns to increase giving reaffirm these trends or push back against them? Should we try to flatten out distributional inequities or home in on potentially untapped major donors?[25] We must also consider that lower-income and higher-income citizens give at considerably higher rates than those in the financial middle. How should this classic U-shape graph inform a campaign to increase giving? Do we take the trough as an opportunity or as a hazard?

There are strategic considerations that can help us answer these questions, and charitable statistics from the past that can shed light on them—and certain socioeconomic or cultural trend lines are clearly so powerful that it makes little sense to push against them. But there are also normative judgments to be made about which elements of the charitable status quo should be affirmed and which should be challenged. Statistics are generally agnostic on these judgments. They are only animated by the values and priorities we bring to measurement itself.

3. *What Exactly Are We Counting, What Are We Not Counting, and Why?*

We have noted that how we measure giving is shaped by the broader objectives that motivate us. Social workers, economic planners, and fundraisers have each contributed their own methodologies. But if these methodologies reflect our perspectives, they can also subtly shape them. That is why it is important to be mindful about what precisely we are measuring. (It is also important to remind ourselves that aggregate giving totals are not proxies for impact—though, because of the pluralism that has long accompanied American attitudes toward giving and that looks askance at judging among charitable acts, they are often taken as such.)

GDP, total charitable giving's numeric partner, perfectly illustrates the power of an indicator to drive policy. Developed in the 1930s as a means of understanding the Great Depression and to help justify New Deal policies and wartime spending, GDP has become a causal force in its own right, with nations frequently tailoring economic policies as it dictates. Yet for all of GDP's power, one of its initial developers, British Nobel laureate Richard Stone, reminded us that it is not a "primary fact" but an "empirical construct."[26] For decades, scholars and activists have pointed out what GNP and GDP leave out—voluntary and domestic labor, citizen welfare, environmental impact, and inequality—and have suggested alternative measurements that more clearly reflect the researchers' values.[27] Similar critical scrutiny should be applied to total charitable giving figures.

As mentioned previously, the figures for total giving, most frequently invoked when discussing American philanthropy, are based largely on giving to incorporated charitable 501(c)(3) organizations. They do not include political contributions or most nondeductible contributions to 501(c)(4) social welfare organizations; person-to-person giving; or informal cash giving, including remittances from U.S.-based sources—which the World Bank estimated at $135 billion in 2015.[28] Crowdfunding and crowdsourced giving are not fully captured, either. Measuring this category of giving presents a host of methodological and definitional challenges, but the stakes are high and getting higher. The crowdfunding website GoFundMe, for instance, recently announced that approximately $3 billion has been given on its platform by more than 25 million donors since 2010, and predicted that it would bring in $40 billion over the next decade.[29]

Impact investing, in its various forms, falls through the statistical mesh as well, as does some giving directed through donor-advised funds. Limited-liability companies, recently embraced by a handful of wealthy donors to channel their philanthropic giving, are especially resistant to statistical inquiry. Ultimately, the same diversification and personalization of giving platforms that fuel contemporary giving challenge the definitions and evaluative paradigms we have constructed to measure it. Our quantitative measures for giving might once again be lagging behind important trends in the sector.

These challenges involve more than simply interpreting data. Given an increasingly decentralized system with multiple points of possible data capture, we must also build up infrastructure to harvest, synthesize, and share data responsibly. Issues of data control and access are now more important than ever. Frustrations almost certainly lie ahead, but the landscape also offers promising opportunities for analysis: the growth of credit card and online giving, for example, offers real-time data that tell us more about how giving patterns shift from month to month, day to day, and even hour to hour.

The insights that we glean from these sources can help ensure that when we assess American generosity, we are measuring the things that matter most to us. As Nobel laureate economist Joseph Stiglitz—who knows a thing or two about the value and perils of quantitative indicators—reminded us in 2009, "What you measure affects what you do. If you don't measure the right thing, you don't do the right thing."[30]

Ultimately, the same diversification and personalization of giving platforms that fuel contemporary giving challenge the definitions and evaluative paradigms we have constructed to measure it. Our quantitative measures for giving might once again be lagging behind important trends in the sector.

Notes

1. Indiana University Lilly Family School of Philanthropy, *Giving USA 2017: The Annual Report on Philanthropy for the Year 2016* (Chicago: Giving USA Foundation, 2017).
2. Ibid.
3. Charities Aid Foundation; *Gross Domestic Philanthropy*; "Comparing charitable contributions as a proportion of GDP challenges assumptions," blog entry by Adam Pickering, February 2, 2016, www.cafonline.org/about-us/blog-home/giving-thought/how-giving-works/gross-domestic-philanthropy.
4. Amos G. Warner, *American Charities*, 3rd ed. (New York: Thomas Y. Crowell, 1919), 394.
5. F. Emerson Andrews, *Philanthropic Giving* (New York: Russell Sage Foundation, 1950), 50.
6. Frank G. Dickinson, ed., *Philanthropy and Public Policy* (New York: National Bureau of Economic Research, 1962), 30; and Diane Coyle, *GDP: A Brief but Affectionate History* (Princeton, NJ: Princeton University Press, 2014), 15–16. A version of this argument is now made by those who seek to challenge the United States' status as one of the world's most generous nations by pointing to its relatively low public-sector spending on social welfare.
7. Ibid.
8. Gross domestic product (GDP), which counts goods and services produced within the United States, did not replace gross national product (GNP), which includes goods and services produced by Americans outside the country (but not foreign firms operating within U.S. borders), as the leading economic indicator until the 1990s.
9. Frank G. Dickinson, *The Changing Position of Philanthropy in the American Economy* (New York: National Bureau of Economic Research, 1970), 39. These figures for total private philanthropy also included foundation and nonfoundation income from endowments.
10. Ibid., 40.
11. *Giving USA 1964: A Compilation of Facts Related*

to American Philanthropy (New York: American Association of Fund-Raising Counsel, 1965), 9.

12. Eleanor L. Brilliant, *Private Charity and Public Inquiry: A History of the Filer and Peterson Commissions* (Bloomington: Indiana University Press, 2001).

13. See Virginia A. Hodgkinson, "Research on the Independent Sector: A Progress Report," PaytonPapers .org, 134.68.190.22/output/pdf/0028.pdf.

14. Seymour H. Fine, *Marketing the Public Sector: Promoting the Causes of Public and Nonprofit Agencies* (New Brunswick, NJ: Transaction Publishers, 1992), 40; and Peter Dobkin Hall, "Dilemmas of Research," in *Inventing the Nonprofit Sector and Other Essays on Philanthropy, Voluntarism, and Nonprofit Organizations* (Baltimore: Johns Hopkins University Press, 1992), 248–55. See, for instance, the campaigns that Independent Sector initiated in 1986, as its research program was gaining momentum, to encourage Americans to give more to charity and to increase volunteering; "Daring Goals for a Caring Society," which sought to boost giving among individuals, foundations, and corporations; and the "Give 5" campaign, which sought to encourage more Americans to give five percent of their annual income (a less ambitious version of tithing) and five hours a week of their time.

15. Brian O'Connell, "What Voluntary Activity Can and Cannot Do For America," *Public Administration Review* 49, no. 5 (September-October 1989), 486–91.

16. *Giving USA Annual Report 1985: Facts and trends on American philanthropy for the Year 1984* (New York: American Association of Fund-Raising Counsel, 1985), 11–15.

17. Solomon Fabricant, "Philanthropy in the American Economy: An Introduction," in Frank G. Dickinson, *The Changing Position of Philanthropy in the American Economy* (New York: National Bureau of Economic Research, 1970), 12.

18. Ibid., 13.

19. See, for instance, the explanations for the decline of giving rates among living donors in Ralph L. Nelson, "Private Giving in the American Economy, 1960–1972," in *Research Papers Sponsored by the Commission on Private Philanthropy and Public Needs*, Volume IV: Taxes (Washington, DC: Department of the Treasury, 1977), 115–29; and Rob Grunewald, "Charitable giving rates follow the economy and personal income," *Fedgazette*, November 1, 2003, www.minneapolisfed .org/publications/fedgazette/charitable-giving -rates-follow-the-economy-and-personal-income.

20. John A. List, "The Market for Charitable Giving," *Journal of Economic Perspectives* 25, no. 2 (Spring 2011): 157–80.

21. Nelson, "Private Giving in the American Economy," 124–25.

22. Indiana University Lilly Family School of Philanthropy, *Giving USA 2017*.

23. Nelson, "Private Giving in the American Economy," 124.

24. Andrews, *Philanthropic Giving*, 55, 58–59; and Fabricant, "Philanthropy in the American Economy," 23.

25. Indiana University Lilly Family School of Philanthropy, *Giving USA 2016: The Annual Report on Philanthropy for the Year 2015* (Chicago: Giving USA Foundation, 2016). Similar questions arise for demographic distributions. According to *Giving USA*, baby boomers now account for almost 70 percent of all individual giving. Should this lead to efforts to squeeze boomers even further? Or, should we focus on encouraging greater giving from younger donors?

26. Coyle, *GDP: A Brief but Affectionate History*, 24.

27. Zachary Karabell, *The Leading Indicators: A Short History of the Numbers That Rule Our World* (New York: Simon and Schuster, 2014), 48–72; and Mijin Cha, "What's Missing from GDP?" *Demos*, January 29, 2013, www.demos.org/blog/whats-missing-gdp.

28. World Bank, "Migration and Remittances Data," September 24, 2015, www.worldbank.org /en/topic/migrationremittancesdiasporaissues/brief /migration-remittances-data.

29. *2016 GoFundMe: A Year in Giving* (GoFundMe, December 13, 2016), pages.gofundme.com/giving-report-2016; and Ben Paynter, "How Will The Rise of Crowdfunding Reshape How We Give To Charity?" *FastCompany*, March 13, 2017, www.fastcompany.com/3068 534/how-will-the-rise-of-crowdfunding-reshape -how-we-give-to-charity-2.

30. Cha, "What's Missing from GDP?"


PERSPECTIVE
BUILDING PRINCIPAL PIPELINES
A JOB THAT URBAN DISTRICTS CAN DO
HIGH-QUALITY TRAINING/ INTERNSHIPS
COLLABORATION TO IMPROVE LEADER PREPARATION
ASPIRING PRINCIPALS

Have Donor-Advised Funds *and* Other Philanthropic Innovations Changed *the* Flow *of* Giving *in the* United States?

by Patrick M. Rooney

Several concerns have been raised about the growing prevalence of donor-advised funds (DAFs). Here, the author lays some of the concerns to rest, explaining that when all is said and done, DAFs are no better or worse than private foundations, and "society is enhanced by the range of options that allow prospective donors to use these tools both for their personal benefits with respect to timing and platforms and for society's benefits from these permanent commitments to philanthropy."

Giving intermediaries are nothing new, and include a range of vehicles such as workplace campaigns (like the United Way and the Combined Federal Campaign) and community foundation general funds. Of late, such giving intermediaries have found their donors less willing to give into a general fund—where others make decisions about the final destinations of their gift—and more in favor of maintaining decision-making control in a donor-directed grant or donor-advised fund (DAF) within these intermediaries, and in the commercial charitable funds at financial institutions. This article addresses several concerns that have been raised about DAFs and other philanthropic intermediaries, and explores in particular how the growth of DAFs affects the flow of money to nonprofits. Accompanying sidebars explore in short form other influences on the flow and the accuracy of how charitable money is counted.

DAFs: For Better or for Worse?

Donor-advised funds are becoming more common and an important philanthropic tool by every measure. For example, as the table below shows, between 2014 and 2015 both the number of DAFs and the dollar value of DAFs grew faster than that of private foundations.[1] Moreover, the DAF asset values more than doubled between 2010 ($33.6 billion) and 2015 ($78.6 billion).[2]

DAFs enable donors to adjust their giving annually to match what they perceive to be the greatest philanthropic needs and those that best match their philanthropic interests. Some fundraisers oppose DAFs because they would prefer that the gifts going to DAFs be given instead directly to the charities for which they raise the funds or consult. Fundraisers have also expressed concern that DAFs allow individuals to be private about their gifts and remain anonymous if they so choose. This anonymity, fundraisers protest, makes it more difficult or even impossible in

Changes in the Number of Funds and the Asset Value of DAFs and Private Foundations from 2014 to 2015

Type of Giving Vehicle	Total Number of Funds (thousands)			Dollar Value of Assets (billions)		
	2014	2015	Percent Change	2014	2015	Percent Change
DAFs	242.4	269.2	11.1%	$70.3	$78.6	11.9%
Private Foundations	79.7	81.8	2.6%	$712.45	$781.6	9.7%

Source: National Philanthropic Trust (2016)[3]

Patrick M. Rooney is executive associate dean for academic programs and professor of economics and philanthropic studies at the Indiana University Lilly Family School of Philanthropy.

"FLYING" BY CARLO TREVISAN/DIGILANDER.LIBERO.IT/TREVISANART


Trevisan

some cases for fundraisers to steward gifts and to solicit new gifts from donors, unless the fundraisers have a prior relationship with them. On the other hand, this same flexibility may be one of the reasons that DAFs have boomed. Sometimes donors don't want to be cultivated by recipient organizations and/or by other organizations that may see one gift from an individual via a DAF (or otherwise) and determine that the same individual might also be a prospective donor to *their* organization. Finally, for various reasons, donors may not want their children, other relatives, or friends to know about their philanthropy.

Among the questions swirling around DAFs are those pertaining to whether or not DAFs represent net new money coming into philanthropy or whether they are simply a reallocation of giving that would have occurred anyway.

Some fundraisers find the technological changes to the medium of fundraising frustrating. Most fundraisers would agree that donors connect with the message via the delivery medium—and, theoretically, technological change has made it possible for more donors to connect to a message than ever before—but changes to the medium of fundraising have brought about concerns reflecting a Schumpeterian orientation toward technological change, innovation, and revolutions. (Joseph Shumpeter wrote about the "creative destruction" of technological change in capitalistic economies, for example.)[4] As technology evolves and enables some philanthropic transactions to transpire differently from how they have in the past, this will cause some fragmentation of traditional fundraising roles and the role of those relationships in philanthropic flows.

Are DAFs Net New Money, or a Reallocation, or Something Else?

Among the questions swirling around DAFs are those pertaining to whether or not DAFs represent net new money coming into philanthropy or whether they are simply a reallocation of giving that would have occurred anyway.

Giving as a share of GDP has increased slowly over the last forty years. It was very steady from 1976 to 1996, ranging between 1.6 and 1.8 percent.[5] During the last twenty years, it has bumped up by approximately 0.3 percentage points and has been steadily in the 1.9 to 2.1 percent range.[6] This does not demonstrate that the rise of DAFs has increased giving as a share of GDP, but it suggests that DAFs have not caused total giving to decline in absolute or relative terms.

Given that DAFs are strictly a part of household giving, perhaps a more relevant benchmark is total household giving as a share of disposable personal income (DPI). This picture is more ambivalent. Personal giving as a share of DPI over the last forty years has been between 1.9 and 2.1 percent nearly every year, with the exception of the decade preceding the Great Recession, when this ratio was in the neighborhood of 2.2 to 2.4 percent most years.[7] Given that these two ratios (total giving as a share of total GDP and total household giving as a share of DPI) have been either steady or increasing over the last forty years, and given that DPI and GDP have both grown dramatically even in inflation-adjusted dollars over that same time period, we cannot prove (but it seems apparent) that DAFs did not cause a decrease in either total or household giving in either absolute dollar terms or as a share of the economy overall or of personal income.

That said, DAFs could have led to a reallocation of giving that might have transpired regardless. For example, the "uses" categories from Giving USA's annual report on philanthropy (as seen in the table below) shows that on an average annual growth rate basis, giving to public society benefit (PSB) at 4.0 percent per year (on average) has grown faster than most other subsectors over the last forty years (religion, 1.8 percent; education, 3.5 percent; human services, 2.6 percent;

Annualized Growth Rates of Giving by Subsector (forty years when possible)
(34 years, 34 years, and 38 years, respectively, for international affairs, environment/animals, and foundations)

	Religion	Education	Human Services	Health	PSB	Arts/Culture	International Affairs	Environment/ Animals	To Foundations
40-Year Annualized	1.8%	3.5%	2.6%	1.9%	4.0%	2.6%	6.9%	5.3%	5.2%

Source: Author's calculations using *Giving USA 2017* health, 1.9 percent; arts/culture, 2.6 percent).[8] However, PSB has grown more slowly (on an annualized basis for the years available) than gifts to foundations (5.2 percent), international affairs (6.9 percent), and environment/animals (5.3 percent).[9] It is important to note that PSB is a combination of giving to all sorts of federated funds, including commercial DAFs, Jewish federations, United Ways, and the Combined Federal Campaign (the U.S. government's campaign, which is similar in many ways to a United Way campaign). And, keep in mind that gifts to DAFs at a community foundation are counted by Giving USA as gifts to foundations, and gifts to DAFs at individual nonprofits are counted in the applicable category of nonprofits. For example, a gift to a DAF at the Indiana University Foundation is counted in the gifts to education category.[10]

Why Are DAFs So Popular?

One of the questions that is untestable is why DAFs are so popular now. There are at least three functional reasons that make DAFs increasingly popular in our current economic and philanthropic markets.

1. **Liquidity moments and timing.** Oftentimes, a liquidity event (whether triggered, for example, by an inheritance or the sale of a business) happens quickly, with many concomitant planning aspects or details to be addressed. Therefore, making a decision to make a permanent commitment to philanthropy (whether a percentage share of an asset, proceeds, inheritance, etc., or a fixed dollar amount) is more likely and easier to make than to determine exactly how much to give to exactly which charities all at once and all quickly. This seems to be even more the case in an environment that is rapidly and/or unexpectedly changing for the donor.
2. **After-tax effects and ease of donating now.** With DAFs, donors can donate appreciated stocks or other assets and not pay capital gains taxes. While donors can do the same thing with many charities, not all charities are equipped to accept such gifts, and donors may not be able to easily parcel out partial elements of the appreciated assets to all of the charities to which they want to donate—even assuming that they know to which charities they wish to donate at that time. DAFs make it easy to make a philanthropic commitment now, take advantage of the tax deductions now, and then determine the "who, what, where, when, and why" of giving to specific charities later, as time permits.
3. **Anonymity.** DAFs permit donors to be as public or as anonymous as they wish and to vary that approach from gift to gift. Donors have told me that there are times when they don't want their children, or neighbors, or colleagues, or fundraisers to know that they are giving to a particular cause, or that they have "that much money to give away" to any cause. One can imagine that these factors coalesce for anonymous giving in many cases, yet DAFs also enable donors to be identified when they wish or when the charity convinces the donor that it is imperative that they be named in order to help raise more money from other prospective donors.

Are DAFs Enabling Donors to "Park Their Money"? Do We Need a Minimum Payout Rate for DAFs?

One argument offered in opposition to DAFs is that they allow donors to just "park their money."[11] However, there appears to be little substantive evidence to support this claim. While the assets of DAFs have more than doubled over the last five years for which data is readily available, the dollar value of grants made from DAFs has also more than doubled, from $7.2 billion in 2010 to $14.5 billion in 2015.[12]

For better or worse, DAFs have received lots of interest from donors, charities, fundraisers, commentators, and some politicians. Former Congressman David Camp (R-MI) introduced legislation that would have required DAFs to distribute every dollar donated to them within five years of receipt. Failure to do so would have resulted in an excise tax of 20 percent of the undistributed amount. This legislation would have imposed these requirements at the individual gift level—not for all DAFs in aggregate at any one commercial or nonprofit entity overall. Requiring this at the individual gift level would

One argument offered in opposition to DAFs is that they allow donors to just "park their money." However, there appears to be little substantive evidence to support this claim.

make administration and compliance much more difficult for all parties.

The payout rates of DAFs have been defined in a range of manners (see *Giving USA 2017*, "Special Section on DAFs" delineating four options that have been suggested by others), but research shows that they all substantially exceed those of private foundations.[13] To make the closest thing to an "apples-to-apples" comparison, using the same protocol that foundations use in calculating their payout rates (grant dollars divided by charitable assets at the end of the prior year multiplied by 100 to get a percentage), the National Philanthropic Trust estimates that the payout rate for DAFs was 20.7 percent in 2015 and has been above 20 percent for several years. Moreover, the payout rates for DAFs don't include their operating costs in their payout rates, which private foundations are allowed to include in their 5 percent minimum payout rate.[14] This is often between 0.5 percent and 1.0 percent of the asset value, constituting a nontrivial portion of the foundation payout rate.

A requirement of a minimum payout rate for DAFs likely would ossify the minimum into a new maximum as well—essentially causing, in other words, a new standard of minimal compliance.

This is not to say that DAFs are better (or worse) than private foundations, and they can be similar and different in important ways—but the endless clamor for minimum payout requirements for DAFs is comparable to the political posturing that colleges ought to be bigger (more access), better (more quality), and cheaper (lower price). These are contradictory goals. Foundations are required to pay out a minimum of 5 percent of their prior year's asset base (simplifying here, though essentially accurate, but foundations can use a rolling multiyear average); however, they are allowed to pay out much more than that. With a few notable exceptions of spend-down foundations (see sidebar, right), the vast majority of foundations' assets are paid out at the 5 percent minimum rate (plus or minus a point). A requirement of a minimum payout rate for DAFs likely would ossify the minimum into a new maximum as well—essentially causing, in other words, a new standard of minimal compliance.

Payout rates for foundations could be higher than they are currently with little likelihood of the foundations closing entirely. However, based on ten thousand microsimulations for each tested payout rate over the next fifty and/or one hundred years, foundations most likely would experience a significant decline in the size of their initial corpus if the payout rates were increased.[18] With respect to DAFs and the establishment of a minimum payout rate, all I can say is to be careful what you wish for! We have a parallel and clear case with private foundations that the establishment of a minimum payout rate also created a de facto maximum payout rate—at the minimum rate.

Which Is Better? Spend-Down

From the perspective of getting cash directly in the hands of charities doing frontline work, it is by definition the case that spend-downs would be better than permanent endowments. However, that is not the only criterion to be evaluated in this decision-making process. In the debate around payout rates of foundations (and spend-downs are simply paying out at a much higher rate than permanent foundations), Akash Deep, Peter Frumkin, Renee Irvin, Stefan Toepler, and many others have argued that it comes down to intergenerational equity issues: Do we expect greater needs or greater resources now or in the future? Which strategy would "solve" societal problems faster: more money now or a more continuous stream of resources over time and across generations?[15] While admittedly a self-selected sample, a December 2016 report from the Center for Effective Philanthropy indicates that only 16 percent of the foundation CEOs surveyed believe that spending down assets was a promising strategy.[16]

While most foundations intend to operate in perpetuity, research by the Bridgespan Group (2010) indicated at that time that spend-down foundations were on the rise.[17] There are certainly a number of high-profile large institutions that are spend-downs (or plan to become one):

- Bill & Melinda Gates Foundation will exhaust all its assets within two decades of the death of the last of the three founders.
- Atlantic Philanthropies ended their active grantmaking in 2016 and plan to spend down completely within the next few years.

vs. Permanent Endowments

- The Quixote Foundation made its last grant in 2017.
- The Edna McConnell Clark Foundation, the Raikes Foundation, and the S. D. Bechtel, Jr. Foundation and the Stephen Bechtel Fund have all opted to spend down their endowments.

Unfortunately, we will only know with a large lag whether it is better for the spend-downs to make a few big bets now or if they would have had more impact by spending more money (cumulatively) over more years. Even then, the historians will only be able to speculate about the potential differences in outcomes in these hypothetical but parallel universes. That said, there is a strong argument to be made that diversity in giving opportunities and giving structures is a good thing for the entire sector; there are benefits to both approaches, and more options allow people to donate more reflectively in line with their interests and values.

Spend-Down Foundation Resources

- Veronica Dagher, "The Rise of Spend-Down Philanthropy: More Philanthropists Give Away Their Foundation's Assets in Their Lifetimes," *Wall Street Journal*, April 13, 2014, www.wsj.com/articles/the-rise-of-spend-down-philanthropy-1397242743.
- "Literature Review on Time-Limited Philanthropy," Duke Sanford Center for Strategic Philanthropy & Civil Society, July 13, 2015, cspcs.sanford.duke.edu/learning-resources/publications/literature-review-time-limited-philanthropy.

DAFs and Double Counting

Some have raised concerns about whether DAF gifts are double counted. This stems from the fact that a donation that originally was made to a DAF could be counted once the gift was made to the DAF and again when the disbursement from the DAF was made to a charity. A recent article by Alan Cantor in the *Chronicle of Philanthropy* has also discussed the possibility of double counting when an individual moves a DAF fund from one commercial entity to another to take advantage of lower service fees, higher annual yields, or real or perceived differences in service levels.[19] These dollars are technically a grant from one DAF to another. Cantor speculates that these behaviors exaggerate the payout rates by DAFs.

In the *Giving USA* report estimates that the Lilly Family School of Philanthropy prepares, we take special steps to ensure that we do not double count gifts. Donor-advised funds are only counted as sources of giving if they are housed in community foundations—otherwise, we do not count grantmaking *from* donor-advised funds in our sources calculations. On the sources side, giving a donor-advised fund is counted the same way that other individual giving is counted: it is in our giving by individuals estimate.

Some have raised concerns about whether DAF gifts are double counted. This stems from the fact that a donation that originally was made to a DAF could be counted once the gift was made to the DAF and again when the disbursement from the DAF was made to a charity.

Giving to donor-advised funds is counted in the *Giving USA* reports' "uses" of giving subsectors, but in different ways, depending on where the DAF is housed. It's important to keep in mind that there are different types of donor-advised fund sponsors, and this impacts where they are counted in the "uses" subsectors. The different sponsor types are counted in the following ways:

- Giving to national donor-advised funds is counted in public society benefit (PSB).
- Giving to donor-advised funds in community foundations is counted in giving *to* foundations.
- Giving to a donor-advised fund housed in an individual single-issue charity is counted wherever that charity is located in terms of nonprofit subsector (education, religion, etc.).
- Giving to a DAF housed in a federated campaign (such as a Jewish trust or federation) is counted in PSB because federated giving is counted in PSB.

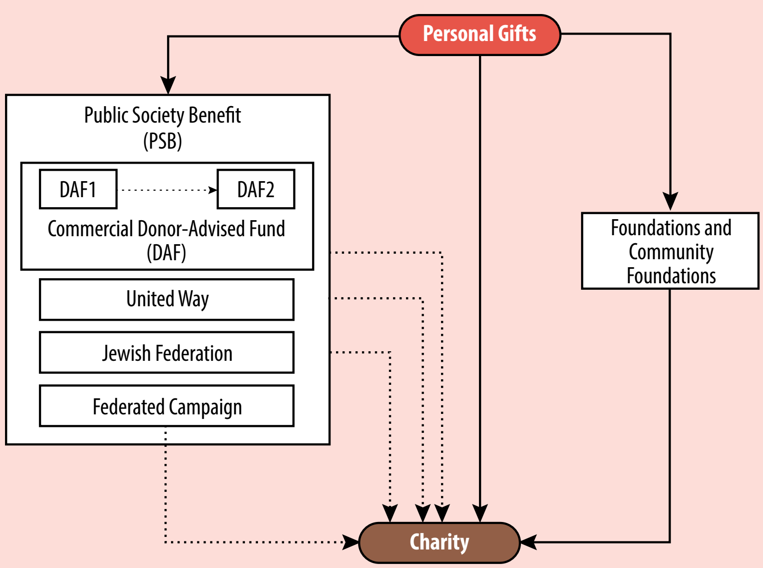
To avoid the double-counting issue, we take the net of incoming contributions and outgoing grants when tabulating giving to organizations that house donor-advised funds. This netting out of gifts and grants would also negate any double counting if an individual shifts a DAF from one sponsoring organization to another. If DAF grants were to cross years, from an accounting perspective there might be a "double counting" of the gift in one year, but that over-/understatement of the gift would be exactly offset in another year. In a dynamic steady-state environment, these fluctuations are likely to net out even within any given year. The flowchart below shows how we count things to ensure that individual gifts are only counted once. The chart shows specifically how a gift from one DAF to another is not counted twice.

While we can argue about whether or not these entities increase or decrease philanthropic giving by any one household and/or in the aggregate, it seems likely that they would fail to exist if they did not increase the net social welfare.

Other Philanthropic Intermediaries

Besides DAFs at community foundations (as well as at many other charities) and at commercial entities, there are several types of charities that are financial and philanthropic intermediaries; donors make gifts to these charities, and then the charities make grants to their respective communities. These communities could be geographically determined (most United Ways and community foundations), philosophically or religiously coaffiliated (for example, Jewish federations, giving circles, and Catholic charities), or other federated workplace campaigns (for example, the federal government's workplace and charitable fundraising campaigns).

While we can argue about whether or not these entities increase or decrease philanthropic giving by any one household and/or in the aggregate, it seems likely that they would fail to exist if they did not increase the net social welfare. As with DAFs, concerns have also been posed with respect to double counting these types of gifts. For our estimates for the *Giving USA* reports, we apply the same principles that we use for DAFs to other pass-through organizations to avoid double counting of gifts. Individual giving *to* organizations such as United Way chapters or Jewish appeals/federations is counted in estimates of giving by individuals. Giving or grantmaking *from* these entities is not counted, in order to avoid double counting.



Note: Solid lines included in Giving USA estimates of giving; dashed lines not included in Giving USA estimates of giving, to avoid double counting of gifts.

Conclusions and Observations

In sum: There have been questions raised about whether gifts and grants by DAFs and other philanthropic intermediaries such as United Ways and Jewish federations are double counted. While this double counting may occur transactionally on an organization-to-organization basis (as when they are recorded as gifts or grants from one charity to another), the Lilly Family School of Philanthropy's research scrubs the data in ways that eliminates this double counting.

There have also been questions about whether foundations (and—especially—DAFs) serve as instruments for donors to "park their money" indefinitely while still realizing a tax-deductible gift today. While one might haggle over whether or not the payout rates could or should be higher for foundations—or be created for DAFs—we need to remain cognizant that these gifts all represent permanent commitments to philanthropy. While some of the gifts might have gone directly to charities without these financial intermediaries for philanthropic giving, some would never have been made as philanthropic gifts absent such giving vehicles. The factors may vary—from the timing of liquidity events to the desire to provide opportunities for subsequent generations to learn to become philanthropists or even the desire to not leave too much money for one's heirs. Despite the differences in motivation, society is enhanced by the range of options that allow prospective donors to use these tools both for their personal benefits with respect to timing and platforms and for society's benefits from these permanent commitments to philanthropy.

The debate on the spend-down versus perpetuity on the expected tenure of foundations (and endowed DAFs) has garnered lots of attention and debates in the popular as well as academic

Other Questions about Double Counting: Daisy Chaining, Giving to Individuals (Pharma Gifts of In-Kind Products), and the Like

Daisy Chaining. Questions about daisy chaining refer to the possibility of double counting grants or gifts from one charity to another. This term was coined with respect to aid organizations regifting in-kind gifts to one another. The concern was whether this was being captured as multiple gifts in the research totals and also in the financial tallies of individual nonprofits (this may be used by nonprofits to inflate their revenue bases, making themselves look bigger than they are and throwing off their program spending ratios). Giving USA avoids the first by not counting gifts from one charity to another.

Giving to Individuals. A new "uses" of giving category, giving *to* individuals, was added to Giving USA estimates in the last decade or so. The category was added to capture the amount of gifts of in-kind products made directly to individuals by pharmaceutical firms (frequently called "patient assistance programs"), which comprise the majority of this category. This money does not go through a pass-through entity but rather is a tabulation of the amount that institutions are giving directly to individual Americans. In some ways, this is an oddity for Giving USA, as these are not gifts to or from a charity. The recipients may be better off getting these gifts in-kind directly from the source—both from a health perspective and an after-tax income perspective—rather than getting the same value in cash.

presses. Philanthropic giving decisions are private decisions about the best ways to address the challenges society faces now and in the future (including intergenerational equity concerns, which include environmental and social justice issues). There is not one right, cookie-cutter answer. Rather, society and philanthropy both benefit by allowing donors to decide which giving vehicles best enable them to achieve their philanthropic mission for the causes—and over the time periods—they elect to support.

Clearly, some of the issues in this article cannot be tested precisely, given the lack of data and/or the lack of comparability over time. Others cannot be tested given the lack of controls and "what ifs." That said, measuring the payout rates of DAFs, the impact of spend-downs and permanent foundations, the costs of fundraising, and so forth will be helpful to donors, fundraisers, and nonprofit leaders. It would also be ideal to compare philanthropic giving and political giving at the household level to measure whether or not

Philanthropic giving decisions are private decisions about the best ways to address the challenges society faces now and in the future (including intergenerational equity concerns, which include environmental and social justice issues). There is not one right, cookie-cutter answer.

What's Left for Charitable Programs after Fundraising Costs?

This is clearly a valid concern, but this topic is more of a thesis in and of itself and cannot be treated adequately as a brief sidebar. There is a wide range in the return on investment (ROI) from various fundraising tactics and strategies. The introductory methods (special events, telemarketing, direct mail, etc.) are available to all charities and may be the only real options for newer and smaller nonprofits, but they tend to have the lowest ROI.[20] Major gift fundraising and planned gift efforts may only succeed once the charity has demonstrated that *it* is credible and likely to succeed.

Within each tactic, there are many additional permutations and combinations for charities to decide on:

- hire own staff (but costs are up-front and certain and benefits are delayed and uncertain);
- hire outside fundraising advisors (still incur the staff costs with certainty as well as the consulting costs, and the benefits are still delayed and uncertain, but presumably better with greater expertise being applied than from in-house staff only); or
- outsource fundraising completely (but then very few of the dollars actually go to the charity—and often the third-party telemarketers keep the lists of donors, so it becomes difficult for the charity to break this chain of dependence).

We also know that when charities and their staffs feel significant pressure to report low fundraising costs to donors, funders, regulators, and the media, some charities will simply reallocate their fundraising and/or management and general costs to program costs.[21] This drives down their reported fundraising cost ratios but creates even greater pressure on other charities to report low fundraising costs. While most nonprofits make great efforts to accurately track and report their true fundraising and overhead costs, those that understate them create a death spiral toward zero (only because these costs cannot be negative). Such moves create false expectations for donors and funders, and mislead the public.

Innovations in Giving Platforms: Crowdfunding, MoveOn.org, and the Like

Normally not counted as part of *Giving USA* measurements or other measurements of formal giving—i.e., giving to a legal charity, 501(c)(3)—**crowdfunding** is considered to be "informal philanthropy"—i.e., giving from one person directly to another. In some ways, crowdfunding may be a substitute for formal giving (medical relief, disaster relief, etc.). In other ways, it is a supplement to formal giving (such as helping somebody with something for which they would be unlikely to obtain help from a formal giving mechanism—such as money for me to go to Spain to write my poem, or providing a scholarship to a child who lost her parents in a tragic situation). Crowdfunding and the social media supporting it have made these types of informal giving much more visible.

It is not clear yet whether these crowdfunding gifts are supplements to or substitutes for traditional gifts to legal charities. While this may be unknowable in some ways (it is hard to prove what might have happened if these options did not exist), even just tracking the flows and the differences in the rates of flows is difficult. This is because crowdfunding and other forms of informal giving have not been tracked historically, and the few high-quality studies of formal giving do not ask about crowdfunding, making it effectively impossible to gauge whether crowdfunding is net new giving (i.e., on top of traditional giving), or if it is largely displacing giving to formal charities. Given that crowdfunding and formal giving are both growing, it seems likely that they are largely supplemental rather than substitutes—but that is based on inferences rather than concrete evidence.

Online platforms such as **MoveOn.org** have made fundraising associated with a cause on which the donor is also taking action easier; but these are considered to be political, and political donations are not considered philanthropic gifts, so they are not tracked or counted in studies of charitable giving. Whether political giving is "crowding out" philanthropic giving is difficult to measure and is the subject of many academic papers. The simple answer is that political giving does not appear to be crowding out philanthropic giving—at least at the macro or aggregated levels, as is demonstrated by the fact that both political giving and philanthropic giving set new records in the last presidential election cycle. Whether these new types of giving platforms are "crowding out" gifts to traditional charities is impossible to measure with any level of precision, but so far there is no evidence to support that suggestion.

political giving "crowds out" philanthropic giving in some households—and, if so, what we can learn from those circumstances.

The views in this essay are strictly the author's own and do not necessarily reflect those of Indiana University, the Lilly Family School of Philanthropy, or Giving USA *or any of the other research projects the school undertakes. The author thanks Ji Ma for the flowchart graphics, Jon Bergdoll and Jon Durnford for fact-checking the methodology sections, and Anna Pruitt, Adriene Davis, and Lisa Rooney for editorial suggestions.*

Notes

1. *2016 Donor-Advised Fund Report* (Jenkintown, PA: National Philanthropic Trust, 2016), 4.
2. Marc Gunther, "The Charity That Big Tech Built," *Stanford Social Innovation Review*, Fall 2017, ssir.org/articles/entry/the_charity_that_big_tech_built.
3. This table was created by combining two tables from the *2016 Donor-Advised Fund Report*. For the original tables, see "Comparison of Giving Vehicles," section 5, tables 2 and 3.
4. Joseph A. Schumpeter, *Capitalism, Socialism and Democracy* (New York: Harper and Row, 1942).
5. Indiana University Lilly Family School of Philanthropy, *Giving USA 2017: The Annual Report on Philanthropy for the Year 2016* (Chicago: Giving USA Foundation, 2017), 358.
6. Ibid.
7. Ibid., 359.
8. Ibid., 356–7.
9. Ibid., 357.
10. Ibid., 71.
11. Marc Gunther, for example, uses this term repeatedly. See Gunther, "The Charity that Big Tech Built."
12. *2016 Donor-Advised Fund Report*, 5.
13. See *Giving USA 2017*, "Special Section on DAFs," 69–88.
14. *2016 Donor-Advised Fund Report*, 6.

15. Akash Deep and Peter Frumkin, “The Foundation Payout Puzzle,” in *Taking Philanthropy Seriously: Beyond Noble Intentions to Responsible Giving*, ed. William Damon and Susan Verducci (Bloomington, IN: Indiana University Press, 2006): 189–204; Renee A. Irvin, “Endowments: Stable Largesse or Distortion of the Polity?” *Public Administration Review* 67, no. 3 (May/June 2007): 445–57; and Stefan Toepler, “Ending Payout as We Know It: A Conceptual and Comparative Perspective on the Payout Requirement for Foundations,” *Nonprofit and Voluntary Sector Quarterly* 33, no. 4 (2004): 729–38.

16. Ellie Buteau, Naomi Orensten, and Charis Loh, *The Future of Foundation Philanthropy: The CEO Perspective* (Cambridge, MA: Center for Effective Philanthropy, December 2016).

17. Amy Markham and Susan Wolf Ditkoff, *Six Pathways to Enduring Results: Lessons from Spend-Down Foundations* (Boston: The Bridgespan Group, October 2013).

18. Patrick M. Rooney, Richard C. Sansing, and Jon Bergdoll, “Public Policies and Private Foundations: Payout Rates and the (Dreaded) Excise Tax,” in *The Handbook of Research on Nonprofit Economics and Management*, 2nd ed., ed. Dennis R. Young and Bruce A. Seaman (Cheltenham, UK: Edward Elgar, forthcoming).

19. Alan Cantor, “Donor-Advised-Fund Payout Numbers Don’t Add Up,” *The Chronicle of Philanthropy*, July 13, 2017, www.philanthropy.com/article/Opinion-Donor-Advised-Fund/240631/?key=-dCo3P626H9q3K8xpGu4_0_d9XsXxxEFluq_PN88Wz3YF94HWUXXoCCNT8SJfyg9cFFIY0pWSE5LVGtxVHJhRjdnUUdJajRSWDFMWEhMd1VVWFBUb0NtVHRoTQ#.WWdmwJA-nsw.twitter.

20. See Patrick Rooney, Mark Hager, and Thomas H. Pollak, “Fundraising Tactics and Efficiency: Results from a National Survey,” working paper, Urban Institute and Center on Philanthropy at Indiana University, 2003.

21. Kennard Wing et al., “Functional Expense Reporting for Nonprofits: The Profession’s Next Scandal?,” *CPA Journal* (August 2006), 3–7.

To comment on this article, write to us at feedback@npqmag.org. Order reprints from http://store.nonprofitquarterly.org, using code 240303.

Philanthropic Disruptions:

Everything and the Kitchen Sink

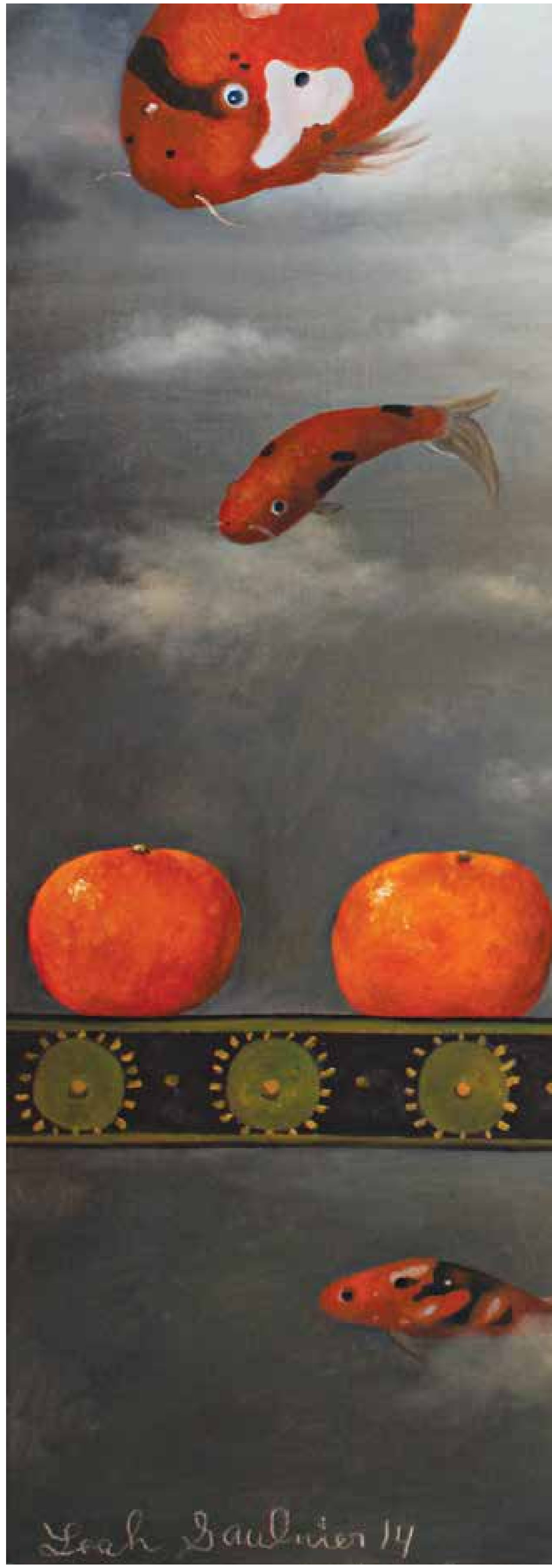
by Brandolon Barnett

Philanthropy is affected by the same trends that are forcibly mutating the economy as a whole. Thus, prognostications of the kind that can be made right now (and are made in this article, mid-era) reflect the chaos that will eventually become a new order. It's the "order out of chaos" precept, and it's the way eras develop: They are chaotic until they find their central form; they stabilize for a while; and then they become chaotic again.

***Editors' note:** The trends discussed in this article are to some extent covered elsewhere in this issue, with reference to the dynamics and practices engendered by greater online access to information and a lessened need for intermediation of giving. But when we reduce the need for intermediation, it may leave donors looking for new kinds of community-giving structures. These engagement opportunities have emerged helter-skelter, as tends to happen early in an era of technological/social change. Some will undoubtedly stand the test of time, and some will not.*

NONPROFITS AND PHILANTHROPY ARE, OF course, no more immune than anything else to the cascading forces of "disruption" in modern-day American society. Whether through technology or the convergence of previously siloed activities into integrated platforms, the impact of these forces—which includes new ways in which technology enables us to work

BRANDOLON BARNETT is a senior director at Global Impact, where he leads Growfund—a no-minimum Donor-Advised Fund.



"TANGERINE DREAM" BY LEAH SAULNIER/WWW.PAINTINGMANIAC.COM

and give—is causing shifts across the charitable landscape that are shaping new donor behaviors and trends.

For instance, let us consider the potentially disruptive role that the enhanced visibility of social enterprises (B Corps or other hybrid entities), sustainable products, crowdfunding, and other innovations may play in a new "social good economy." The emergence of these forms within the consciousness of donors and funders conceivably increases competition for the same pool of dollars earmarked for social good in that a donor, desiring to do good, may see as much value in "giving to" or investing in a crowdfunding effort by a local environmentally friendly B Corp as he or she does in donating to a local environmental charity. Interestingly, this expansion of vehicles in which one can invest for the social good does not appear to have made any observable financial encroachment on the more traditional forms. Nevertheless, the moment calls for a "pause" to consider what donors are newly looking for in their relationships with organizations carrying out the work they care about. And, arguably, what is being sought is a greater sense of community and belonging—a sense of being an important player in a common cause.

Interestingly, this expansion of vehicles in which one can invest for the social good does not appear to have made any observable financial encroachment on the more traditional forms. Nevertheless, the moment calls for a "pause" to consider what donors are newly looking for in their relationships with organizations carrying out the work they care about.

Democratizing Philanthropy

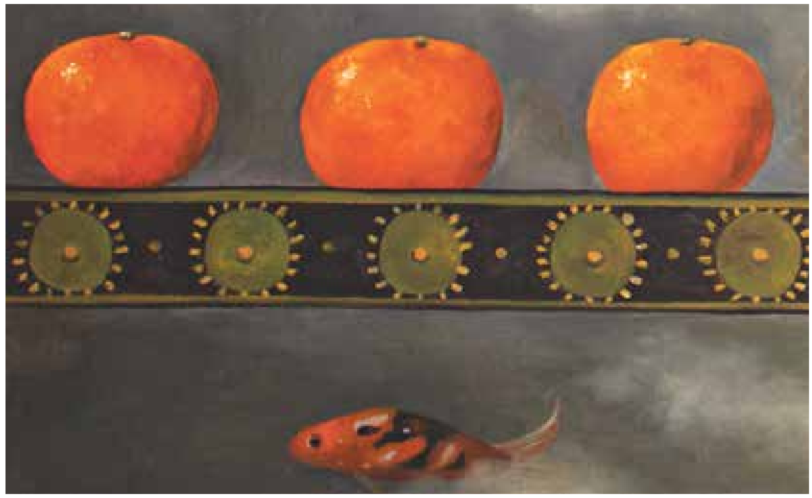
Traditionally, charities have ensured the flow of funding from the philanthropic sector—which one might define as the world of private (often endowed, often high-net-worth) or corporate philanthropy—by cultivating their strongest relationships with these high-net-worth philanthropists who, and philanthropic institutions that, are shepherded by charities and cultivated into activities far beyond the writing of one check or the press of one button via an online donation platform.

Nonprofits have developed a relational infrastructure that provides consistent updates, customized reports on impacts and methods, and other accommodations. To build a broader base of the sorts of deeper relationships required to adapt to our new, more complicated landscape, nonprofits need not reinvent the wheel. They can pull from this same toolbox, leveraging data and technologies to increase efficiencies. The result likely looks like a world in which the definition of whom we consider to be a philanthropist rather than a one-off donor is radically expanded. This expansion is a goal that fueled our work at Global Impact to develop Growfund—a no-minimum donor-advised fund (DAF)—as a charitable giving tool that essentially allows all individuals to create their own endowment, engaging them beyond the simple writing of a check. Yet we are not alone here.

Data Mining for Better Communications

Charities and infrastructure groups (including associations and technology providers) are developing more widely available impact reporting processes that leverage new software and data sources to more conveniently and quickly measure and communicate results. Freed from the need for bespoke reporting, organizations are finding it more efficient to communicate impact and to report to individual donors with the same level of detail that was previously cost effective only for work with large philanthropic institutions. For instance, organizations that use the Growfund platform to engage their donors are able to view comprehensive data on the giving history and behaviors of their supporters, which in turn affects the way these organizations can communicate with their donors. Nonprofits have long studied what their foundational donors want to hear and see; with the data mined from democratized tools for giving, nonprofits are now able to gain insights into the interests, habits, and hopes of even the smallest donors, as well as more easily recognize the cumulative impact of small donations by longtime donors.

These deeper relationships are one avenue for charities to enlarge the pool of funding available to them and to ensure a continued healthy flow of money into the nonprofit sector. This democratization of philanthropy enables new possibilities, including the ability to instill a culture of giving in the next generations. Imagine cultivating a donor from the first day of college orientation, or even earlier, with a donor-advised fund curated and managed by your organization. The young person that uses this tool alongside the other mechanisms of financial wellness learns about the importance of giving and philanthropy as he or she grows up. While the young person may only be able to put aside a few dollars a month at most, those dollars can be reinforced by matching from schools, parents, friends, universities, or companies, all the while grown through investment.



Creating a Culture of Giving

This new flow of money isn't a prognostication of a far-off future. It's a recognition of today's reality. One of our first clients for Growfund is Fatherly. Fatherly is one of the fastest growing media companies in the country. Based in New York, the organization provides content intended to help fathers be better parents. By the end of 2017, Fatherly will be providing the Growfund no-minimum DAF to its readers and their families. Their intention is to help fathers instill a culture of giving into their families from the moment a child is born. They will then share feature stories and tips to help families leverage their new philanthropic savings accounts aligned with giving days (such as #GivingTuesday), special events, or family priorities. Children and ordinary families newly able to create what are essentially endowments constitute a new audience and new flows of money. If these possibilities are identified and strategically leveraged, they present new opportunities for the nonprofit sector.

The need to identify and come to terms with the effect of technological and societal disruptions on the flows of money into the nonprofit sector leads to a fundamental reexamination of the question of what giving is.

Leveraging the New Tools for Giving

By cultivating relationships with ordinary donors, nonprofits could achieve the depth of relationships they have traditionally built with individual and institutional philanthropic entities. This leads us to reexamine the question of who considers themselves, and whom we consider to be, a philanthropist. We see scenarios in which the democratization of philanthropy represented in the rapid growth of tools such as DAFs or impact measurement software can enable organizations to create these relationships with greater efficiency. In doing so, nonprofits can cultivate new donors; leverage the power of matching, crowdfunding, and investments; and grow the entire pool of money available for social good efforts.

While this democratization effort can be one powerful response, diversification and innovation are also key considerations when adapting to new competition and to disruption. Put simply, new funding for social good made available through impact investment portfolios, crowdfunding, or other sources need not bypass charities. Those organizations that can establish funds, start their own social enterprises, or even leverage their on-the-ground insight into opportunities to serve communities—while generating some return—will be well positioned to benefit from the new flows of capital.

The need to identify and come to terms with the effect of technological and societal disruptions on the flows of money into the nonprofit sector leads to a fundamental reexamination of the question of what giving is.

Nonprofits as Start-Ups

The innovation required to adapt to these new flows of money demands change. It demands new skills, new titles, new structures, new mindsets. It broadly requires a reexamination of our third question: What is the role of a nonprofit? The answer is too complex to be addressed in one short piece; yet in its asking, we can identify potential roles beyond those traditionally acknowledged.

Let us imagine these roles by likening the operations of a nonprofit to a technology start-up. Within the technology sector, the product team is the team that best understands the marketplace.

This world will require the integration of nonprofits into a broader ecosystem of social impact. It will require courage, and the kind of investment and support (whether financial, training, or otherwise) that can enable productive risk-taking.

A product director will develop a deep view of clients' needs and the demands and concerns of prospects. This knowledge is then used to build new solutions. But when it comes to nonprofits, the landscape is different—and engagement and mutuality matter to those with whom you claim to be in common cause.

Furthermore, groups of nonprofits, such as membership associations, have immense resources relative to individual nonprofits, in addition to the advantage of having a 5,000-foot view of their sector. They're perfectly positioned to incubate new concepts, create venture funds, launch crowdfunding efforts, provide training, or provide visibility to new innovations in their field. These are but a few examples of concepts that can diversify revenue and allow nonprofits to benefit from funds now flowing within a much larger "social good space" that is defined more broadly than ever before.

Toward a New Era of Engagement

The final result of these changes is a world where money earmarked for social good, previously reserved as "nonprofit money," flows in new streams, past new gatekeepers, and at times to new recipients. It is an era in which many of the concepts we've come to take for granted are disrupted and redefined. Yet it can also be viewed as a time of great opportunity: One in which the full weight of endowments is unlocked for social good, not just the 5 percent that private foundations are mandated to spend. One in which corporate structures are not by default—in perception or in reality—unaligned with the aspirations of many in the nonprofit sector. One in which social enterprises and the behaviors of everyday people become infused with a desire to see the world change for the better. One in which anyone can be empowered to be a philanthropist, and every organization can track and communicate its impact and understand its donors at a deeper level through new technologies and techniques. One in which new opportunities and new jobs become available within nonprofits taking on new roles, from data analysts to product directors.

When all is said and done, these new patterns of movement for nonprofit money may be thought of as the end of an age of "giving"—an age in which individuals primarily gave in an ad hoc manner to effect positive change. We are entering in many ways a new era: an era of engagement, in which a new dynamic will be defined by the construction of a world made possible by deeper relationships established across multiple dimensions. This world will require the integration of nonprofits into a broader ecosystem of social impact. It will require courage, and the kind of investment and support (whether financial, training, or otherwise) that can enable productive risk-taking. It will require new tools and new relationships with donors and supporters. Yet it will be a world in which exponentially more resources than before are actively, passionately, and productively engaged in the task of making our tomorrow brighter than our yesterday.

To comment on this article, write to us at feedback@npqmag.org. Order reprints from http://store.nonprofitquarterly.org, using code 240304.

Honing Fundraising Strategy *through* Collaborative Experimentation

by Chris Pearsall and Alison Carlman

For GlobalGiving and DonorsChoose.org, partnering to find out what inspires donors to give proved fruitful. The authors describe the results of five years of joint forays into such tactics as match funding, A/B testing, philanthropic sweepstakes, and pseudo-sets, and offer a framework for organizations wishing to explore a like collaboration.

***Editors' note:** Fundraising methods have always been sensitive to our communications environment—and right now, with that changing so quickly, individual organizations can find it hard to keep up with the level of testing needed to figure out what will work for them and their donors. And there may be no final* there *there—since fundraising is also sensitive to issues of oversaturation of any promising tactic we may think up (along with a host of other variables). So maybe it is time to think carefully about how to integrate testing into our fundraising in a more collaborative way, learning how what works for one organization might—or might not—translate to another.*

Joint experimentation, knowledge sharing, and collaboration can be a boon to charities that want to maximize their resources to expand their reach and impact. Collaboration between GlobalGiving and DonorsChoose.org has allowed our two organizations to learn more quickly about what inspires donors to give, and enabled us to test joint hypotheses across multiple types of causes and giving platforms. GlobalGiving and DonorsChoose.org have partnered on a handful of tests that coincide with giving days like #GivingTuesday, and we have also looked for the most compelling ways to inspire generosity any day of the year. This article details our experimentation and findings.

Chris Pearsall is vice president of brand and communications at DonorsChoose.org. **Alison Carlman** is director of impact and communications at GlobalGiving.

GlobalGiving is a global crowdfunding community for nonprofits, donors, and companies in over 165 countries. It helps nonprofits to access

"SPIN" BY PAUL SANTOLERI/WWW.PAULSANTOLERI.COM

Although our standard (50 percent) matching offer via e-mail generated a greater number of one-time donations, the recurring matching "upgrade" incentive on the website generated three times the number of new recurring donations—a statistically significant finding.

the funding, tools, training, and support they need to become more effective. DonorsChoose.org is an education-funding platform that has helped over 350,000 U.S. public school teachers raise over $550 million for classroom supplies, field trips, and guest speakers.

Over the past year, we have secured joint grants from the Bill & Melinda Gates Foundation and the John Templeton Foundation to fund our giving experiments. Until now, most academic research in the nonprofit sector has focused on offline strategies and tactics (like direct mail) that inspire new donors. But these funders have helped us to test academic theories from behavioral economics or social psychology to find out what tactics inspire twenty-first-century generosity online.

The set of answers to that question may sound very familiar. Matching gifts, giveaways, and pseudo-sets can all have a role in helping the public be even more generous. Each of these is explained in its current context below.

Matches, Timing, and Design of the Ask

In the lead-up to #GivingTuesday 2016, the Bill & Melinda Gates Foundation funded a #MatchAMillion campaign on GlobalGiving. GlobalGiving used $500,000 in match funding and A/B testing to find out how it could influence donors to give at higher levels. More than 200,000 donors were presented with a standard matching offer for a one-time donation ("Give now and we'll match your donation at 50 percent") versus the option to upgrade to a recurring donation with a higher matching incentive ("If you sign up to make a monthly gift, we'll match your first month's donation at 200 percent"). Which offer would drive more giving? GlobalGiving tested the offers via e-mails to its current donors and on the donation checkout page of its website.

Although the standard (50 percent) matching offer via e-mail generated a greater number of one-time donations, the recurring matching "upgrade" incentive on the website generated three times the number of new recurring donations—a statistically significant finding.

These are the takeaways for other nonprofits raising funds online: The data show that nonprofits will be most successful if they keep e-mail appeals simple; appeals should focus on a clear call to action to lead donors out of e-mail and onto the giving page; and the more complex the communications, the harder it typically is to get a donor to act. However, once donors are ready to make a donation, giving them an opportunity to select between two, more complicated matching offers (a lower percentage for a one-time match and a higher percentage for a recurring match) can lead to a significant increase in recurring donations. GlobalGiving has heard from its nonprofit partners that recurring donations are some of their most valuable sources of online funding.

Philanthropic Sweepstakes: Helping to Control the Unknown

In our experience, collaborative experiments among nonprofits can take two forms: trying two distinct approaches that tackle the same problem, or testing the exact same hypothesis in two different environments. In our work with the Gates Foundation on #GivingTuesday, we chose the first option—while GlobalGiving was testing matching campaigns on #GivingTuesday 2016, DonorsChoose.org tested a completely different approach.

Thanks in part to the popularity and success of match campaigns, teachers in record numbers are using DonorsChoose.org to stock their classrooms. As its project inventory grows, DonorsChoose.org has had to develop creative new ways to engage all its donors and teachers when a match offer on all projects is beyond a potential funder's budget.

One idea continued to surface every few months: a philanthropic sweepstakes. The concept, quickly known around the office as "the golden ticket," was that donors would be rewarded for certain actions by earning entry into a drawing for a high-value DonorsChoose.org gift card they could then use to support more classroom projects on the site.

#GivingTuesday seemed like the perfect testing ground for the golden ticket. On a day when donors are already primed to give, a small incentive might tilt the scales in favor of classroom projects on DonorsChoose.org.

An added bonus was the chance to promote this #GivingTuesday campaign in advance. Typically, DonorsChoose.org must keep site-wide match days top secret, due to the risk of teachers flooding the site with more projects than the team can review and post while matching funds last. For a typical site-wide match campaign, DonorsChoose.org can give donors and teachers a heads-up twenty-four hours in advance. With the sweepstakes concept, which would involve a set number of prizes but limitless capacity for donations, DonorsChoose.org could promote the campaign weeks in advance without the risk of running out of matching funds.

DonorsChoose.org turned the concept into its first-ever #GivingTuesday GIVEaway. On that one day, every time a donor gave to a project, both the donor and the teacher they supported were entered into a drawing for a \$5,000 DonorsChoose.org gift card. Backed by a grant from the Gates Foundation, fifty donors and fifty teachers were declared winners.

Both donors and teachers jumped at the chance to participate, and the campaign raised \$1.3 million from 17,217 donors in one day—a year-over-year increase of 155 percent and 184 percent, respectively. November 29, 2016, was a record-shattering day for DonorsChoose.org (until a site-wide match campaign in March 2017 raised over \$2 million in twenty-four hours).

The one #GivingTuesday metric that dropped was average donation size, falling from \$64 in 2015 to \$46 in 2016. The giveaway, which required no minimum donation and limited entries to a maximum of ten per person, indirectly incentivized multiple low-dollar donations to earn extra drawing entries.

A survey among the winning donors revealed that a majority had already planned to make a donation to DonorsChoose.org that day, but a third of survey respondents were enticed by the giveaway concept (10 percent) or by a teacher who asked for their support (19 percent).

DonorsChoose.org also tested various e-mail calls-to-action for donors. Five different e-mails went out to donors on #GivingTuesday: A control that did not mention the giveaway at all; a version that prominently called out the giveaway; a version that only briefly mentioned the giveaway in a "P.S."; a version that noted that there would be one hundred winners; and a "social proof" version that profiled a donor who had previously won a gift card. Of all the tests, the version that noted there would be one hundred winners converted best.

Our takeaways for the greater online fundraising community: the philanthropic giveaway can be a great tool when a matching campaign is beyond the budget—or on days like #GivingTuesday, when people are already primed to give and see the giveaway as a value add. The response from the winners was overwhelmingly positive (as expected), which can be a great relationship-building opportunity if you can have multiple winners. Still, the match offers remain DonorsChoose.org's number-one tool for activating its entire community, and match offers work any day of the year. For example, DonorsChoose.org's #GivingTuesday e-mails from 2015, which mentioned a match, had double the conversion rate of its #GivingTuesday 2016 e-mails about the giveaway. While DonorsChoose.org hasn't yet replicated the giveaway concept outside of #GivingTuesday, the expectation is that it likely would not exceed the success of the match on a typical day.

Pseudo-Sets: The Missing Piece?

Our collaboration went beyond data sharing in 2016, when the John Templeton Foundation funded a partnership between our organizations and global lending platform Kiva, along with Michael I. Norton and Oliver Hauser at the Harvard Business School, to conduct a large-scale synchronized field experiment.

The purpose of this experiment was to explore how fundraising appeals could be structured in a way to engage donors (or lenders, in Kiva's case) and increase contributions. Previous research by the Harvard Business School team suggested that people would be motivated to complete tasks if the tasks were framed as part of a "pseudo-set"—pictured as wedges of a pie chart that fill in with

Previous research by the Harvard Business School team suggested that people would be motivated to complete tasks if the tasks were framed as part of a "pseudo-set"—pictured as wedges of a pie chart that fill in with each task completed, for example.

If you work with a foundation or in academia, how can you help foster more collaboration in the nonprofit sector with your funding or expertise? Which organizations could you reframe in your mind as potential collaborators instead of competitors?

each task completed, for example. Inspired by this idea, we ran a large-scale field experiment across the three nonprofit crowdfunding platforms to test the effect of "pseudo-set" framing in fundraising. Could we increase donations by framing an appeal as part of a larger set of tasks?[1]

All three organizations—GlobalGiving, DonorsChoose.org, and Kiva—launched simultaneous A/B tests on the same day, reaching more than 230,000 past donors to test "pseudo-set" framing. Donors in the test groups received an e-mail that informed them that their past donation was part of a larger set. For GlobalGiving and Kiva, the pseudo-set consisted of the six continents. On DonorsChoose.org, the pseudo-set was made up of six fundamental school subject areas. The e-mails invited people to give (or lend) to a different component of the larger set; completing a pseudo-set meant giving to all six components that made up that set. We found a significant effect ($p = 0.084$) on donations from pseudo-set framing by two of the charities: GlobalGiving and DonorsChoose.org. We did not find a similar effect vis-à-vis lenders on Kiva. We don't know why this is so, but we hope to find out in future experiments.

What have we learned from pseudo-set framing of charitable donation requests? It seems that framing donation appeals as part of a larger set is helpful for some organizations. We think that the results can be more powerful if the context and the pseudo-set are presented well. The data from this experiment show that pseudo-sets (the more creative, the better) have the potential to make the donation experience more engaging for donors and help organizations retain their donor base. These are hypotheses that we will continue to test.

Working and Growing Together

Over the past five years, the collaboration between GlobalGiving and DonorsChoose.org has moved from sharing hypotheses to sharing results, and, finally, working together on experiment design, execution, and funding proposals. This would not have been possible without generous funding from the Bill & Melinda Gates Foundation, the John Templeton Foundation, and passionate researchers like Norton and Hauser. And we see great potential for more organizations to work together to uncover other trends and strategies in philanthropic behavior.

• • •

If you work with a foundation or in academia, how can you help foster more collaboration in the nonprofit sector with your funding or expertise? Which organizations could you reframe in your mind as potential collaborators instead of competitors? Here are three questions to ask yourself when thinking about collaboration: What other organizations ultimately share your same vision or mission, even if they differ in program or approach? Alternatively, what other organizations employ similar tools or approaches, even if they are looking to impact different populations from those you are looking to impact? And finally, what resources do you have to share (in terms of data, experience, tools, and access) and what resources could you benefit from?

If you identify a potential collaborative partner, the Posner Center for International Development (an international collaborative development community based in Denver, Colorado) has developed a "Collaboration Assessment Tool" that may help you to determine the appropriate level of collaboration and your collaboration readiness.[2]

It's not always easy to sell the idea of collaboration to a board or to staff members, who may well be used to working tirelessly to make sure that your organization gets the biggest piece of the pie. But we have experienced firsthand the benefits of using collaboration to grow the whole philanthropic pie instead of competing for crumbs.

Notes

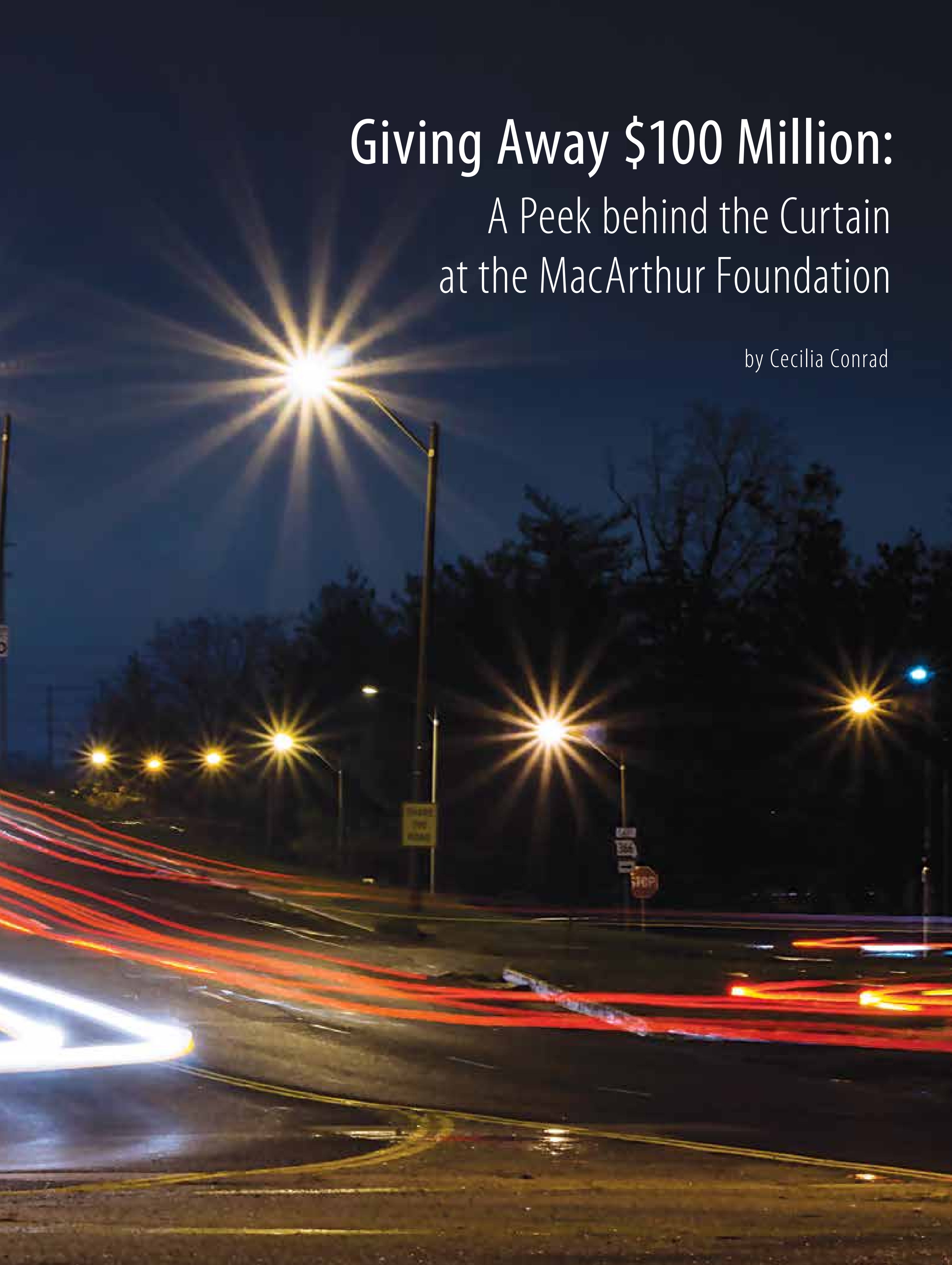
1. Portions of this section on pseudo-sets were taken directly from Oliver Hauser, *How "Pseudo-Sets" Might Help Your Nonprofit Get Repeat Donations* (Washington, DC: GlobalGiving, 2017), www.globalgiving.org/learn/ggtestlab/pseduo-sets-and-repeat-donations.

2. Available at posnercenter.org/resources/collaboration-assessment-tool.


STOP

Giving Away $100 Million:
A Peek behind the Curtain at the MacArthur Foundation

by Cecilia Conrad



When the MacArthur Foundation decided to hold a competition to award $100 million to a single grantee, the organization knew a single grant of this size was a "risky proposition." But as the Foundation's president has said, "philanthropy is best positioned to provide society's 'risk capital.'" The competition grew to become something even broader and deeper than its original intent—proving that such an approach governed by genuine curiosity and intelligent openness will tend to yield useful results.

The MacArthur Foundation's *100&Change* competition began as an experiment in openness, in response to criticisms that the philanthropic sector is too insular, not sufficiently focused on impact, and too risk averse. Instead of an introspective process, by which we would decide on an issue or problem as the focus and then design the strategy, we decided to issue a public, open call: "Tell us what problems $100 million can solve, and how."

We proposed a $100 million grant—large by any standards—to be awarded by a competitive process and to be used over a compressed period, because we believe that there are some categories of problems that can be solved if they receive this kind of focused attention and resources at scale with need. Conversely, there are some problems where that may be less likely to work. (Different problems require different approaches.) We see the value in a diversified portfolio of grantmaking—responsive, strategic, and even "speculative" (the MacArthur Fellows Program invests specifically in individual potential). We also see the value in a diversified portfolio of risk. A single grant of $100 million is admittedly a very risky proposition—but, as our president Julia Stasch has said, "philanthropy is best positioned to provide society's 'risk capital'."[1]

But we wanted to take a risk that was carefully informed and respectful of the large investment. MacArthur spent two years designing *100&Change*. We researched and investigated different competition models. We grappled with tough choices around the structure and are still learning what worked well and what could stand to be improved. Those challenges included

- how to balance risk and evidence;
- how to evaluate diverse proposals;
- how to create a value proposition for all participants;
- how best to ensure engagement with communities of interest—those that stand to benefit and lose; and
- how to curate content for other funders interested in supporting proposals.

We narrowed our semifinalists down to four finalists this September—and as we prepare to name a winner in the following months, we want to share the many lessons we have learned through our approach to giving away $100 million, and we want to share the data we have gathered—a rich repository of creative, thoughtful, and impactful ideas.

Cecilia Conrad is managing director at the MacArthur Foundation, where she leads the MacArthur Fellows Program, the MacArthur Awards for Creative and Effective Institutions, and *100&Change*, a competition for a single $100 million grant to help solve a critical problem of our time.

"THE DIVIDE" BY MARK POLEGE/WWW.PHOTOGRAPHYOFMARKPOLEGE.COM

Balancing Risks and Evidence

Our intentions were clear from the start: we wanted to solve a problem. And more than that: we wanted to inspire the broader public to believe change can happen and solutions to major challenges are possible, despite the current political and social climate.[2]

We started by investigating different models. We looked at a point solution prize, where a specific goal or target is defined and a monetary prize is offered to those who best achieve it. We considered challenges, where a problem is defined and support is offered to those who are looking for the solution. Both approaches would have required that we define a specific problem that we wanted to solve, hindering our effort not to impose our own views as to what problems are most compelling, and both presume that the solution to the problem is unknown. We believe that there are problems where solutions are known but there is just not enough money available to effect the solution.

In philanthropy, there is a tendency to want to be the first to fund an idea, project, or breakthrough innovation. MacArthur was not seeking to occupy that space. We perceived a gap in the philanthropic field: a need for funding to take tested ideas to scale. We saw *100&Change* as a way to help address that gap.

By the time the application period closed for *100&Change*, in October 2016, we had received 1,904 applications. MacArthur staff reviewed each submission to ensure it complied with the application requirements.[3] Although we believed at the time that we had communicated our eligibility criteria clearly, we discovered that some criteria needed clearer description.

For example, even though we had described *100&Change* as a competition for a $100 million grant, we received 463 proposals for projects with budgets well below $100 million. During the next round of *100&Change* we will state, unequivocally, that we are looking for $100 million projects.

We opened the competition to for-profit organizations but should have provided more guidance regarding the concept of charitable purpose and the limitations on the use of grant funds to generate profit or other private benefits. Many of the for-profit entries were disqualified in administrative review for not meeting these requirements.

A Panel of Wise Heads

Our insistence on openness also constrained our choices about how to evaluate proposals. If we had limited ourselves to a specific domain of work, we could have employed a panel of specialists—a group of experts in that domain. However, it was impractical to convene multiple panels of experts across different fields in anticipation of what might be submitted to the competition. And, as our semifinalists illustrate, we received a diverse pool of submissions.[4]

Another option would have been a crowdsourcing model. There is wisdom in inviting people to propose which problems they would solve and having a crowd assess, through open voting, whether that problem is meaningful or compelling. But we did not want *100&Change* to turn into a popularity contest, creating a competitive disadvantage for some proposals. We worried that open voting might favor emotional appeal over effectiveness.

We realized that crowds provide a way to take more risks, innovate, and think outside the box. We also understood that the wisdom of experts is important. So, that is how we landed on what we called "a panel of wise heads"—an evaluation panel of judges that included more than four hundred thinkers, visionaries, and experts in fields such as education, public health, impact investing, technology, the sciences, the arts, and human rights.

To remain open, we had to define selection criteria that were agnostic with respect to field of work. We arrived at four: meaningful, verifiable, feasible, and durable.[5]

The first, "meaningful," was the goal of the competition: tackle a significant problem that matters. We knew going in that there were many problems that $100 million could *not* solve, and we were comfortable with people addressing a slice of a problem—but it needed to be a compelling slice. Our intent was to define meaningfulness broadly; however, we probably should

In philanthropy, there is a tendency to want to be the first to fund an idea, project, or breakthrough innovation. MacArthur was not seeking to occupy that space. We perceived a gap in the philanthropic field: a need for funding to take tested ideas to scale. We saw *100&Change* as a way to help address that gap.

Evidence that a given proposal worked—had worked at least once, somewhere, and on some scale—was important to us. We wanted to mitigate against the risk of picking a proposal that was completely untested or untried.

have been clearer. The solution did not require a global impact or have to impact a large number of people to meet our standard of meaningfulness. It could also include a solution to a serious, devastating problem for a well-defined number of people or a single geography. Yet, our preliminary analysis suggests that our evaluation panel defined meaningfulness narrowly. Of the two hundred top-scoring proposals, just four focused on a single local geography or population.

Evidence that a given proposal worked—had worked at least once, somewhere, and on some scale—was important to us. We wanted to mitigate against the risk of picking a proposal that was completely untested or untried. Hence, our second evaluation criterion: "verifiable." We required applicants to provide rigorous evidence that their proposed solution would effectively address the problem they identified. Compelling evidence could include

- data from an external evaluation pilot project or experimental study;
- citations in peer-reviewed research indicating a strong scientific consensus; and
- documentation of a detailed pathway from the proposed actions to specific outcomes.

Our third criterion was "feasible." The criterion "verifiable" asked if a solution would work if implemented. The criterion "feasible" asked if the solution could be implemented by the team proposing it. Does the team have the right expertise, capacity, and skills to deliver the proposed solution? Do the budget and project plan line up with realistic costs and tasks? Are there political or other obstacles to successful implementation?

The last criterion, "durable," was one of the most challenging for many participants. If we were focused on solving a problem, we did not want the solution to be temporary and transitory. We wanted whatever we chose to have long-term impact.

We thought about durability in a few ways. The first is that \$100 million can fix a problem forever. Once you fixed it, you have no need to address it again. Among the eight semifinalists, The Carter Center's proposal to eliminate river blindness in Nigeria is closest to this idea. The second is that \$100 million may set up the infrastructure required so the ongoing marginal cost is very low and there is an identifiable revenue stream to cover it. An example: the Himalayan Cataract Project proposes creating a vision care infrastructure that will deliver care at low marginal cost into the future. And the third is that \$100 million may allow you to unlock resources and identify others who will commit to funding the project over the longer haul. Catholic Relief Services proposes to use the \$100 million to demonstrate to both private philanthropy and governments the advantages of funding family-based care over institutional care for children.

We asked a few questions of applicants: If this is going to cost more than \$100 million, how much more, and how do you plan to fund it? What are the long-term ongoing costs, and what is your plan to cover them? Many applicants either ignored the sustainability question or provided vague answers, making it a challenge for the judges to assess the durability criterion. Out of all the criteria scored by the judges, durability had the lowest median score.

While *100&Change* was open to problems from any domain or field, the four evaluation criteria implicitly restricted the types of problems and solutions that would be competitive. There are likely many cases among the submitted proposals where applicants addressed a significant problem and proposed a solution likely to yield significant social benefits. Yet, in some cases, proposals addressing a significant problem did not yield a high score on the *100&Change* rubric because the project would require ongoing philanthropic dollars or lacked a persuasive body of evidence to prove it would work. These projects might benefit from a different kind of philanthropic investment.

The Value Proposition for Participants

The success of *100&Change* depended on attracting high-quality participants. Although we did not ask participants to invest in implementation in advance of the grant, we did ask for significant investment in the application process. We asked for detailed descriptions of the project, financial statements, evaluation and learning plans, memoranda of understanding with all partners, and a ninety-second overview video. Organizations had four months to pull their applications together. We realize this is a significant ask, and during the next round of *100&Change* we intend to provide potential applicants with more lead time to put their proposals together.

Recognizing that the time and other resource costs of the application process were not trivial, we wanted to create a value proposition for all participants. All applicants whose proposals were evaluated have received comments and feedback from judges. That feedback might help to strengthen the rejected proposals for future funding requests or even the next cycle of *100&Change*, which we intend to repeat every three years. We have heard from some applicants who are already using the feedback to refine their proposals, potentially proceeding to implement their projects even without our funding.

Independent of specific feedback from judges, we've heard stories that the competition sparked conversations about what might be possible with a large amount of funding. At Arizona State University, *100&Change* served as the impetus for new teams and partnerships to form and for existing teams to reach further and reimagine how an idea can scale and be transformative.[6] At the University of Massachusetts Boston, the competition was the catalyst to think bigger and more boldly about its scope of impact.[7] The university encouraged teams that submitted proposals "to develop, deepen, refine, and create our proposals collectively, with community partners."[8]

Planning for Scale and Engaging with Communities of Interest

MacArthur is committed to making each of the eight semifinalists' projects as strong as possible—providing support to help them refine and think through how they would expand, adapt, and sustain successful projects in a geographic space, over time, to reach a greater number of people. We enlisted the outside firm Management Systems International (MSI) to help the semifinalists address technical and organizational capacity challenges and demonstrate authentic engagement with communities of interest.[9] We defined communities of interest as targeted beneficiaries, policy-makers, others who work in the same space, and those who stand to lose political power or influence, social status, economic resources, or demand for their products or services if the proposed solution is implemented. These engagements have taken many forms—blog posts, community meetings with potential beneficiaries, and live digital interactions such as Facebook Live and reddit AMA—and they have served multiple purposes. Semifinalists have revised strategies based on information learned through these engagements, identified new collaborators and partners, and attracted new resources—both financial and in kind.[10]

The Foundation also asked each semifinalist to address issues of equity and inclusion. We asked that each team describe how it would ensure inclusion of marginalized populations, recognizing that the definition of marginalized populations would depend on the specific context of the work. The Internet Archive, whose targeted beneficiaries are primarily based in the U.S. and Canada, responded to this question by emphasizing the curation of a digital collection as diverse as the population of readers through a transparent, inclusive selection process. HarvestPlus described efforts to include internally displaced persons in Nigeria and refugees in Uganda. We enlisted Mobility International USA and Access Living to provide specific advice on the inclusion of persons with disabilities (Access Living adapted a checklist for the *100&Change* competition for each semifinalist to conduct a self-evaluation). We also required that each team explain how it would use gender analysis, including disaggregated data, in the planning, implementation, and evaluation phases of the project.

The Foundation also asked each semifinalist to address issues of equity and inclusion. We asked that each team describe how it would ensure inclusion of marginalized populations, recognizing that the definition of marginalized populations would depend on the specific context of the work.

Curation and Promotion

When we launched *100&Change*, we did not foresee that we would be creating a rich repository of creative, thoughtful, and impactful ideas. Yet, other funders did. Within weeks of the announcement, we started receiving requests to share proposals—and we are.

To be responsible stewards of this public good, we are making full proposals available to other funders who have expressed an interest in supporting a project.

We developed an interactive map featuring the top two hundred proposals that received the highest scores from our evaluation panel.[11] It shows where the proposed projects take place and demonstrates their collective global reach. And we created a public searchable database with summaries of the nearly two thousand projects submitted that embody big ideas of value to both the philanthropic community and the broader public.[12]

To be responsible stewards of this public good, we are making full proposals available to other funders who have expressed an interest in supporting a project. We are cultivating donors who might want to fund other proposals, including those that might benefit from smaller initial investments. We are also engaging the research community—which might glean valuable insights about nonprofits and for-profits—and academic and nonacademic institutions. And we have our own list of research questions to inform the next iteration of *100&Change*:

- What specific fields or organization types were at a disadvantage in the competition and why?
- Are there patterns in the types of solutions proposed in specific fields?
- What are the financial and capacity needs of the problem-solving community?

There are certainly many other exciting questions to explore, and we welcome research interest.

• • •

Interest in *100&Change* has exceeded our expectations. It has become more than a competition to select a project to receive a $100 million grant. *100&Change* is also a mechanism to canvass the globe for problems that require big solutions, and a platform for sharing those big ideas with the philanthropic community. We hope that *100&Change* has inspired others to believe that change can happen and solutions are possible.

Notes

1. Julia M. Stasch, “Taking Risk and Requiring Evidence,” *100&Change*, MacArthur Foundation, January 6, 2017, www.macfound.org/press/perspectives/taking-risk-and-requiring-evidence/.

2. Julia M. Stasch, “Solutions Are Possible: Post-Election Poll Indicates,” *100&Change*, MacArthur Foundation, December 12, 2016, www.macfound.org/press/perspectives/solutions-are-possible-post-election-poll-indicates.

3. “Application: Propose a problem and its solution. Ideas can come from any field or sector,” *100&Change*, 2016, www.100andchange.org/#application.

4. See “Meet the Semi-finalists,” *100&Change*, 2016, www.100andchange.org/#results.

5. Cecilia A. Conrad, “A Panel of Wise Heads,” *100&Change*, MacArthur Foundation, January 23, 2017, macfound.org/press/perspectives/panel-wise-heads; and see “Scoring Process: Understand the scoring,” *100&Change*, 2016, www.100andchange.org/#scoring.

6. Steven J. Tepper, “100&Change: A Clarion Call for Arizona State University’s Researchers,” *100&Change*, MacArthur Foundation, May 17, 2017, www.macfound.org/press/perspectives/100change-clarion-call-arizona-state-universitys-researchers/.

7. Anne Douglass and Paul Kirshen, “Taking the Moonshots for Climate Justice and Early Childhood Education,” *100&Change*, MacArthur Foundation, June 29, 2017, www.macfound.org/press/perspectives/taking-moonshots-climate-justice-and-early-childhood-education.

8. Ibid.

9. “Scaling Up Development Innovations and Social Outcomes,” Management Systems International, 2017, www.msiworldwide.com/approach/tools/scaling-up-framework-toolkit.

10. Theresa Mkandawire, “To Be Human is to Collaborate,” *100&Change*, MacArthur Foundation, July 13, 2017, www.macfound.org/press/semifinalist-perspectives/be-human-collaborate.

11. “Meet the Top 200,” *100&Change*, 2016, www.100andchange.org/#results.

12. “Explore All Submissions: Be inspired to think big and bring about meaningful change,” *100&Change*, 2016, www.100andchange.org/#explore-submissions.

To comment on this article, write to us at feedback@npqmag.org. Order reprints from http://store.nonprofitquarterly.org, using code 240306.

Cash Flow in the Nonprofit Business Model: A Question of *Whats* and *Whens*

by Hilda H. Polanco and John Summers

In order to understand your organization's finances, you must have a firm grasp of your cash flow for each component of your business model. For, as the authors stress, "Being informed, strategic, and collaborative in cash flow management can help to ensure that a nonprofit's long-term strategy isn't derailed by avoidable—if inevitable—short-term obstacles."

In recent years, the concept of the "business model" has gained a great deal of currency within the nonprofit sector, with nonprofit leaders as well as grantmakers and other stakeholders focused on understanding and improving the business and financial underpinnings of how organizations deliver on their missions. Discussions of the nonprofit business model often include considerations of things like cost to deliver services, mix of sources of funding, and key drivers of financial results.[1] Discussions of financial stability and sustainability often focus on the overall health of the balance sheet and (accrual-based) operating results. While these are all essential elements to understanding an organization's finances and business model, such conversations sometimes miss one critical component of any business—namely, day-to-day liquidity. This article will discuss ways in which cash flow impacts—and is impacted by—the way a nonprofit organization does its business.

Cash flow is simply the mix—and timing—of cash receipts into and cash payments out of an organization's accounts. It is where the numbers on budget spreadsheets and financial reports translate into the reality of money changing hands. And as such, it is a very specific lens on the reality of a business model—one that takes into account not just *what* an organization's revenues and expenses look like, but *when* they come and go. Managing cash flow, therefore, is primarily a question of *when*—when we pay our staff, when this bill is due, when the grant payment will come in. And as there are many varieties of nonprofit business models, each one has a particular bearing on many of those *whens*.

Nonprofit business models have two main components: what kinds of programs and services nonprofits deliver, and how they are funded.[2] For nonprofits, the latter component is a bit more complicated than for our colleagues in the for-profit world, for whom the answer is (nearly) always "by selling them to customers." Of course, this isn't to say that cash flow is perfectly smooth or frictionless even in the for-profit sector, only that the range and variety of funding models for nonprofits (including not just "customers" but also third-party funders such as foundations, governments, and even individual donors) adds additional complexity.

Each component of the nonprofit business model—the delivery model and the funding model—has implications for organizational cash flow that should be understood for effective financial planning. We'll look at each one in turn before discussing some strategies for addressing the almost inevitable occasions when the cash flowing in doesn't match the cash flowing out.

What Do We Do?

"What do we do?"—what kinds of programs and services an organization delivers (and how it delivers them)—is really a more high-minded way of asking, "What do we spend our money on?" (Granted, some services may be delivered by volunteers or use donated goods, but money is still necessary to pay managers and fund operations.) Really understanding "*what* we spend money on" will also generally give us a good idea of "*when* we spend it." For example, a performing arts company that does four productions a year will have a fairly steady base of ongoing expenses, with spikes during the periods when productions are being prepared and staged. An emergency relief organization may have its baseline of operating expenses, with sudden (and unpredictable) surges of cash needs in response to a local hardship or disaster. A public policy research organization may have very predictable and consistent monthly cash outlays: payroll every two weeks, rent on the first of the month, invoices on the fifteenth and thirtieth. In each case, the cash flow demands are inherent in the business model.

Job one for cash flow management, then, is to understand the timing of cash needs—the magnitude and due dates of an organization's bills.[3] Again, the "what do we do" side of the business model is the guide. If what you do is relatively stable, consistent, and predictable (as in the policy research organization example), your cash needs likely will be as well. If what you do is predictable but not consistent (as in the performing arts company with productions at various points throughout the year), you know to plan for the surge in cash needs when the programming picks up. If what you do is unpredictable (as in the disaster relief agency), you will need cash available to deploy at a moment's notice.

The examples above only take into account normal operations—businesses also need cash at certain points for longer-term investments like moving to a new space or buying a building. And while a major investment like that wouldn't happen without a solid plan, there are also the occasional random but significant expenses like repairing a broken elevator. Again, the business model tells the story of the cash needs: while the policy research organization may not be making capital purchases beyond a new set of computers, a housing development organization may need enough cash for major real estate purchases or construction of buildings. However large or small the investment, at the end of the day it means cash flowing out of your account.

How Are We Funded?

Wouldn't it be nice if the biggest task were simply thinking through one's program delivery model to identify when the cash will be needed, and then turning on the tap to make it flow? Unfortunately, cash doesn't work like a tap (and in fact, we have to have cash to keep water flowing). While the ideal case scenario is that cash comes into an organization at a similar volume and velocity to how it goes out, in reality nonprofit funding streams very often don't work like that. In fact, an organization with a balanced (or even surplus) budget can still end up running out of cash due to timing mismatches. Looking at the "how are we funded" side of the business model can give us a better sense of what to expect in terms of cash inflows and of what to do if they don't line up with the "what do we do" side. Each type of income stream tends to have particular implications and challenges for cash flow, so a business model built primarily around one type of funding will need to understand and plan for those implications and challenges.[4]

In Fiscal Management Associates' (FMA) consulting work, a revenue-side business model that we see posing one of the biggest challenges for cash flow management is funding from government (particularly state and local) sources. In general, contracts with government entities pay for services only after the services are delivered, forcing the service-providing nonprofit to cover the initial outlay of cash to deliver those services. This is actually fairly typical of any business (for example, a retailer has to front the cash for inventory before generating income from sales; a professional services firm delivers services to clients prior to invoicing and collecting cash), but it is often compounded in the case of government funding by bureaucratic delays in registering contracts or processing invoices and payments. In some extreme cases, we have seen gaps of six months or more between an organization's disbursement of cash to deliver contract services and collection of cash under the terms of the contract. In the absence of other revenue streams or other ways of accessing cash (about which more later), nonprofits in situations like this can face true cash flow crises.[5]

Earned income from nongovernment sources—for instance, ticket sales for a performing arts organization—brings some of the same challenges, although (ideally) without the additional bureaucratic delays sometimes inherent in working with government. Even so, cash outlays typically happen in advance of cash collection—performances are rehearsed and sets are built before the audience buys tickets. This means that an organization needs cash to finance those costs that will later generate revenue back into the organization. (Any sort of prepayment on earned income—for example, advance ticket sales for performances or advance payments or retainers for service delivery—can help to fund the initial cash outlays.)

Cash from contributions and donations doesn't come with the bureaucratic delays of government funding or the up-front outlays required to generate earned income. But organizations whose revenue model is primarily driven by voluntary contributions often face another reality of managing cash, which is that cash inflow can be very concentrated at a particular point (or points) within the year. For example, an organization that generates a significant portion of its income from an annual gala-type fundraiser may have an event in spring whose receipts may have to carry it much of the way until the next spring. Another may see much of its cash come in from an annual campaign timed to take advantage of end-of-year holiday (and tax write-off) giving. Nonprofits with highly concentrated cash inflow can exist in something of a "feast or famine" mode—flush when the money is rolling in but concerned that it will have to carry all the way until next year, or at least the next campaign.

Support from foundations and institutional philanthropy has its own implications for cash flow. On the positive side, grants are generally paid at the start of a funding period rather than following the delivery (and costs) of programs and services. On the negative side, grantmaking calendars can vary considerably from a nonprofit's own programming calendar, so there can still be periods when ongoing program or operating costs have to be financed from other sources. Another relatively common characteristic of foundation support (and a cash flow consideration unique to the nonprofit sector) is its *restriction* to particular programs or activities, meaning that a condition of a grant is that its funds be used only for a specified purpose. So, what may look like readily available cash to meet current needs could technically be a set-aside for expenses weeks or months down the road.[6]

Each side of the nonprofit business model—what and how we deliver, and how we fund it—helps set expectations about the timing of cash into and out of the organization's accounts. But, particularly given the fact of nonprofit life that our "customers" and "payers" are often different entities, there's only so much we can do to line up that timing to smooth out cash flow. If it does happen to line up perfectly, it's probably due more to coincidence (or miracle) than conscious effort. So, once we establish solid expectations for what our business model means in terms of the timing of cash going out and coming in, the task is how to manage the many and inevitable instances when the timing doesn't line up.

Balancing Cash In and Out

Regardless of the nature of our business model, or of how well we plan, there will inevitably be periods in which more cash is going out of an organization than is coming into it. This is most obvious during a start-up phase, when the initial investments made in (or loans made to) a new organization are essential to meeting cash needs before income generation kicks in. But even for an established organization in a relatively steady state, "you have to spend money to make money" (and generally in that order) is a rule of business. So, how do we meet our cash needs in those times when there is not enough coming in from operations?

Before discussing that question, one critical point: It's true that in almost any business, there will be times when cash coming in doesn't cover the full need for cash going out. That may be because of certain timing issues inherent in the organization's business model—slow payments for services delivered under a government contract, say. But it may also be because there's simply not enough revenue in the business model to cover the expenses of operating the business. If the issue is a temporary cash shortage, then an organization's leaders will know (or have a reasonable sense of) when the situation will be back in balance, with sufficient cash coming in to cover expenses. If the issue is a more permanent imbalance, what may be presenting as a cash flow problem (i.e., a matter of timing) is in reality a broader business model problem—not just a disconnect between *when* money is coming in versus going out, but between *how much* money is coming in versus going out. If an organization's overall business model is in deficit and out of balance, cash flow problems will certainly exist, but not ones that can be resolved by the methods discussed further down. In those cases, cash flow problems are just a symptom of the bigger challenge of overall revenues not being enough to cover expenses; treating that situation as a matter of cash flow timing will only delay and intensify the necessity to address the deeper need to increase revenues and/or decrease expenses.

On the flip side, an apparently healthy cash balance doesn't necessarily translate to cash fluidity. For instance, particularly in organizations that have multiple streams of funding for individual programs (where, as alluded to earlier, some money is restricted to certain activities), it is easy to lose track of the purposes for which each stream may be used. You may have enough money to run the program, but the money may end up being spent in ways other than what each funder requires. To make a bad situation worse, such mistakes can be punishable by a requirement to repay, making future cash even harder to come by. Thus, in nonprofit finance, cash is not fungible like it is in most for-profits: you cannot necessarily take it from one overfunded function and devote it to another that is underfunded. This can be confusing to boards—and also, too often, to unschooled executives. Such mistakes with government contracts and other forms of restricted funding can have serious high-profile repercussions for your long-term financial health and cash flow.

With that major caveat out of the way, let's turn back to the question of how to address timing issues when last month's collections are lower than this month's bills. The most basic (and important) solution is drawing on an organization's own cash reserves, which supply the working capital to keep current on payroll, rent, and other expenses. Having a cushion of a few months' worth of expenses built up in the bank account provides the liquidity necessary to avoid being at the mercy of each day's cash receipts to determine which bills to pay. Cash reserves are a good indicator of a nonprofit's overall financial health and sustainability, but from an even more practical perspective they are an essential resource for managing cash flow and payment schedules.

Unfortunately, development of a robust cash reserve can be a significant challenge for many organizations. While financial surpluses and accumulations of reserves should always be a goal of budgeting and financial management, some organizations' business models make this particularly challenging. For instance, heavily government-funded social service providers face a Catch-22, in that expense reimbursement contracts cannot by definition operate at a surplus, yet the typically slow pace of cash receipts makes it particularly important to maintain a significant cash reserve. What options exist in such cases?

For any business unable to meet cash needs with its own resources, it must meet them by borrowing from someone else's resources (that is, taking on debt). To meet operating cash needs in the absence of adequate cash reserves, a nonprofit can turn to a line of credit as a "floatation device" to meet the *temporary* imbalance between available cash and expenses due. We stress the word *temporary* here to echo the important point made a few paragraphs back: that lines of credit should be used *only* to address a timing discrepancy between payment of expenses and receipt of cash. Without a reasonable and relatively specific understanding of when the cash will be available to repay the line of credit, an organization is at risk of using credit to fund an operating deficit—and, of course, exacerbating the deficit with the interest expense associated with the debt![7]

That said, credit lines used responsibly can be a useful and vital tool for cash flow management, particularly for those organizations whose business models entail slow collection of major receivables or long gaps between cash infusions. We typically recommend that organizations in those situations secure a credit line at least as a safety net, since using credit is generally a better course of action than delaying payment of expenses that are critical to the functioning of the organization. And, as a general rule, it's much easier to secure a line of credit *before* it's needed than it will be when and if the situation becomes urgent. Of course, credit doesn't come free, and organizations using lines of credit must also plan and budget for interest expenses and any other transaction costs associated with taking on debt.

If neither reserves nor credit are options in a cash crunch, nonprofits may be forced to resort to less appealing means of riding out the storm. These may include measures such as approaching funders for accelerated or advanced payments (here again, it would be critical to show that the problem is only one of timing mismatch in order to avoid raising a huge red flag to a funder) or delaying payment of certain noncritical vendors. An even less appealing option would be a loan from a staff or board member, which could raise conflict-of-interest concerns. Probably the worst-case scenario is delaying payroll for some or all staff, which could jeopardize the organization's programs as well as potentially raise legal issues. Far better to understand your business model and budget, and plan in such a way as to establish a solid cash cushion for the lean times.

Cash Management across an Organization

The challenges and consequences nonprofit organizations face with respect to cash flow are to a large extent inherent in the business models those organizations operate with—what kinds of programs and services they deliver and the way(s) they are funded. But this isn't to say that nonprofit leaders are purely at the mercy of the business model; understanding the way the model impacts cash flow is the first step toward planning for and managing it. While it may be impossible to ensure that cash is coming into the organization exactly on time and on target to keep things on automatic pilot, it is certainly possible to plan for those times when it isn't, and to take advance measures to be sure that bills (and staff) are paid on time.

In this effort, it helps to take a team approach. While one person or department (finance) will be in charge of the central cash flow projection tool, effectively planning and managing cash requires input from across an organization. Program and human resources staff have the most insight into the timing of expenses. The fundraising team knows the most about timing of grant payments and donor gifts. Contract managers can set expectations about reimbursement schedules. Team members working on earned income projects can estimate billing and collections. Ultimately, all of this information should flow to the CFO to project and plan for any potential shortfalls (or, in the happy event of significantly more cash than necessary, to park it in safe short-term investments). Staff across the organization may also be asked to help manage challenges as well—perhaps by rethinking timing of certain expenses or working on accelerating collection of cash from donors or customers. Being informed, strategic, and collaborative in cash flow management can help to ensure that a nonprofit's long-term strategy isn't derailed by avoidable—if inevitable—short-term obstacles.

Notes

1. Of course, there isn't one single version—"nonprofit," as we often say, is a tax status, not a business model—and the variety of ways nonprofits create, deliver, and fund their impact is at least equal to the range of business models in the for-profit sector.
2. See the discussion of nonprofit business models and the "business model statement" in Jeanne Bell, Jan Masaoka, and Steve Zimmerman, *Nonprofit Sustainability: Making Strategic Decisions for Financial Viability* (San Francisco: Jossey-Bass, 2010).
3. A tool developed by FMA for projecting and monitoring cash flow needs is available for download at www.wallacefoundation.org/knowledge-center/resources-for-financial-management/Pages/Cash-Flow-Projections-Template.aspx.
4. Funding that is diversified across income types can mitigate some of the cash flow challenges particular to a single type of income, although that kind of diversification is itself challenging to achieve successfully.
5. Some government agencies do offer cash advances or no-interest loans to their nonprofit contractors, but these practices are far from universal.
6. That said, tapping into restricted funds to meet immediate cash needs is a potentially dangerous (but not uncommon) practice among nonprofits. Organizations doing this need to be *very* confident that they will be able to replace those funds when the time comes to deliver on the activities promised in the grant.
7. Again, FMA's cash flow projections template, cited in note 3, can help nonprofit leaders map out projected inflows and outflows of cash, offering insight into both when the use of credit may be necessary and when it could be repaid.

Hilda H. Polanco is founder and CEO of Fiscal Management Associates (FMA). **John Summers** is FMA's director of consulting services.

To comment on this article, write to us at feedback@npqmag.org. Order reprints from http://store.nonprofitquarterly.org, using code 240307.

Taking the Evaluation Leap: Lessons from Urban Alliance's Six-Year Randomized Controlled Trial

by Eshauna Smith

Completing a randomized control trial (RCT) is an arduous process. For Urban Alliance, the six-year journey proved rocky and came with a cost. But, as the author explains, there is no better evaluation for answering the question on every philanthropist's lips: "How do you know your program works?"

It's a familiar conversation. When asked how they know their model works, a nonprofit or foundation will tell you a story. They'll say that seventeen-year-old Darren turned his life around after going through their program, and eighteen-year-old Kaitlin discovered a hidden reserve of strength. They'll tell you about the shy girl who came out of her shell, and the unmotivated boy who found a new direction in life.

Such transformative tales are a vital tool for illustrating a nonprofit's value and impact. Here at Urban Alliance—a Washington, DC–based nonprofit that partners with businesses to provide high school students at risk of becoming disengaged from successful career or college pathways with internships, mentoring, and job skills training—we love to tell our interns' stories. Stories like that of Baltimore teen Shaquille, who struggled to support himself during high school while trying to plan for his future. We found him a paid internship with Legg Mason, helped him to graduate from high school, and trained him in the skills needed to not only continue working at Legg Mason as a full-time employee after graduation but also go on to college.

But we have another powerful tool in our belt. Unlike most nonprofits, we can say that we have rigorously challenged, objective proof that our model works. This summer, we completed a $1.2 million independent, six-year randomized controlled trial (RCT). According to the Social Impact Exchange, only 2 percent of nonprofits have completed an RCT, often referred to as the gold standard of program evaluation.[1] Whether it's the upfront cost of mounting such a rigorous study, the hidden costs to staff and stakeholders, or the potential cost of going through the process without any results to show for it, nonprofits are understandably hesitant to commit to an RCT.

We were fortunate enough to come out of the process with positive results. Our RCT found that going through Urban Alliance's flagship high school internship program has a statistically significant impact on the likelihood of young men attending college,[2] the likelihood of male and female midlevel students (2.0–3.0 GPA) attending a four-year college, and the likelihood of comfort with and retention of critical professional skills over time. We now have a clear picture of what we're doing well and what we need to improve upon—and we have an empirical argument to take to job partners and funders that our model works and should be scaled out to reach even more students.

We've always known from internal data and the students we work with that we're doing something right, but completing an RCT has given us a persuasive new piece of evidence to share with those outside the world of youth-focused nonprofits—where facts often outweigh passion, and numbers outweigh anecdotes.

From 2011, when we began this study, to now, we've broadened our base from Washington, DC, and Baltimore to incorporate Northern Virginia, as well. With the addition of a new presence in the Midwest/Great Lakes region, based in the Chicago metropolitan area, we've expanded our imprint to become a national organization (not to be confused with National Urban Alliance, a different organization). The study's interim report, released in 2016, was also leveraged to win an Investing in Innovation (i3) validation grant from the Department of Education—one of just fourteen awarded in 2015—which will help our effort to expand to a fifth location in fall 2018. Our internal evaluation has also become more sophisticated, increasing from one full-time staff member dedicated to internal evaluation work to three, with work already begun on a second RCT to study our program's impact across all four current locations.

Our results justified the arduous RCT process, because we'll be using what we've learned in order to improve—and, most important, expand—our program, ultimately allowing us to serve more students. But the process was by no means smooth or without cost, and we learned a lot along the way. We didn't avoid the trap—which nonprofits often fall into with an RCT—of jumping in without first honestly assessing our readiness for such a venture. So for nonprofits thinking about completing an RCT in the future, we want to share what the process really entails and offer up some hard-won advice.

What We Did

Over the past decade, the philanthropic sector—from government agencies to foundations to nonprofits—has been asked the same daunting question: How do you know it works? On the surface, the question makes sense. Resources are limited, so investments need to be strategic. Let's build out the interventions that work and change the ones that don't. But for better or worse, this proof point has evolved. Collecting your own data is necessary, but insufficient. Stakeholder surveys and internal assessments may signal a more sophisticated nonprofit evaluation system, but they don't answer all questions. External evaluations, particularly ones that are designed to get at issues of causality through impact experiments, are now all but required.

In 2010, Urban Alliance received funding from Venture Philanthropy Partners, through the coveted Social Innovation Fund (SIF) from the Corporation for National and Community Service, to help us bolster and expand our program. But eligibility to receive funding required a third-party evaluation. Our independent analysis was conducted by the Urban Institute, and the full evaluation process consisted of two parts: first, a process evaluation, in which the researchers examined the program's delivery via interviews and observation; and second, an impact evaluation (in our case, an RCT) to measure how much bearing our program had on our students' success. Outcomes of students who had been offered access to the program were compared to those of a group of similar students who had not been offered access, by controlling for unobservable factors (such as student motivation) that could impact results. The Urban Institute used a randomized lottery to assign applicants to either the treatment group (the group with access to the program) or the control group. It was cold, but fair.

The Urban Institute followed the students and control groups in the 2011–2012 and 2012–2013 classes, measuring the program's impact on college enrollment and persistence, comfort with hard and soft skills, and employment and earnings, among other factors.

Challenges

1. **External relationships.** Urban Alliance has always prided itself on the strength of its partnerships. Over the years, trust, open dialogue, and a mutual passion for helping underserved students has created a strong relationship between our staff and the counselors and principals of Southeast DC and Baltimore. But when in the fall of 2011 we began recruiting not just to fill our 2011–2012 class but also to fill the study's control group, we were essentially recruiting students we knew we wouldn't be able to serve. Given that our aim is to give opportunities and an expanded sense of possibility to youth from underserved communities, from the outside it appeared counterintuitive and even cruel to reject the very students Urban Alliance was created to serve for the purposes of this evaluation. Our long-term objective—to use (hopefully) positive results to serve more young people overall—was obscured by the short-term disappointment we caused students.

   We mistakenly assumed that our partners would see the potential of this research just as clearly as we did. Families and counselors were understandably upset—but we hadn't foreseen that consequence. For a partnership organization like ours, a study's success relies on one large but little-discussed caveat: that partnering schools and districts will want to participate. These partnerships worked so well in the past because they were mutually beneficial. We needed their students to run our program; they needed our program to support their mission. The RCT changed the terms of that partnership, because we could no longer guarantee spots for students identified by their counselors as most in need of intervention. As a result, some schools told us to come back next year—after the lottery. Some told us not to come back at all. We were accused of chasing money, or of sacrificing our values. We were asked how we could still claim to be pro-student if we were rejecting some of those who needed our help the most. It was a fair question—and one that we were not ready to answer. We would also not have empirical evidence to support our answer—when we had one—for another six years.

2. **Our team.** The challenge of recruiting students from uncertain partners placed an added burden on our staff out in the field. Evaluators obsess over a study's sample size. The larger the sample, the easier it is to attribute impacts to the program's intervention and not just to chance. But we found that it was much simpler to plan for a large sample size than to actually reach it. Recruiting students for the study meant doubling the normal effort required to fill one of our classes but in the same space of time our program staff were used to having. And the skepticism we faced from school partners about undertaking this evaluation only made the task more difficult.

   Thus, the RCT also measured the psychological impact of these challenges on our staff. Though most of us had in mind the long-term benefits of the study, our program staff were on the front lines of the process and interacting with disappointed stakeholders every day. Furthermore, most people who choose to work in youth development do so to give—not deny—assistance to young people in need. Many staffers were disappointed. Some became disengaged. Some even left. As an organization, we anticipated certain growing pains, but the internal impact of this type of large-scale evaluation was unexpected. The greater good argument will always be controversial, but we underestimated just how much of a strain it would put on team morale.

3. **Feel-good stories versus real numbers.** It's easy to feel good about your work when you see the individual stories of achievement among your clients. But upbeat stories are very different from cold, hard data.

   We were fortunate to see statistically significant results, as many nonprofits go through the RCT process only to get null or even negative results. But after all the negotiations, concessions, and heartache, not getting empirical confirmation that the results we saw on an individual basis translated into massive numbers was disheartening. Agreeing to have external evaluators look under the hood is one thing; challenging decades' worth of core beliefs is something else. Our inexperience with this type of evaluation led us to overlook the possibility that our results wouldn't confirm all our biases. But the more unexpected results—for example, a positive impact on young men attending college but not on young women—mean that after twenty years of perfecting our model, we still have a lot of room for improvement. And that's as it should be. These specific results will now help to guide us as we grow as an organization, and ultimately will help to make us more effective down the line.

What We've Learned

We came out of the RCT process relatively unscathed. We have positive results to show our partners and a powerful argument to make for expanding our program. But there's a lot we wish we had known from the outset. Before undertaking a large-scale evaluation like an RCT, a nonprofit should be prepared to do the following:

1. **Staff accordingly.** Implementing an RCT is a process with many moving parts—from doubling recruiting efforts to managing relationships to keeping staff motivated and informed, and so much more. And an internal staff member needs to be at the helm throughout the study period to ensure that everything is running smoothly and no ball is being dropped.

   A stand-alone evaluation staffer is a luxury for most growing nonprofits, especially those with still-nascent performance and accountability systems. That evaluation function is usually shared across departments, with, for example, the development team collecting statistics and the program officers handling demographics. But without someone fully devoted to the task, a large-scale evaluation can easily go awry.

   For example, an external evaluation requires a mountain of paperwork: parental consent forms, memoranda of understanding, institutional review board forms, and so forth. Some paperwork is to be expected when working with underage students and job partners, but the amount grows exponentially when you factor in an RCT. And the timeline for completing all this extra documentation is often truncated, since paperwork must be in place before the study can commence. Any delays could put the entire evaluation in jeopardy. When one school district pushed back their institutional review board (IRB) decision, Urban Alliance almost lost an entire year of observations. It took relentless phone calls, wrangling, and sheer stubbornness to get all the final documents signed.

   An internal evaluator plays another key role: liaising between external evaluators and program staff. Countless decisions must be made during the evaluation process, from how to interview the staff to how best to observe program delivery and conduct client focus groups. To keep the program running smoothly during this time, these components should be conducted as unobtrusively as possible. A staff evaluator's inside knowledge of how the organization works makes this process much easier.

   A dedicated evaluation staffer also brings the subject-matter expertise necessary to push back on methodological decisions made by the external evaluators. Decisions on statistical power, approval of survey questions, and agreeing on outcomes of interest are critical to a study's success. It's best to have someone on staff with an understanding of how such evaluations work to help make these choices.

2. **Establish a strong internal performance measurement system.** Impact evaluations and performance measurement are used to answer different questions, so one doesn't completely replace the other. Performance measurement tells us what our intervention is doing; impact evaluations like an RCT try to demonstrate what is happening *because of* our intervention.

   Strong performance measurement activities are ongoing and can be completed much more quickly than impact evaluations, which can take years. This quicker turnaround allows for real-time course correction, while a longer-term study informs the program with respect to the bigger picture. Despite these differences, performance measurement should be considered a prerequisite for an RCT. This smaller-scale measurement will identify gaps in implementation and delivery and underperformance of both staff and client outcomes. And, if they're present in the internal evaluation, they'll certainly appear in the external evaluation.

   Nonprofits can use such internal performance measurement to work out any kinks in their model before inviting deeper scrutiny. Implementing a robust performance measurement system also helps to test whether the outcomes the nonprofit wants to see in an RCT are even attainable or observable. It's reasonable to challenge an external evaluation design that hopes to test the intervention's impact on a certain outcome if the nonprofit knows it will be impossible or even inconsistent to collect. By taking the time to experiment, nonprofits can get ahead of potentially null or negative results.

3. **Overcommunicate internally and externally.** Too often, nonprofits get caught up in the excitement of winning substantial funding and overlook the smaller details of executing a grant's required external evaluation. The first thing that usually gets lost in the shuffle is informing stakeholders.

   A rigorous study will necessitate significant procedural changes, not just for the nonprofit but also for external partners. The onus is on the nonprofit to fully explain these changes and how the students and partners will be impacted, and set a timeline for how long these changes will be in effect. But all that preparation can be overwhelming without a clear and compelling explanation of the study's benefits.

   As illustrated earlier, we did not recognize the chilling effect the randomized lottery would have on our partners. Making it clear that a disruption is temporary and controlled can soften the news. And helping your partners to see the value not only for you but also for them will help to ease strained relationships. Communicating clearly to your partners and other stakeholders what positive RCT results will mean for what you can do for their clients and communities in the future will help to mitigate some of the frustration up front. The front-line program staff need to be well versed in these talking points from the get-go. Discrepancies in your internal messaging—including the value that consistent messaging brings—will echo externally.

Additionally, clear communication can only go so far without the right tone. Youth development is a field grounded in empathy, and that can't be forgotten when communicating what will be disappointing news to many partners. Understanding their frustrations while presenting the silver lining is essential to making sure partners feel heard and valued during what is always going to be a difficult time.

4. **Fully commit.** The decision to undertake an RCT should not be made lightly. As you can tell from Urban Alliance's experience, there are costs as well as rewards to this kind of evaluation. Debate needs to be had, and input needs to be heard. But once you commit, you need to commit completely.

A full commitment requires giving in to the process for better or worse. It is not pleasant to have someone on the outside auditing your organization, but any feedback, whether positive or critical, should be welcomed as a learning opportunity. Most nonprofits are never scrutinized this closely, so an RCT is an invaluable learning tool for the groups that choose to use it. Too much time and money have been invested—and too many relationships have been tested—to ignore the results at the end of such a grueling process.

• • •

At Urban Alliance, we've certainly been tested by the RCT process. However, we came out with positive results and a compelling data set to support further expansion and enable us to serve more students. The ups and downs were ultimately worth it, because we can now increase our reach to provide critical work experiences and support to young people who might not otherwise have such an opportunity. And, as part of the i3 grant our initial set of RCT results made possible, we're now in year two of a second RCT to evaluate our impact across our current four locations.

Ultimately, if your organizational mission can significantly benefit from an RCT's external evaluation, then consider taking the leap—but make sure you're prepared for the roller coaster ride it will inevitably become.

Notes

1. *Executive Summary on the State of Scaling Among Nonprofits* (New York: Veris Consulting and the Social Impact Exchange, 2013), 4.

2. See *Pathways after High School: Evaluation of the Urban Alliance High School Internship Program* (Washington, DC: Urban Institute, 2017), xxiii–iv, theurbanalliance.org/wp-content/uploads/2017/08/08292017.pdf. As the report explains, "In general, females were more likely to graduate high school than males and more likely to attend college. We found that the program had no impact on college attendance or persistence for females, but it had strong impacts for males. On each of these measures of college attendance or persistence, males in the program showed outcomes similar to females, indicating the program helps close the educational gap between females and males. For example, approximately 70 percent of males in the Urban Alliance program attended college, similar to females in either the program or control groups, but only 55 percent of control group males attended college."

Eshauna Smith is CEO of Urban Alliance, an organization that partners with businesses to empower underresourced youth to aspire, work, and succeed through paid internships, formal training, and mentorship.

To comment on this article, write to us at feedback@npqmag.org. Order reprints from http://store.nonprofitquarterly.org, using code 240308.

The Next Green Revolution: An Overview of the Rapidly Evolving Green Bond Market

by Bhakti Mirchandani

As the United States finds itself poised between the recent catastrophic hurricanes and the current administration's disavowal of climate change, investors interested in protecting the planet can look to green bonds. The green bond market is also a good bet when it comes to the ever-important bottom line. As the author writes, "The Climate Bonds Initiative projects that $1 trillion in green bonds annually will be issued by 2020."

Responsible investment means incorporating environmental, social, and governance (ESG) factors into investment decisions to generate sustainable returns and better manage risk. On a human level, it means incorporating the desire to make a difference in the world into the investment process. Green bonds, fixed income instruments that fund projects with environmental and/or climate benefit, are a type of responsible investment.[1] More broadly, they are an example of leadership from the investment community in addressing the threat of climate change. In the wake of recent catastrophic hurricanes, this article provides an overview of the green bond market for potential investors and issuers seeking to do more to protect the planet.

Market Size and Trajectory

Green bonds have grown rapidly since they were invented by investors in 2007 to fund projects with climate or environmental benefits. Since then, two categories of green bonds (labeled and unlabeled) with four main structures (*use of proceeds*, *revenue*, *project*, and *securitized*) have emerged from a broadening range of issuers. Global green bond issuance is projected to double in 2017 from $93.4 billion of issuance in 2016,[2] after doubling from $42 billion in 2015.[3] With the Paris Climate Agreement and China's clean energy campaign as drivers of continuing growth, this deep dive into the emerging asset class is warranted. By way of background: under the Paris Climate Agreement, investors with an aggregate $11 trillion of assets under management (AUM) committed to build a green bond market,[4] and the United States committed to reducing its greenhouse gas emissions 26 to 28 percent below the 2005 level by 2025.[5]

Despite U.S. President Donald Trump's decision to withdraw from the Paris Agreement, over a thousand U.S. mayors, governors, college and university leaders, businesses, and investors pledged to continue to work toward the United States' nationally determined contribution to mitigate global warming.[6] Among states, California, Washington, and New York are leaders in taking aggressive action on climate change.[7] Green bond issuance facilitates countries and states alike in funding their carbon-reduction targets. Last year, China accounted for approximately 40 percent of global green bond issuance,[8] including China's Bank of Communications' record ¥30 billion ($4.3 billion) two-tranche green bond issuance in November 2016.[9]

Green Bond Sectors, Proceeds, Standards, and Structures

There are five sectors of green bonds: *renewable energy development*, *energy efficiency improvements*, *climate-smart agriculture*, *transport improvements*, and *water resource management and climate-smart water infrastructure*. The energy sector generates about 40 percent of global CO_2 emissions. Agriculture, including associated deforestation, is the largest contributor to greenhouse gas emissions, and transport contributes 15 percent of greenhouse gas emissions.[10] Green bond proceeds run the gamut from climate change mitigation to climate change adaptation. Climate change mitigation projects facilitate reductions in greenhouse gas emissions, among other things. Climate change adaptation projects reduce suffering caused by climate change and build resilience, including protection against flooding.[11] Labeled green bonds are certified as green, while unlabeled green bonds simply have issuances linked to projects that produce environmental benefit.[12] The Climate Bonds Initiative estimated $576 billion of unlabeled green bond issuance in 2016 across transport, energy, buildings and industry, water, waste and pollution control, and agriculture and forestry.[13]

Green Bond Principles, Climate Bonds Standard & Certification Scheme, and external reviews mitigate the risk that green bond proceeds are used for projects with limited environmental benefit.[14] Although there is no universal approach to designating use of proceeds as "green," issuers, investors, and rating agencies have established frameworks, and approximately 60 percent of green-labeled bonds are subject to external review. For example, Green Bond Principles are voluntary guidelines on use of proceeds, project evaluation and selection, management of proceeds, and reporting crafted in part by the International Capital Market Association.[15] In addition, the Climate Bonds Standard & Certification Scheme, administered by the Climate Bonds Initiative, entails third-party verification pre- and post-issuance to ensure that the bond meets the requirements.[16] Climate Bonds Initiative, an investor-focused nonprofit governed by a board that represents $34 trillion in AUM, maintains the Climate Bonds Standards. Lastly, mainstream ratings agencies S&P and Moody's have developed methodologies to rate green bonds on their "greenness."[17]

Most of the approximately $160 billion of green bonds outstanding globally are use of proceeds bonds.[18] The four major green bond structures are set forth in Table 1.[19]

Structural innovations include environmental impact bonds (in which the performance risk of the green bond is shared among the issuer and the investors),[20] and sharia-compliant green *sukuks* (which harness Islamic finance for climate-friendly investments).[21] China-owned Edra Power Holdings Sdn Bhd's unit, Tadau Energy Sdn Bhd, issued the world's first green *sukuk* this past June.[22]

Issuer Types

Green bonds were primarily issued by supranational issuers through 2012. Starting in 2013, issuer types broadened, with financial institutions and nonfinancial corporates driving 50 percent and 24 percent, respectively, of 2016 full-year green bond issuance.[23] Last fall, British bank HSBC estimated that labeled green municipal bonds represented 8 percent of the total labeled green bond issuance since 2007.[24] If Trump's tax reform is successful, lower taxes would reduce the attractiveness of municipal bonds' tax-exempt status.[25] Special-purpose entities, such as partnerships and trusts, drove 5 percent of green bond issuance in 2016.[26] In December 2016, Poland became the first sovereign nation to issue a green bond, followed by France's record €7 billion sale of twenty-two-year green bonds in January 2017.[27] (See Table 2.)

The Road Ahead

The Climate Bonds Initiative projects that $1 trillion in green bonds annually will be issued by 2020.[28] This projection is

Table 1			
Structures	**Use of Proceeds**	**Recourse/Collateral**	**Examples**
Green use of proceeds bond/ green general obligation bond	Green projects in general	Standard recourse to the issuer	European Investment Bank's €16.8 billion in Climate Awareness Bonds
Green revenue bond	Green projects in general	Revenue stream generated by fees, taxes, etc.	Iowa Finance Authority's $321.5 million AAA-rated revenue bonds backed by Iowa water-related fees and taxes[29]
Green project bond	Ring-fenced for the specific underlying green project(s)	Limited to a specific project's assets and balance sheet	DC Water's $25 million Environmental Impact Bond to finance infrastructure to reduce the incidence and volume of combined sewer overflows[30]
Green securitized bond	Either (1) earmarked for green projects or (2) flowed directly into underlying green projects	One or more specific projects	SolarCity's green bond backed by solar lease agreements[31]

Table 2		
Issuer	**Key Issuers**	**Bond Examples**
Municipalities	New York's Metropolitan Transport Authority (MTA), DC Water's Clean River Project	The MTA issued an aggregate $2.7 billion in green bonds since February 2016 to finance capital investments in electrified rail assets.[32]
Supranational organizations	World Bank, European Investment Bank	The World Bank issued over 130 green bonds valued at over $10 billion for climate investments in developing countries since 2008.[33]
Corporates	Apple, Toyota	Apple's 2016 $1.5 billion green bond is the largest ever for a U.S. company.[34]
Sovereigns	Poland, France (the only two nations that have issued green bonds to date)[35]	Poland's €750 million 5-year note was 2xs oversubscribed.[36]
Special purpose entities	Mexico City Airport Trust, Deutsche Kreditbank AG	Mexico City Airport Trust's $1 billion 10-year and $1 billion 30-year green bonds, rated "Baa1" by Moody's, are backed by passenger charges at the old and new airports. Bond proceeds will be used to facilitate a carbon-neutral airport.[37]

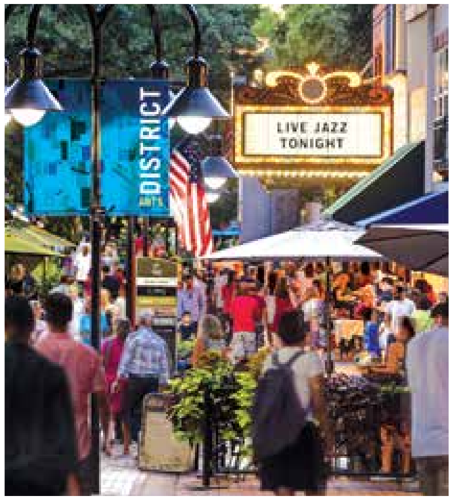
set against the backdrop of an estimated $93-trillion cost to replace fossil fuel–powered infrastructure with low-carbon alternatives to achieve the Paris Agreement's objective to limit global temperature rise to below 2°C. This includes $8 trillion in the United States.[38] As over one hundred leading businesses contemplate their support for the Michael Bloomberg–chaired Task Force on Climate-related Financial Disclosures (TCFD), their consideration of the implications for a 2°C scenario should drive climate adaptation projects and bonds to finance them.[39] While numerous Trump administration policies generate headwinds for the climate bonds market, this networked age allows many American actors connected below the level of the U.S. federal government to continue to build and finance climate-friendly infrastructure.[40]

Notes

1. This article should not be construed as investment advice.
2. Umesh Desai, "Moody's says green bond issuance set for another record year," *Reuters*, January 19, 2017, www.reuters.com/article/bonds-greenfinance/moodys-says-green-bond-issuance-set-for-another-record-year-idUSL4N1F91C0.
3. *Bonds and Climate Change: The State of the Market in 2016* (London: Climate Bonds Initiative, July 2016), 6.
4. John Geddie and Alister Doyle, "Climate changing for 'green bonds' even in face of Trump skepticism," *Reuters*, January 12, 2017, news.trust.org/item/20170112164709-9nmta.
5. Brookings Institution online; *The Avenue;* "Green bonds take root in the U.S. municipal bond market," blog entry by Devashree Saha, October 25, 2016, www.brookings.edu/blog/the-avenue/2016/10/25/green-bonds-take-root-in-the-u-s-municipal-bond-market/.
6. "We are still in: Open letter to the international community and parties to the Paris Agreement from U.S. state, local, and business leaders," wearestillin.com.
7. New York State Governor's Press Office, "New York Governor Cuomo, California Governor Brown, and Washington Governor Inslee Announce Formation of United States Climate Alliance," press release, June 1, 2017, www.governor.ny.gov/news/new-york-governor-cuomo-california-governor-brown-and-washington-governor-inslee-announce.
8. Lucy Hornby, "China leads world on green bonds but the benefits are hazy," *Financial Times*, May 3, 2017, www.ft.com/content/84ac893a-028e-11e7-aa5b-6bb07f5c8e12.
9. Geddie and Doyle, "Climate changing for 'green bonds' even in face of Trump skepticism."
10. World Bank, *Green Bond: Impact Report* (Washington, DC: World Bank, June 2016), 8.
11. Ibid., 1, 6, 9.
12. *Financing Solutions for Sustainable Development: Green Bonds* (New York: United Nations Development Programme, 2016).
13. *Bonds and Climate Change*, 3.
14. *Financing Solutions for Sustainable Development: Green Bonds.*
15. *The Green Bond Principles, 2016:*

Voluntary Process Guidelines for Issuing Green Bonds (London: International Capital Market Association, June 16, 2016).
16. *Climate Bonds Standard & Certification Scheme* (London: Climate Bonds Initiative, February 2017).
17. *Green Bonds: Green is the new black* (Toronto: RBC Capital Markets, April 4, 2017), 11.
18. Ibid., 8.
19. “Explaining green bonds,” Climate Bonds Initiative website, accessed September 12, 2017, www.climatebonds.net/market/explaining-green-bonds; *Financing Solutions for Sustainable Development: Green Bonds*; and Justin Kuepper, “What Are Green Muni Bonds?,” MunicipalBonds.com, March 10, 2016, www.municipalbonds.com/news/2016/03/10/what-are-green-muni-bonds.
20. DC Water, “DC Water, Goldman Sachs and Calvert Foundation pioneer environmental impact bond,” press release, September 29, 2016, www.dcwater.com/whats-going-on/news/dc-water-goldman-sachs-and-calvert-foundation-pioneer-environmental-impact-bond.
21. “Malaysia’s 1st green sukuk under SC’s SRI sukuk framework,” *Malaysian Reserve*, July 28, 2017, themalaysianreserve.com/2017/07/28/malaysias-1st-green-sukuk-scs-sri-sukuk-framework/.
22. Eva Yeong, “Edra Power’s Tadau Energy issues Malaysia’s first ‘green’ sukuk,” *theSundaily*, July 27, 2017, www.thesundaily.my/news/2017/07/27/edra-powers-tadau-energy-issues-malaysias-first-green-sukuk. (“Sdn Bhd” is the short form for “Sendirian Berhad,” a Malaysian business term meaning “private limited,” similar to the abbreviation “Ltd.”)
23. *Green Bonds: Green is the new black*, 3.
24. S&P Global; *Our Insights*; “What’s Next for U.S. Municipal Green Bonds?,” blog entry by Kurt Forsgren, September 7, 2016, www.spglobal.com/our-insights/Whats-Next-For-US-Municipal-Green-Bonds.html.
25. Romy Varghese and Sahil Kapur, “U.S. Tax Cuts Could Drive Key Buyers Away from Muni-Bond Market,” *Bloomberg*, April 7, 2017, www.bloomberg.com/news/articles/2017-04-07/u-s-tax-cuts-could-drive-key-buyers-away-from-muni-bond-market.
26. *Green Bonds: Green is the new black*, p. 4.
27. “France issues first ‘green bonds’ with record 7 bln euro sale,” Energy & Green Tech, *Phys.Org*, January 25, 2017, phys.org/news/2017-01-france-issues-green-bonds-bln.html.
28. Climate Bonds Initiative; *Climate Bonds Blog*; “Green Bond Policy Highlights from Q1–Q2 2017,” by Andrew Whiley, July 18, 2017, www.climatebonds.net/2017/07/green-bond-policy-highlights-q1-q2-2017.
29. Green City Bonds Coalition, *How to Issue a Green Muni Bond: The Green Muni Bonds Playbook* (London: Climate Bonds Initiative, 2015), 3.
30. DC Water, “DC Water, Goldman Sachs and Calvert Foundation pioneer environmental impact bond.”
31. SolarCity, “SolarCity Launches First Public Offering of Solar Bonds,” press release, October 15, 2014, www.solarcity.com/newsroom/press/solarcity-launches-first-public-offering-solar-bonds.
32. “Metropolitan Transport Authority,” Climate Bonds Initiative website, *Standard*, accessed September 6, 2017, www.climatebonds.net/standards/certification/metropolitan-transport-authority.
33. World Bank, “World Bank Green Bonds Reach $10 billion in Funding Raised for Climate Finance,” press release, April 7, 2017.
34. Daniel Eran Dilger, “Apple’s Green Bonds funded $441.5 million of environmental safety, conservation climate change action in 2016,” *AppleInsider*, March 8, 2017, appleinsider.com/articles/17/03/08/apples-green-bonds-funded-4415-million-of-environmental-safety-conservation-climate-change-action-in-2016.
35. “France issues first ‘green bonds’ with record 7 bln euro sale.”
36. Andrzej Sutkowski, Cenzi Gargaro, and Tallat Hussain, “Sovereign Green Bonds: Poland sets a precedent,” *Publications & Events*, White & Case website, January 17, 2017, www.whitecase.com/publications/alert/sovereign-green-bonds-poland-sets-precedent.
37. Moody’s Investors Service, “Moody’s assigns Green Bond Assessment (GBA) of GB1 to Mexico City Airport Trust Senior Secured Notes,” press release, September 6, 2016, www.moodys.com/research/Moodys-assigns-Green-Bond-Assessment-GBA-of-GB1-to-Mexico-PR_354593; and Anthony Harrup, “Mexico Sells $2 billion in Green Bonds to Help Finance Airport,” *Wall Street Journal*, September 23, 2016, www.wsj.com/articles/mexico-sells-2-billion-in-green-bonds-to-help-finance-airport-1474650693.
38. Yale Center for Business and the Environment; *Clean Energy Finance Forum*; “California Treasurer Advances Green Bonds,” blog entry by Mark A. Perelman, August 1, 2017, www.cleanenergyfinanceforum.com/2017/08/01/california-treasurer-advances-green-bonds.
39. “Statement of Support and Supporting Companies,” Task Force on Climate-Related Financial Disclosures website, June 2017, https://www.fsb-tcfd.org/statement-support-supporting-companies-june-2017/.
40. Anne-Marie Slaughter, *The Chessboard and the Web: Strategies of Connection in a Networked World* (New Haven, CT: Yale University Press, 2017).

Bhakti Mirchandani has spent the past seventeen years engaging with investors, social enterprises, and nonprofits on social finance. Bhakti’s transaction experience spans the capital structure and stages of investing, and her functional experience includes strategy, financial control, and cybersecurity.



THE ARTS CREATE JOBS, GENERATE BUSINESS & DRIVE TOURISM.

Did you know the nonprofit arts & culture industry creates ***$166.3 billion*** in economic activity and supports ***4.6 million jobs***?

Arts and culture organizations boost local economies across our country. Whether it's attending a music festival downtown, an evening at a theater or a different arts activity altogether, money spent on dinner, parking, dessert–even the babysitter–impacts the economic health of our communities.

ARTS & CULTURE SUPPORT OUR COMMUNITIES.
NEW ARTS & ECONOMIC PROSPERITY STUDY SHOWS HOW.

Find the economic impact of arts & culture on your local community
www.AmericansForTheArts.org/EconomicImpact

(L-R) Courtesy of Perez Art Museum, Miami, FL; Andrew Shurtleff Photography; Photo property of the Sant Louis Art Museum, St. Louis, MO

AMERICANS for the ARTS