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WHAT GRANTEES NEED FROM FUNDERS AT THIS TIME OF TUMULTUOUS CHANGE

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What Grantees Need From Funders at This Time of Tumultuous Change

By Hilda Polanco and Deborah Linnell

When COVID-19 was first identified in the United States, many Americans were hopeful that social and work life would get back to some version of normalcy by July or August 2020. Little did we know that an entrenched people, unable to adjust enough to ensure low transmission rates, would be under a long siege. As a result, the impact of COVID-19 on the nonprofit sector will be long term, disruptive, and possibly transformative.

Since mid-March, nonprofit leaders have been working 60-80 hours per week—creating financial contingency plans; reinventing service delivery; maintaining fundraising activities; applying to government loan programs; ensuring the health of staff and clients; and managing staffing layoffs and furloughs. The work has been particularly draining for organizations led by and serving communities of color. The disproportionate impact of COVID-19 on people of color and renewed attention on police brutality against Black people are laying bare the deep racial inequities in the U.S. As such, many leaders of color who are working to keep their organizations open are simultaneously being called upon to lead at the community level.

We believe that foundations must step up to help nonprofit leaders not just manage through these difficult times but also gain the space and capacity to plan for life post pandemic. In this essay, we'll offer ground-level insights into the phases of change nonprofits are likely to experience and then describe what they will need from their funders during each phase.

Phases of Change

Like individuals, organizations experience change in phases: crisis, survival, stabilization, and reimagining.

Individual nonprofits will move through these phases at different times, depending on their field (housing will be different from the arts); location; funding mix (those more dependent on foundations may actually do better during this crisis than those depending on earned income or government contracts); cash reserves and financial liquidity; social capital (those with personal connections to people and institutions with resources will fare better); real estate obligations; and, critically important, the capacity of board and executive leadership to manage change. Moreover, the phases aren't linear. For example, not every nonprofit starts in a crisis. But the majority of nonprofits will cycle through at least two of these phases during the next 18 months.

The Crisis Phase: Many nonprofits (those with three or fewer months of operating reserves) may be forced to create contingency plans more than once. Many organizations first engaged in contingency planning between March and June 2020, but few of these organizations planned for a long-duration event. The federal Paycheck Protection Program and emergency funds from foundations will likely run out soon. As a result, a number of nonprofits will have to redo contingency plans during 2021.

The crisis phase is characterized by cutting programming and staff, re-negotiating leases, and facing the possible fire sale of facilities. Cash-flow planning will be the most important financial tool for this phase. The ability to access capital—including unrestricted cash and, where debt is appropriate, credit lines and bridge loans—will be critical. As the sector wrestles with decades of racial inequity, it will be essential for philanthropy and finance intermediaries to work with organizations centered in and on serving communities of color, which have historically lacked access to capital.

The Survival Phase: Survival is a bridge between crisis and stabilization. During this period, an organization has met the immediate crisis and isn't in imminent danger of closing its doors. There is some breathing room to develop longer-term-scenario plans. Cash flow should be tightly managed. Six-months-and-beyond scenarios should be based on conservative financial projections that are carefully monitored and adjusted as new information becomes available.

Here are the forms of philanthropic support nonprofits need most during the crisis and survival phases:

- Stay in touch with grantees and listen to their programmatic and financial story, ever mindful of respecting leaders' time. The Council on Foundations' COVID-19 pledge, which loosened restrictions on project funding, calls for funders to learn from the emergency practices identified "so we may consider adjusting our practices more fundamentally in the future, in more stable times, based on all we learn." General-operating grants should be the norm, not the exception, during the pandemic and for a while afterward. This isn't the time to ask nonprofits to describe a one-year project and its outcomes.

- Develop pooled funding among peer philanthropies to allow nonprofits to access bridge financing where debt is appropriate.
- Explore efficiencies for both funders and nonprofits, such as pooling resources for shared financial due diligence. This would make it possible for grantees to have a finance professional assess their health and needs periodically rather than having to respond to a constant stream of unique requests from multiple funders. In turn, funders could have more consistent information to determine the size, type, duration, and other elements of their grants that may be influenced by a grantee's financial health. It may also be worth considering that financial due diligence need not be a one-size-fits-all endeavor. Most grantees probably require a light review, while a smaller number need a deeper dive.
- Create a grant pool for hands-on technical assistance via expert consultants who can help strengthen decision-making capacities. Technical assistance should include areas such as financial analysis and financial choice points; professional board facilitation to help directors make difficult decisions; compliance and values-based human resource management; scenario planning; facilities management; and coaching for leaders.
- Where organizations are contemplating alliances or transitioning programs from one entity to another, consider funding the process to ensure continuity of service to the community.

The Stabilization Phase: To stabilize, some nonprofits will try to create efficiencies through retrenchment—that is, a strategy of internally restructuring to focus even more intensively on core mission and programs. Others will stabilize via alternative management models such as outsourcing or a shared back office; creating management support organizations; or becoming part of a more stable entity. For the latter, fiscal sponsorship can be a good option. Nonprofits can put their 501(c)(3) on hiatus and come under a fiscal sponsor's umbrella. Fiscal sponsorship can create opportunities for back-office operating efficiencies while expanding benefit options for staff (as a product of being part of a larger organization). It's critical that decisions during this phase integrate the value of equity for staff, constituents, and the community.

Here are the forms of philanthropic support nonprofits need most during the stabilization phase:

- Commission trainings on alternative management models, outlining options and considerations.
- Convene groups that may want to learn more about a particular pathway. Develop shared capacity-building pools among philanthropic partners to fund organizations that need to explore alternative management models.
- Consider funding models for a shared back office, including strengthening the capacity of fiscal sponsors to take on additional programs.
- Continue to explore efficiencies for funders and nonprofits, such as shared financial due diligence.
- Continue to support hands-on technical assistance in areas such as finances, human resources, and facilities management.

The Reimagining Phase: Nonprofits, as is well known, have at least two key customers: their end users (constituents) and the funders who invest in their social purpose. Now is a time for nonprofits to focus on the former. The guiding questions in this phase should be:

- What should be our mission going forward? What matters most now and in the near future, and for whom?
- If we revise our mission for these new times, what changes will we need to make to strategies, organizational structure, and systems?
- What is the business model that will support this new mission, and how will we secure the resources we need?

Some nonprofits will move through this period by getting back to the basics and asking their constituents and communities what they need most. Others are homing in on core work instinctually. Either way, this moment provides an opportunity to rethink how mission and programs get done. Leaders will be called upon to do this rethinking in more responsive and equitable ways. Key tools here will be capacity to listen, think generatively, adapt, and manage change.

Here are the forms of philanthropic support nonprofits need most during the reimagining phase:

- Commission research that can identify—in real time, if possible—what is happening to communities and nonprofit fields.
- Convene tables for discovery of what might be next (by field or geography).
- Engage consultants who are outstanding at process/meeting design and facilitation, to hold the space for conversations.
- As new forms, structures, and ideas emerge during these conversations, pay for business modeling (e.g., financial viability, market analysis), research, and pilots—rather than expecting individual nonprofits to pay out of pocket.
- Continue to explore shared financial due diligence to help funders understand the opportunities they are being asked to fund. The professionals who conduct financial due diligence could be in a good position to broker productive conversations among funders and nonprofits.
- Continue to pool funding for organizations to create alternative management models and to learn from them.

Big Unknowns

There are too many macro variables buffeting the sector for anyone to truly know how we'll emerge from survival into the sunlight. But nonprofits, with support from foundations, should be tracking at least the following variables:

- *State and Municipal Budgets:* Tax hits will have significant impact on state and municipal funding of the social sector into 2021 and likely beyond.

- *Worldwide Macroeconomics and Financial Markets:* Will Wall Street and Main Street continue to operate in parallel universes, or will Wall Street tumble again—shrinking foundation endowments and payout?
- *Movement for Racial Justice:* The nonprofit sector is undertaking an essential reckoning with its contribution to racial inequality. Funders will be called upon to ensure that their dollars are reaching on-the-ground leaders in communities of color, not just that such communities are end beneficiaries of dollars controlled by mainstream organizations. As such, how funds are invested and directed will have impacts across communities and the sector.
- *Real Estate:* While the future of work may be unknown, it's clear that a large portion of the workforce will continue to work remotely after the pandemic. Commercial real estate, including that owned by nonprofits, will go through a sea change in the next few years. The impacts may be large or medium; they won't be small.

Conclusion

Well into 2022, the nonprofit sector will be managing the change wrought by humanity's shared frailty and hubris. No one can predict what the nonprofit sector will look and act like afterward. However, we do know we must take stock of reality, change behaviors, live with less, and dream of more—or at least a better and more equal distribution of what nonprofits and philanthropy will rebuild together. Given the power dynamic, philanthropy must play the important leadership role of providing dollars, information, convening, and capacity-building support while investing more trust in its nonprofit partners to self-determine their paths forward.

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