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What's Wrong With Charitable Giving—and How to Fix It

For starters, says Pablo Eisenberg, donors need to begin doling out more money, and to the places that really need it

It's hard to overstate the crisis facing charitable giving today. So let me just say it as plainly as I can: Much of current philanthropic giving, by foundations and individuals, neither meets the needs of our charitable organizations nor addresses some of our most urgent public needs.

Foundation practices today are too bureaucratic, inflexible and cautious, and too focused on short-term objectives. Too often, the process and procedures of grant making are more tailored to the needs of foundations and their trustees than to the requirements of nonprofits.

At the same time, our depressed economy is exacerbating this crisis—and making it all the more crucial that we address it. A severe reduction in available public and private funds has put many important nonprofit groups, especially at the local level, in grave danger. Cutbacks in their budgets and programs are depriving their clients of essential health and social services.

A number of nonprofit associations and foundations have called on the government to provide more funds and loans to struggling nonprofit organizations. Such aid would no doubt help, but the primary responsibility for maintaining the strength of the nonprofit community should rest with philanthropic institutions and individual donors.

What can foundations and others do to make a difference for the nonprofits and the people they are designed to help? Here are nine changes that would go a long way toward making philanthropy do what we all claim we want it to do.

1. Increase the Distribution Percentage

While the assets of private and public foundations have decreased between 15% and 25% over the past couple of years with the decline of the stock market, foundations in general have been reluctant to dip into their often huge endowments to either maintain or increase their giving to financially starved grantees. Many have simply cut their grant making.

Despite the phenomenal growth of their assets over the past 20 years, foundations have insisted that Congress not increase the minimum required payout rate of 5% of foundation net assets annually for grants and administrative costs. This should no longer be tolerated, especially in these tough times.

An increase in the payout rate to 6%, all in grants, would eventually add about \$10 billion a year to the coffers of nonprofit organizations to the approximately \$40 million that it is estimated that foundations now give. Foundations have claimed that such an increase would jeopardize the perpetuity of their assets, yet a number of studies argue that their assets could be maintained with a payout of 7% or 8%.

Moreover, there is nothing sacred about perpetuity. What is more important is the health and vitality of our nonprofit community. The Obama administration and the Congress should act quickly to increase the payout to 6% in grants, and the president should use his bully pulpit to pressure foundations to give much more than they are currently giving.

2. Increase General Operating Support

General operating support, or unrestricted money, is the lifeblood of effective organizations. It permits them to hire and maintain quality staff, conduct advocacy activities, build organizational capacity, participate in coalitions and retain the flexibility to pursue targets of opportunity. Unfortunately, only about 20% of all foundation grant money is allocated to such support. Many grantors believe that special-project funding is more easily evaluated and, therefore, more accountable, though there is little evidence to support this contention. What is true, of course, is that special-project funding gives foundations more control over the agendas of their grantees, responsibilities that should be vested in the boards and staff of nonprofits.

Whatever their reasons, foundations need to change their old habits. At least 50% of all foundation money should be granted for general operating support.

3. Increase Multiyear Funding

Few foundations are willing to give their grantees long-term support. Most grants are made on an annual basis, renewable for one or two more years. It is the rare institution that is willing to commit upfront support for five, 10 or 20 years. But that is exactly the kind of commitment that excellent organizations, especially public-policy and advocacy groups, require to meet their long-range goals. Public policies and institutions often change slowly. Nonprofit organizations must be given sufficient time and stability to bring about such changes.

Not all nonprofits merit this kind of financing, but those that have the capacity, integrity and leadership to achieve long-term success should be given the resources to reach their objectives.

4. Adopt Rolling Grant Making

Foundation boards normally meet two to four times a year to decide how to give away their money. Foundations often devote board meetings to specific program areas, so that would-be grantees have an opportunity to be considered only twice or even once a year. Staff may have discretionary authority over small grants, but usually the larger grants must go before the board.

This decision-making process may suit the trustees, but it puts many organizations at an enormous disadvantage. Their budget cycles may not

mesh with foundation timetables; nor can nonprofits, which have to meet payrolls and plan future programs, easily afford to wait six or more months for a funding decision. "Rolling grant making" enables foundations to give away money continually by delegating decision making between board meetings to committees of trustees. Nonprofits under this system could apply and receive funds on a year-round basis. It is the rare foundation that is currently using this process.

5. Allocate More Funds to the Truly Needy

The bulk of individual and institutional giving is channeled to the large, established institutions in higher education, health and the arts. Only a small slice goes to those who require the greatest assistance.

Several academics have estimated that not more than 3% to 5% of all foundation money goes to organizations serving the poor, people of color, women and children at risk, gays/lesbians, disabled and troubled youth—almost 50% of the American population. Though universities and colleges, hospitals, museums and arts groups devote a small part of their budgets and programs to these constituencies, their contribution lifts the percentage of philanthropic dollars spent for this purpose to no more than 12% to 15% of the total. This is hardly a fair and equitable distribution of funds.

Individual wealthy donors apparently are even stingier in their giving to poor and disadvantaged populations. A look at the Chronicle of Philanthropy's annual list of the 50 most generous individual donors, a list compiled by Indiana University's Center on Philanthropy of contributors who gave more than \$1 million to individual causes, and a study issued in late 2007 by the Institute for Jewish and Community Research in San Francisco of 8,000 large donations made in 2001-03 all show that universities and colleges, medical organizations, and arts and cultural institutions received the overwhelming amount of that money. Poor people and local grassroots organizations received a few crumbs.

Surely, our foundations and wealthy individual donors can do better than this.

6. Reach Out to Local Groups And Underserved Regions

The inability and unwillingness of national and regional funders to reach out to local nonprofits and to regions like the Mississippi Delta has resulted in large parts of the country that are underserved by philanthropy. This neglect is particularly troublesome in difficult economic times, when local and small organizations face much greater budget pressures than their larger counterparts.

Hurricane Katrina's destructive force, for example, was abetted by the fact that foundations had failed to create a nonprofit infrastructure, especially among poor and minority communities, that could have mitigated the impact of the disaster and helped in the rebuilding process. Other rural areas remain at risk because of the lack of nonprofit infrastructures.

There are several ways to remedy this. One is for larger foundations to provide big pots of money to national and regional intermediary organizations for "regranting" to underserved areas and local groups.

Another approach would be for foundations to pool their resources to create new regional foundations, particularly in rural areas. And, finally, large foundations could add staff to reach out and service local groups more effectively.

7. Simplify Application and Reporting Procedures

There is widespread dismay among nonprofits with the excessively detailed and time-consuming grant-application and reporting procedures required by foundations. While a few foundations have joined to use relatively simple common application forms, most do not, instead demanding lengthy, exhaustive proposals with great detail and unnecessary data. Negotiations over proposals often take many months, if not a year or so.

Reporting requirements are just as arduous. Many grantors demand quarterly or semiannual reports complete with financial data and impact statements. Nonprofits find themselves overwhelmed with continual assessments and paperwork for each of their donors—time that could better be used for programs and advocacy. Evaluation is an important part of a grant process, but it should be reasonable and not burdensome. The irony, of course, is that while foundations seem increasingly obsessed with evaluations of grantees, only a handful of them have ever undergone an independent evaluation of their own performance.

There is no reason why foundations shouldn't find a way to simplify requirements for both grant applications and reporting obligations. They would get much more bang for their buck by doing so.

8. Improve Public Accountability

During the past decade, both foundations and nonprofits have been rocked by a series of scandals involving inappropriate expenditures, excessive compensation, self-dealing, corruption and conflicts of interest. The behavior undermines public confidence in the work of nonprofits, potentially threatening the success of their fund-raising efforts.

The Internal Revenue Service and state attorneys general are responsible for overseeing the nonprofit sector. They have had neither the resources nor the will to do an effective job. Self-reform by nonprofits has been a dismal failure. Only our daily newspapers have done the job well, serving in recent years as the sole accountability mechanism for keeping nonprofits honest and transparent. Unfortunately, this is changing.

The potential demise of our daily newspapers and investigative journalism is arguably the biggest threat to the future of our nonprofit sector. Daily newspapers have abandoned their investigative teams, cut their reportorial and editorial staff and no longer pay as much attention to the nonprofit world as they once did. The pressure for nonprofit accountability has been dramatically reduced.

What, then, will be left to hold nonprofits accountable? Not the profusion of blogs that are too diverse, unfocused and lack quality control.

One answer to this dilemma is to convert failing or at-risk newspapers into nonprofit organizations. Buying such papers and making them nonprofit is an opportunity for big foundations and wealthy individuals not only to maintain the accountability of nonprofits but also to ensure the continuity of quality journalism and an informed citizenry. Surprisingly, no major donors to date have stepped forward.

9. Fund the Watchdogs

A related problem is the shortage of funds for advocacy and watchdog organizations that monitor and assess government policies, public agencies, nonprofits, business and other major institutions. Among such watchdogs: the Project on Government Oversight, the National

Committee for Responsive Philanthropy, Common Cause and the Center for Public Integrity. Foundations are reluctant to fund activities that are controversial, generate inordinate publicity and create too much criticism.

Yet, if we want a healthy and vibrant democracy, one that honors fair play and accountability, we must establish and support more watchdog groups to patrol our vast number of public and private-sector organizations. For foundations and wealthy individual donors, this is probably their most demanding challenge.

If philanthropy, in exchange for the enormous tax benefits it receives, is to exercise its full responsibility to our society, it will need to change the way it does business and sets its priorities. It will have to pay greater attention to the views and requirements of nonprofits and to the public's demand for greater accountability.

If foundations do not change, the public will have every right to question whether American taxpayers are getting their money's worth.

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