

COMMUNITY WEALTH VANGUARD



Community Wealth Ventures, Inc.



WEATHERING THE STORM: LESSONS FROM 2001

BY CLARA MILLER
PRESIDENT AND CEO
NONPROFIT FINANCE FUND

AS THE NONPROFIT SECTOR FACES RECESSION, NONPROFIT FINANCE FUND OUTLINES 7 RECOMMENDATIONS TO MANAGE THE ECONOMIC DOWNTURN

Nonprofits, funders and donors facing the recession would do well to draw lessons from the challenging economic period that the sector went through in 2001, made worse by the terrorist attacks of September 11.

NFF's analysis of data from over 6,500 mid-size nonprofits reveals that it took years for many organizations to recover from that economic downturn. The number of all nonprofits in the sample that suffered deficits grew by 20 percent in fiscal year 2001 and had not returned to 2000 levels by 2005. Over 40 percent of the nonprofits reported a deficit in 2001, as well as in the two years immediately thereafter. From 2001 to 2003, nonprofit expenses, in general, grew at a faster pace than revenue, suggesting that organizations were providing more services than they could afford in response to increased needs. It was not until 2004 that expense growth rates among the nonprofits reflected a full adjustment to the lower revenue growth rates, coming down to a level that could be supported by lower revenue.

More of the organizations that were entirely supported by the government felt the pinch during those challenging economic times than those with even 10 percent of funding from another source. Half of the entirely government-financed organizations reported deficits in 2002 and 2003.

Nonprofits that choose to learn from the challenges that the sector experienced during the last recession will be well positioned to deal with a new one. What nonprofits do now will have consequences that resonate far beyond the bottom lines of the organization.

Recommendations for Nonprofits in a Recession

Below are suggestions for what nonprofits can do to ease the sting of this and future recessions:

1. Nonprofit managers, board members and professional advisors can come together and review three critical aspects of a nonprofit's financial assets by considering:

IN THIS ISSUE

- » [Message From the Managing Directors](#)
- » [Leading in a Climate of Fear](#)
- » [Fundraising in Tough Times](#)
- » [Power in Numbers](#)
- » [Top Ten: Bootstrapping Strategies](#)
- » [New and Noteworthy](#)
- » [FRONT PAGE](#)

- Cash deposit risk – Is the money insured? Is it distributed among a number of banks?
- Concentration of investment risk – Are the investments diversified and varied?
- Concentration of revenue risk – Are we dependent on a particular revenue stream that might dry up?

2. Nonprofits heading into recession need to avoid “strong, silent behavior” and sustained spending, which has been a hallmark of the industry for more than a decade and continues to make nonprofits weaker, not stronger.

We are entering a period of financial crisis, and we can't afford to 'fake it until we make it.' This heroic type of behavior does no one any good in the long run. Nonprofits need to share worries with boards and funders and enlist their support in managing the recession. Organizations need to try to get by on decreased revenue and programmatic spending for a year or two in light of new financial indicators before moving forward with challenging expenses.

3. Nonprofits should engage board members and funders in contingency planning on what is likely to happen to clients and funders during a recession.

The end clients are especially important and face the greatest risk: Many of the populations served by nonprofits are fragile, needy people, whose need increases in times of financial stress. The goal of surviving a recession or economic recession is not to stay afloat for the sake of staying in business but rather to make sure you're around to keep serving the public, particularly in times of increased demand for services. It's important to get board members and funders to go public with that message -- that the organization's survival is important because of the clients it serves.

4. Nonprofits should avoid large investments in fixed assets and infrastructure (i.e., a building purchases and new hires), and if change (growth or retrenchment) is likely, then nonprofits need to work with funders and the board to build a cushion that will allow flexibility and course corrections.

As economist Peter Bernstein put it, 'Risk means not having cash when you need it.' And that is particularly true for nonprofits, which often have liquidity problems in the best of times. Liquidity becomes even more of an issue during a downturn, when there is a temptation to maintain or increase services, and hence expenses, even if revenue is declining.

5. Nonprofits need to get a firm handle now on their revenue patterns.

Organizations can examine revenue cycles to see if they're contra-economy or not. In some cases, the revenues of nonprofits actually rise during a recession. If that's true, nonprofits can build growth funding to allow rapid expansion to meet needs. If the opposite is true, nonprofits can take actions in step with cushion-developing approaches, such as reducing expenses in step with falling revenue.

“Nonprofits that choose to learn from the challenges that the sector experienced during the last recession will be well positioned to deal with a new one.”

“We can't afford to 'fake it until we make it'.”

6. Engage in contingency planning with board members and funders on how to respond to higher demand for services.

The goal is to ensure you stay afloat to serve the community. That may mean partnering with other complementary organizations.

7. If they offer services (e.g., job retraining or food or housing services), nonprofits should approach government funders more aggressively.

Nonprofits should propose revenue-neutral changes if the government can assist it with expansion during a recession or improving its practice within the context of its mission. Nonprofits can also band together around full-cost pricing and consider investigating shared technology or accounting platforms, using already-scaled ones available.

About the Economic Downturn Data

The Nonprofit Finance Fund data on nonprofits in the 2001 economic downturn was based on a random sample of GuideStar's IRS 990 forms for Fiscal Years Ending from 1999 through 2005 for mid-size agencies (those with annual expenses between \$500,000 and \$20,000,000). NFF used data from 2000 to 2005 to maintain a larger sample size for 2001-02 (the period of focus for this study). Adding 2006 or even 2007 data would have reduced the sample size for 2001-02. The 6,585 501(c)(3) agencies represent all philanthropic sectors and geographical regions of the United States

About the Nonprofit Finance Fund

Nonprofit Finance Fund (NFF) is a national leader in nonprofit, philanthropic and social enterprise finance. Founded in 1980, NFF provides loan financing, access to capital and direct advisory services that build the capacity and the financial health of nonprofits. A leading community development financial institution with over \$80 million in assets, NFF has provided over \$175 million in loans and access to additional financing via grants, tax credits and capital in support of over \$1 billion in projects for thousands of nonprofit clients nationwide. NFF has a staff of more than 75 serving nonprofits nationally from offices in Philadelphia, New York City, Newark, New Jersey, Boston, Detroit, Washington, DC, and San Francisco.

» [BACK TO FRONT PAGE](#)

“The goal of surviving a recession or economic recession is not to stay afloat for the sake of staying in business but rather to make sure you’re around to keep serving the public.”