

***‘How European foundations are responding to the economic downturn’***

**Introduction:**

- I would like to begin with a description I read recently in a book: ‘many, varied, ever-changing and eternal....unfixed, mutating, indestructible.’ Can anyone guess what this quote is describing? It is actually taken from the Harry Potter book series. One of Harry’s instructors in wizardry, who is named Snape, says this when he is describing the dark arts. When I first read this description of the world of magic, I was struck by how fitting this was also to the world of foundations, which is why I began with this quote today. So while in this speech I will attempt to outline how the economic downturn has affected foundations, prompted reactions, and changed perspectives, the key message I would actually like to deliver is that foundations are inherently resilient and chameleon-like organisations: resolute in looking beyond the immediate crisis and ambitiously identifying new ways to fulfil their missions. Arguably, foundations reputations will be marked by how they react during this period.

## **How have European foundations been affected, in numbers?**

- An EFC member survey conducted in October 2008 revealed that the majority of respondents would still be able to meet all grantmaking programme commitments in 2009. However, half expected their foundations' budget for grantmaking and/or operating programmes to decrease over the next 2 years, while two-thirds said they were considering significant changes in their investment strategy and asset allocation in the future.
- The majority of EFC Members saw a drop in assets in the range of 15-25% in 2008. This is less than our American counterparts, many of which assumed losses between 30-45%. For Europeans 2009, so far, is proving to deliver more positive results and foundations are cautiously hoping to recover some of the losses experienced in 2008, or at least to end the year without further losses.

It has been said that 'you only find out who has been swimming naked when the tide goes out', meaning that it is difficult to understand the risks that an organisation is taking until it has been tested by a difficult situation. So while there have been foundations who have been hit hard by the economic crisis – and that we may see exposed now – in a way this is a positive sign, as it proves that foundations can be out there taking risks, venturing into uncharted waters. I hope this is not a characteristic that will be lost in the future, despite the hard times some have experienced.

## How are foundations responding?

- At the same time, it seems that many of our members are seeing the economic downturn as a strategic opportunity. A key observation I would like to make is that foundations are not panicking.
- Numerous foundations are undergoing a serious rethink regarding their long-term investment policy and strategy; only a very few undertook radical changes during the period immediately following the crash in 2008. I'm seeing foundations taking time in boardrooms to have in-depth discussions on key issues, including the role and responsibility of the board and its relations with experts and asset managers. Discussions such as today's, focusing on 'Responsible leadership in times of change' can only help to further the conversation. Questions like the pros and cons of active asset management or how to define the optimal asset allocation for a passive management are now on the agenda. Conversations are also touching on what it really means to be an endowed foundation set up in perpetuity, and how we should translate this into investment policies. I have listened to debates about the basic concept of 'perpetuity', and have even heard the word 'spend-down' pop up.
- Also on a positive note, I can think of several notable examples where foundations have decided that rather than shy away from a challenge, this is actually the time to step up to the challenge and provide, in some cases additional/crisis-specific, support to address the critical needs of the NGOs and communities they work with. In other words, they are 'in for a pound, in

for a penny.’ Furthermore, many EFC members are taking this opportunity to examine more closely the effectiveness of, and approaches to funding towards, increasing their impact in the longer term. As a result they are engaging more closely with their grantees and partners, exploring new ways of working together, including the development of new collaborative models where they can benefit from shared expertise and infrastructure.

### **Lessons learned?**

I have been involved in discussions over the past months with many of you, and I’m hearing some repeated words of wisdom, which I thought I could share briefly:

- Foundations are taking longer-term views on financial strategies, and not placing all of their eggs in one basket.
- Feedback suggests a closer monitoring of the real value of endowments, while at the same time building up a working capital reserve, enabling organisations to be counter-cyclical and to provide support when other sources may have dried up.
- Some among you are looking into developing alternative sources of income, other than the return on capital investment.
- Multiannual grantmaking is also being mooted as a more reliable financial framework, where full budgets are set aside from the outset of the grantgiving cycle. This enables foundations to make long-term commitments without the worry of the money running out.

- Although the crisis has put foundations under considerable financial strain, many are being careful not to focus on endowments at the expense of their missions, but rather are showing solidarity with grass-roots organisations, some of which are finding it difficult to cover very basic operating costs, such as employee salaries.
- Many are taking a more holistic approach in supporting cross-thematic projects rather than the more traditional single-themed projects, as this better reflects the reality on the ground.

### **Future perspectives?**

- There seems to be an assumption that as foundations are typically organisations which have been set up in perpetuity, then, by extension, they are organisations which are not able to change or evolve. Yet I don't believe that this rings true: foundations have the power to interpret their mission and objectives according to the circumstances that they find themselves in. All too often, missions can be seen as constraining, yet at a time such as this when financial resources are tight and the need is great, an opportunity presents itself for foundations to look for new pathways by which they can fulfil their original mandate, while at the same time providing prompt support to those who need it most.
- Which brings me back to Snape's description of the dark arts: 'unfixed, mutating, indestructible.' If, as I began my speech, this really is the time

when foundations' reputations will be marked, then I hope that the connection I have made between the dark arts and foundations is correct.

<b>Foundation</b>	<b>Response to Economic Downturn</b>
Lundbeckfonden	Will maintain giving from 2008 to 2009 at a level of €45M. Should the crisis continue beyond 2010, a new review of policies will be undertaken.
Foundation for Polish Science	Will be substantially increasing its research funding up from €5.5M in 2008 to some €12M in 2009. This important increase in funding is led by the creation of new programmes at the FNP for which funding was sourced through the European Structural Funds. However, the foundation's own endowment is seeing diminishing returns in light of the current crisis which is leading the foundation to be more prudent in its spending: it has reviewed programmes, cut down those that did not prove effective and introduced changes in others in view delivering a more effective action.
Fondazione Monte dei Paschi di Siena	Launched a special "anti-crisis" call for proposals, to the tune of 15 million euros, to boost social and economic development in the city of Siena and its surroundings. The scheme is in addition to the funds already set aside for the foundation's programme, FISES (Enterprise for Sienese Development).
Charities Aid Foundation	Has set up a confidential helpline for charity leaders struggling financially and

	<p>understandably concerned about their future viability.</p>
<p>Fundação Calouste Gulbenkian</p>	<p>Joined forces with a group of Portuguese organisations to launch a solidarity campaign to tackle the increasing risk of poverty that has affected several families in the past few months in Portugal, as a result of the financial crisis. Starting with 1 million euros granted by its promoters, the campaign calls on other institutions and the general public to contribute. In the first phase, the beneficiaries of this campaign are the families affected by unemployment who do not benefit from any specific welfare assistance, in particular those families with pre-school-going children, elderly and/or handicapped family members. Four Portuguese regions have been identified that need urgent support: Porto, Vale do Ave, Vale do Tâmega and Setúbal. On the operational level, the campaign is providing funds to three social institutions that operate in these regions: the Portuguese Caritas (Caritas), the Portuguese Red Cross (Cruz Vermelha Portuguesa) and the Portuguese Federation of Food Banks (Federação Portuguesa dos Bancos Alimentares contra a Fome), guaranteeing that every euro raised will be directly channeled to the above mentioned beneficiaries.</p>

<p>Fundación Pedro Barrié de la Maza</p>	<p>In cooperation with Cáritas Diocesanas de Galicia, launched a new 300,000 euros emergency fund aimed at assisting Galician families who have been affected by the economic crisis.</p>
<p>Compagnia di San Paolo</p>	<p>Announced that it is focusing on “emerging aspects of the risk of poverty, with direct interventions, but also, and especially, by managing or supporting the experimentation of innovative tools of social policy, that favour integrated actions and seek the active cooperation of the beneficiaries of the projects”.</p>
<p>Bertelsmann Stiftung</p>	<p>Modeling scenarios for life in post-crisis Germany, as explained by the foundation's CEO, Dr Gunter Thielen. " We're looking for ways to deal with the medium- and long-term consequences of the crisis. We're looking for answers that address a variety of areas -- education, culture, social values, to name a few -- and that are not limited to economic aspects. Our task force will pool our in-house expertise and combine it with knowledge from outside in order to develop strategic approaches for confronting the long-term impacts of the current crisis. In addition, we're simulating a number of scenarios in order to envision various possibilities for</p>

	Germany's post-crisis development."
Open Estonia Foundation	<p>Launched a call for project proposals to help civil society organizations survive in difficult economic conditions. The Open Society Emergency Fund will finance social projects aimed at supporting the most vulnerable groups of society affected by the global economic crisis, as well as innovative initiatives promoting the values of open society. The emergency fund places priority to initiatives proposing quick and effective solutions aimed at increasing solidarity in the society. The fund was opened thanks to the \$100 million donation of George Soros, the founder of the Open Society Institute, to 20 countries in Eastern Europe, Balkans, Central Asia and Caucasus in order to alleviate the impact of the global economic crisis.</p>