

The Balancing Act



I. The Role of a Community Foundation as a Grantmaker



CHARLES STEWART
MOTT FOUNDATION

AUGUST 2008

Close to home ... close to the heart

Over the years, we have come to embrace a simple, but inherently human, concept of the charitable impulse: Philanthropy begins on Main Street. In other words, we believe that people support causes close to home and often close to the heart.

Through our grantmaking in our hometown, our state, our nation and in selected parts of the world, we've come to view community foundations as powerful — and empowering — vehicles to nurture individual giving and to foster community.

We have witnessed repeatedly the flexibility and creativity of community foundations and community-based philanthropy not only to channel financial resources to local charities, but also to establish partnerships, foster collaborations, nurture vitality and build endowment — all to benefit communities for the long-term.

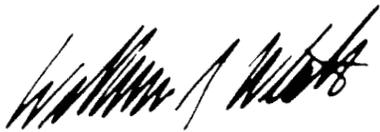
During the past 30 years, we have provided more than \$122 million in grant support to the community foundation movement around the globe. But our support has gone beyond grants. We also have underwritten the cost of technical assistance given by recognized experts to individual community foundations, as well as their networks and infrastructure organizations.

Our most recent technical assistance efforts have been largely undertaken by Dorothy “Dottie” Reynolds, whom we came to know and admire when she served as the CEO of the Community Foundation of Greater Flint (CFGF) from 1990 through 1997. Her energy, enthusiasm and knowledge were constantly on display in our hometown and played a big part in the growth of CFGF.

Since leaving that post, she has served as a consultant to our community foundation grantees. In this role, Dottie, who also worked for many years for the Columbus (Ohio) Foundation, has provided advice and assistance to community foundations and support organizations in a number of countries throughout Africa, Asia, Europe and North America.

Her expertise is in such demand that we decided we wanted to share her insights more broadly through a series of three monographs that explore the various roles a community foundation can play, including as a grantmaker, a vehicle for local philanthropy and a community leader.

We hope you find this series helpful and we welcome your comments.



William S. White
President

Preface



Simply put, a community foundation has three functions. It is a grantmaker. It is a vehicle for the philanthropy of individuals, corporations and organizations that have concern for a specific geographic area. It provides leadership in the community it serves as an effective, independent arena for addressing difficult issues and/or advocating for needed programs, services or policies.

Throughout most of the nearly 100-year history of the movement, community foundations have built endowments and used income from these funds to make grants to address changing community needs and opportunities. Building endowments is a slow process, and, although it still remains central to the development of most community foundations, more attention has been paid in recent years to raising funds for immediate use.

But, that gets us ahead of our story ... so let's begin with a short and simple summary of what is a long and fairly complicated narrative.

In the U.S., the history of the community foundation movement can be divided into three periods: 1) the era of the "dead donor," in which program officers recommended grants from unrestricted funds left to the foundations through estate plans (1914 until the late 1980s); 2) the era of the "living donor," in which donor-advised funds (funds that allow donors to recommend grants) dominated the field (late 1980s until the mid-2000s); and 3) the current era of "community foundation leadership," in which program officers, donors, foundation executives and their boards are forging solutions to community problems and developing strategies to take advantage of community opportunities.

The evolution of the movement outside the U.S dates to the late 1980s, and has followed a zigzag path. Many of these foundations started by playing a leadership role. Most have relied on re-granting funds secured from organized philanthropies external to their home locales. Endowment building has been spotty. Creating local donor bases has depended far more on combining the gifts of many individuals/families/groups, rather than relying on major gifts from the relatively affluent.

Nevertheless, this balancing act of being a grantmaker, a vehicle for local philanthropy and a leadership force within the community is widespread, no matter where the community foundation is located.

Over the past decade, I have had the rare privilege of working with community foundations in a number of settings, both in the U.S. and internationally. In the course of this work, I have found far more similarities than differences in the ways they operate, and I welcome this opportunity to tell the story of this balancing act through personal observations and case illustrations.

I should add that the opinions and observations presented in this monograph are mine alone, and may not reflect the views of the monograph publisher, the C.S. Mott Foundation.

Dorothy Reynolds

The Role of a Grantmaker



Giving away money sounds like a lot of fun, particularly when it is someone else's money. This opportunity to provide financial resources to support local projects is one of the things that prospective board members find most appealing about community foundations.

The truth, however, is that grantmaking can be difficult. This is especially true in a community setting in which those making the tough decisions personally know the applicants. This is the main reason that the balance required for thoughtful, effective grantmaking is so hard to achieve and maintain.

Unlike most private foundations, where board or staff members can take a plane home or hang up a telephone after a meeting or conversation during which grants are awarded or denied, those associated with community foundations must live with their decisions every day.

Of course, this can be a great “feel-good” experience when encountering those associated with organizations that have received grants. But there is too little recognition of the fact that, if grantmaking is to be strategic, many applications – including some that are worthwhile – must be denied, therefore disappointing many people. And it's no fun to be in the grocery store checkout line and meet an agency director whose grant has been denied, or to attend a party and listen to complaints from a board member of an unsuccessful applicant organization.

Nevertheless, making hard choices to achieve effective grants is as much a part of good stewardship as prudent investment policies.

Let's face it: Almost everyone at a community foundation would rather make grants than raise funds. Asset development can be unappealing and difficult, if not pure torture. Who would not rather present a check than ask for one?

However, good grantmaking makes raising money much, much easier. A community foundation that can demonstrate its ability to award grants that make a real difference won't have a difficult time convincing potential donors that it is worthy of their trust and generosity.

Being an effective grantmaker requires thorough knowledge of the community the foundation serves – including needs as well as opportunities. A board that reflects the composition of its community is an important ingredient in good grantmaking, as is building a staff that is sensitive to community needs.

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Start-up community foundations

In start-up community foundations, it is not at all uncommon for decisions to be based on criteria no more sophisticated than simply dividing the amount of money available by the number of requests received. In the short term, everyone is somewhat happy.

It can be argued that this approach is defensible as a way of establishing the reputation of the foundation. While this “sprinkling” of resources does not have much benefit or reflect much intentionality, it may not bother the staff and board of emerging community foundations.

However, as foundations grow and mature, most come to grips with the importance of assessing community needs and opportunities, deciding what niche they can best fill, and establishing priorities for their grantmaking.

Grantmaker Associations

Grantmaker associations, such as the Community Foundation Network (CFN) in the United Kingdom or the Border Philanthropy Partnership in the U.S. and Mexico, can be enormously helpful to emerging community foundations. They have the capacity both to share their experiences and to provide arenas in which the experiences of other, more fully developed community foundations can be shared. They often can access grantmaking resources that might not otherwise be available.

For example, the Council of Michigan Foundations (CMF) secured and administered a multimillion-dollar challenge grant program to build the capacity of Michigan community foundations through the development of grantmaking endowments that were advised by youth.

CFN, an effective advocate in the United Kingdom, has obtained grantmaking funds from the government. And grantmaker associations in the state of Indiana and the nations of Poland and Russia have played similar roles.

These organizations have been critical to the development of the community foundation movement worldwide, and have enabled community foundations to develop more quickly and become more focused in their grantmaking sooner than they would have on their own.

Involving young people

A worldwide movement is developing that may help ensure the future of effective grantmaking — involvement of young people as decisionmakers and, in some cases, fundraisers. The Youth in Philanthropy movement in the U.S. and the YouthBank programs that are emerging in Northern Ireland, Russia and Bosnia give rise to the hope that future generations will be sophisticated and effective grantmakers.

The Mozaik Community Foundation in Sarajevo, Bosnia, has teamed with the Community Foundation for Northern Ireland (CFNI) to scale up development of YouthBanks in that country. Mozaik has secured local support from five municipal governments for the local YouthBanks, and more than 50 young people are being trained as grantmakers. Prior to this project, CFNI worked with the Community Foundation Tuzla (also in Bosnia) to establish a successful YouthBank in that city.

Not only are young people becoming involved in philanthropy, but also they are far ahead of most of their elders in terms of their global interests. Exchanges between YouthBank in Russia and Northern Ireland have taken place, as have exchanges between the Youth Advisory Committee in Berks County, Pennsylvania, and Togliatti, Russia.

This is but the beginning of the international movement of youth in philanthropy and bodes well for its future.



Age and location make big difference

Over the past century, community foundation development has been uneven, both in size and the kinds of assets held.

Older foundations – virtually all located in the U.S. – possess significant discretionary funds. Newer U.S. community foundations, particularly those that benefited from the economic surge of the 1990s or were established then, are predominantly comprised of donor-advised funds, which permit the donor or designated adviser to recommend grants to eligible recipients.

This is in sharp contrast with most other countries. With the exception of Canada (where they began soon after 1914), the community foundation was a little known vehicle for philanthropy internationally until the late 1980s.

Most community foundations outside the U.S. are not in communities where there has been much opportunity for residents to amass wealth. However, many have been successful in raising funds for discretionary grantmaking from government sources or from re-granting monies provided by corporations or private foundations.

That said, funding for grantmaking that comes from sources other than the local community is not entirely without its drawbacks.

One pitfall is the degree to which acceptance of the money results in the community foundation abandoning its grantmaking priorities. Often it can mean that the community foundations must dance to the tune of the donor, whether a private foundation or a unit of government. The observation that “he who has the gold makes the rules” can, indeed, come to pass.

Because grantmaking often is more appealing than raising money, community foundations may become distracted from fundraising. If they fail to raise local money, they can be at the mercy of the continuing generosity of government, private foundations or corporations. Ultimately, they may never secure funding that is truly discretionary and that will permit them to become self-sustaining.

Part of the reason for the uneven pace of U.S. community foundation development is the basic nature of the country, with a population drawn from many different cultures and traditions. Community foundations expansion has been somewhat erratic, depending on the region and the availability of philanthropic resources.

By contrast, most community foundation development outside the U.S. has been quite intentional. The movement has spread because private foundations or other organizations have been interested in supporting grantmaking vehicles that will sustain the nonprofit sector over time, which many believe to be essential to democracy.

Funding for grantmaking that comes from sources other than the local community is not entirely without its drawbacks.

Community foundation as grantmaker

Regardless of location, community foundations exhibit a broad range of grantmaking interests. Arts and culture, community development, education, environment, health services, and human services are all quite common. However, variations do exist.

Social justice

The international movement displays a more intense focus on community development and social justice than is typical of U.S. foundations.

In recent years, social justice has emerged in U.S. foundations as a separate area of grantmaking interest. However, it should be noted that social justice concepts often are found in more traditional grantmaking approaches.

For example, in 2007, the San Francisco Foundation made 119 grants, totaling \$1.5 million, augmented by an additional \$93,000 from donor-advised funds, for the purpose of inspiring civic action and democratic participation.

In 2002, the Boston Foundation created the Civic Engagement Initiative, a nonpartisan effort to increase voter participation in Boston and Chelsea. This initiative has funded more than a dozen community-based organizations to increase voter registration and turnout to address issues such as affordable housing, quality public education, job creation and city services.

Working for peace

Internationally, the Community Foundation for Northern Ireland (CFNI) has played an important role in the aftermath of the “Troubles,” and has been widely recognized for its activity in social justice.

One example is its funding of re-integration and peace-building projects developed by groups of politically motivated ex-prisoners from both Republican and Loyalist backgrounds. CFNI’s credibility enabled it to bring together representatives from both groups to discuss a wide range of issues, including how to engage in conflict transformation.

CFNI currently serves as secretariat for Foundations for Peace, a group of activist international foundations located in conflicted communities. As part of its peacemaking agenda, CFNI has provided seed money to Justice for the Forgotten, a group of victims and survivors of two bomb attacks in Northern Ireland. The grant was used to lobby for recognition of their needs and demands for information and support.

Other social justice grantmaking by CFNI includes work with youth and proactive support for development of work opportunities in communities that have been excluded or alienated through the impact of conflict or the result of discrimination.

Poverty alleviation

A common theme heard in international circles is that the community foundation offers a means for reducing poverty. While this is a noble and worthwhile goal, it also should be recognized as a challenging one.



A community foundation may support programs that improve the quality of life or help individuals become more self-sufficient, healthier or better educated. And community foundations also can make a difference when they or their grantees leverage other resources, help establish new revenue streams or influence government policy.

But it should be noted that extravagant claims about community foundations and the degree to which they can alleviate poverty can be misleading.

Education

In the U.S., providing college scholarships has become a major interest for many community foundations, especially as the cost of higher education has soared and government support has diminished.

But in some countries where the state pays for higher education, using grantmaking funds for scholarships is less common.

Arts and culture

Critics of U.S. community foundations are quick to point out that a good deal of grants supports elite organizations (such as symphony orchestras, art museums, ballet troupes and the like). This attention to the arts is further exaggerated by the significant level of donor-advised funds designated for this purpose.

In reality, U.S. arts and cultural organizations depend largely on support from the private sector, a condition unknown in many parts of the world where arts and culture receive high levels of governmental support.

General purpose grants

While community foundations characterize themselves as a means to sustain the health of the nonprofit sector, few actually award grants for operating purposes and/or make grants year after year to support an organization's basic operations.

The common wisdom is that philanthropic dollars are scarce and should be used as venture capital in a community, rather than for ongoing support. I have made this argument myself and believe it to be true, at least to a certain extent.

On the other hand, I know the philanthropic sector has done a good deal of mischief over the years by supporting small, single-issue organizations that cannot find sponsors for the long haul. Sometimes this may appear to be an easier way of dealing with that issue than by insisting that the mainstream nonprofit community accommodate widely diverse causes and populations. This latter approach may seem too heavy-handed to some, but it is something to think about.

Emerging community foundations across the globe often fret about their meager resources and long for the day when they can make grants that really make a difference. What is really important is for the community foundation to look at itself realistically and determine what niche, at its current level of development, it can fill in improving the lives of the people in the area it serves.

Making a difference is, however, a matter for interpretation.

Whether the foundation provides funding for streetlights or statues, or refurbishes a community center, its role is important because the decision to undertake the project came from the community; in many cases, so did the money. There is almost nothing as empowering.

Some obstacles

Community foundations do not operate in vacuums and can be affected by legal constraints and local conventions.

For example, in some countries, such as Mexico, the laws governing registration for nonprofits are so stringent that many community foundations find themselves with few eligible grantees. So they tend to operate projects themselves.

In the U.S., many community foundations are so concerned about federal restrictions against lobbying and political activity that they forego anything that even faintly resembles advocacy.

The degree to which a grant application can fall outside acceptable norms for the community can be another obstacle. Each community foundation needs to weigh the implications of individual grant decisions as they relate to community norms.

Because community foundations depend on financial support from their local communities, they tend to be no more progressive or conservative than the people and areas they serve.

Community foundations do not operate in vacuums and can be affected by legal constraints and local conventions.

Summing it up

In my experience, community foundations across the globe do not differ substantially in their goal to improve the lives of the people in their communities. Some of the techniques are different, to be sure, but the hoped-for results are very much the same.

This flexible tool – the community foundation – is proving worthwhile no matter where it is employed.

A community foundation grant can provide an imprimatur for a project, ensuring additional support. Thus, the role the foundation plays as a vehicle for local philanthropy is a critical empowerment tool for the entire community.

Furthermore, the foundation's board and staff should not be deterred by a lack of money. Rather than lament about its modest resources and forego an examination of a legitimate proposal, the foundation needs to decide what niche it can fill in helping the program be successful.



The community foundation's main virtue as a grantmaker may be the process, not the product. Ordinary people, using resources generated by other ordinary people, make decisions about the uses to which those resources are put.

People on the ground are able to shape that ground a bit.

In a world of bureaucracies, rules and regulations, this is comforting and affords people a modest sense of control over their lives. What more can one ask?

Limited copies of this monograph (and the others in the series) are available through the Charles Stewart Mott Foundation's Web site (Mott.org). Each monograph also can be downloaded from the Web site.



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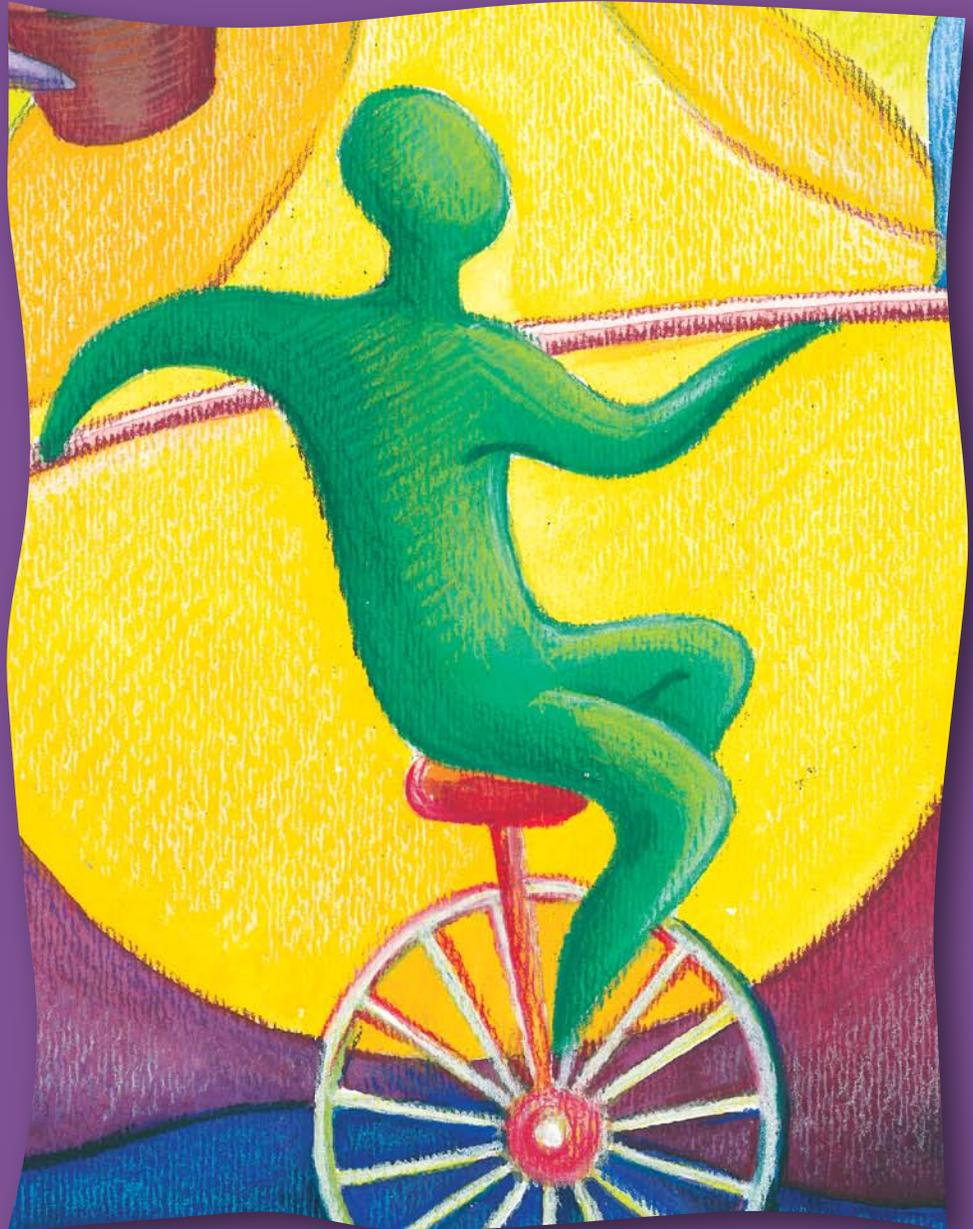


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II. The Role of a Community Foundation as a Vehicle for Philanthropy



CHARLES STEWART
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SEPTEMBER 2008

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Throughout most of the nearly 100-year history of the movement, community foundations have built endowments and used income from these funds to make grants to address changing community needs and opportunities. Building endowments is a slow process, and, although it still remains central to the development of most community foundations, more attention has been paid in recent years to raising funds for immediate use.

But, that gets us ahead of our story ... so let's begin with a short and simple summary of what is a long and fairly complicated narrative.

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The evolution of the movement outside the U.S dates to the late 1980s, and has followed a zigzag path. Many of these foundations started by playing a leadership role. Most have relied on re-granting funds secured from organized philanthropies external to their home locales. Endowment building has been spotty. Creating local donor bases has depended far more on combining the gifts of many individuals/families/groups, rather than relying on major gifts from the relatively affluent.

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Over the past decade, I have had the rare privilege of working with community foundations in a number of settings, both in the U.S. and internationally. In the course of this work, I have found far more similarities than differences in the ways they operate, and I welcome this opportunity to tell the story of this balancing act through personal observations and case illustrations.

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Dorothy Reynolds



The role of a vehicle for philanthropy



One of the most important functions of a community foundation is that of serving as a vehicle for the philanthropy of local individuals, corporations and organizations. This capacity has positioned these foundations to serve as mechanisms for sustaining programs provided by nonprofit organizations. And it is this attribute that has enabled community foundations to become one of the fastest-growing forms of philanthropy worldwide.

In the U.S., this growth became so explosive in the late 1980s and throughout the 1990s that maintaining the proper balance among making grants, developing assets and providing community leadership became difficult. When community foundation directors got together, often the first question they asked each other was not “What difference have you made in your community?” but rather “What’s your asset size?”

The flexibility of community foundations has been key to their rapid growth. Their ability to accept almost any kind of gift (cash, securities, real estate, mineral rights, even cattle or goats in some parts of the world), their ability to satisfy almost any donor interest, their careful stewardship of funds and their independent governance structures – all have contributed to the success of the community foundation movement.

Permanent endowments

In the beginning, community foundations were created to separate the management of funds in trusts from the uses of the income produced by those trusts. Traditionally, community foundations have focused on permanently endowed funds. This sets them apart from other community-based philanthropic activities.

Providing the critical vehicle *through* which donors can give back to their communities remains one of the three critical components of a successful community foundation’s mission. The others are serving as a grantmaker and providing leadership to address changing needs.

Certainly, permanently endowed funds enable the community foundation to have a stable source of revenue to meet the needs of the future. Because the foundation has this secure source of income to support its administrative and programmatic functions, it is not subject to the whims of any one donor and enjoys a certain degree of independence as it goes about meeting community needs.

Historically, community foundations in the U.S. have focused their attention on building endowments, and income from these endowments has enabled the foundations to respond to community needs by making grants. This was particularly true when most asset growth in the foundations was generated by bequests. In the U.S., most community foundations’ discretionary funds have been received after the donors’ deaths.

It is common practice to establish minimum levels of funding to set up named funds in community foundations. This allows the donor, or another individual or entity identified by the donor, to enjoy a certain amount of immortality, because grants are made in the fund's name. This often appeals to those who do not have direct heirs or choose not to leave their entire estates to their heirs.

Most importantly, benefits from permanently endowed funds span generations. Mayors and town councils can come and go, civic leadership can be generous or mean-spirited, but permanently endowed gifts from the past continue to provide for the present and future. And the good fortune enjoyed in times of plenty produces income to fund services in times of need.

It is quite common in the U.S. for community foundations to hold endowments to benefit specific organizations. The community foundation becomes a "firewall," preserving and protecting the permanently endowed fund from the whims of an organization's board of directors whose members might see an endowment held inside the organization as a "rainy-day" fund. The community foundation also can change the beneficiary of endowed funds, should that original recipient organization go out of business or substantially change its mission. Thus, donors are assured that the cause they cared about – or something very similar – will continue to be supported in perpetuity.

For example, the Columbus (Ohio) Foundation once held an endowment to benefit a tuberculosis hospital. When that hospital closed, the governing committee of the foundation made the local chapter of the American Lung Association the beneficiary of the fund's income.

The stability that a community foundation brings to the nonprofit arena, its flexibility in accepting gifts and establishing funds that satisfy the charitable needs of local donors, and its efficiency and effective financial stewardship combine to make it an essential partner in community-based philanthropy.

Although building endowments will not address all the charitable needs of a community, there is a real place for the development of community foundations and their permanent endowments in almost every community around the globe.

As the movement to build community foundations has widened beyond North America, an immediate focus on endowment building has become less practical, because donors in many countries do not have opportunities to amass substantial wealth, the nonprofit sector cannot invest its assets in publicly

Benefits to donors of endowed funds

- The ability to satisfy donors' charitable instincts to "give back" to the community.
- The knowledge that a gift made at a point in time will provide income forever, and that the foundation will invest the gift so that its buying power is maintained.
- The ability to indicate the purpose for which the permanent endowment is established, accompanied by the knowledge that the community foundation has the responsibility to alter that purpose, should it become obsolete over time.

The recognition that will be accorded to the donor, or the person for whom the fund is named, forever.

- The knowledge that decisions concerning use of income from the fund, as far into the future as can be imagined, will reside with a group of knowledgeable local citizens who will understand the needs and opportunities within the community.



traded markets, and the urgent needs of local populations means funds that are generated must be put to use immediately.

This does not mean that there are no endowed funds outside North America. Rather, more emphasis has been put on securing regrating funds from other foundations or from government gifts, and using them immediately.

Donor-advised funds

Donor-advised funds have long been a staple in the asset development portfolios of many U.S. community foundations.

In the U.S., a donor-advised fund is one in which the donor is allowed to deduct the gift from his/her tax return in the year in which it is made, even though distributions of income and/or principal may be made over many years. The community foundation is responsible for ensuring that the recommended distribution is for a charitable purpose that is consistent with the foundation's mission. And, as is the case in all foundation distributions, its board must approve suggestions from donors about how funds are to be distributed.

However, it is important to acknowledge that there are community foundations that have not pursued this kind of fund development and have opted instead to focus their attention solely on the acquisition of discretionary, permanently endowed funds.

For the most part, the more successful and larger community foundations have achieved significant portions of their assets as a result of their enthusiasm to create advised funds and to work with donors during their lifetimes, all the while encouraging those donors to include the foundation in their estate plans.

An important conceptual rift between those foundations that largely have ignored substantial donor-advised fund development and those that have actively pursued such funds must be acknowledged. The former tends to view a community foundation primarily as a grantmaker; the latter feels comfortable with the concept of a community foundation as the vehicle through which local individuals are able to satisfy their philanthropic goals.

Some community foundations require donor-advised funds to be endowed permanently, while others encourage distribution of principal as well as income. This latter approach often results in more interaction with donors and provides more money to meet immediate community needs.

However, most U.S. community foundations are somewhere in between. They promote the development of donor-advised funds, but they are always anxious to enlarge their permanently endowed, unrestricted and broad field-of-interest resources.

As noted earlier, donor-advised funds provide the community foundation with the opportunity to develop a relationship with an individual, and this can be parlayed into the foundation's inclusion in that individual's estate plan.

When I was at the Columbus Foundation in the mid-1980s, we found that two-thirds of the individuals who had established donor-advised funds included the foundation in their estate plans. (Because the foundation was more than 40 years old at the time, many of its early supporters had passed away.)

The donor-advised fund really came into prominence in the 1990s, when many young donors were making significant sums of money but did not want to establish private foundations.

Many community foundations took advantage of this situation and focused their asset development efforts on the creation of donor-advised funds. In fact, quite a few almost abandoned traditional endowment-building strategies and focused all their energies in this arena.

This has been widely questioned in many quarters, and is labeled by some as the “American model,” because of the perception that donor-advised funds are distributed solely for programs that interest wealthy donors and do not address community needs or the plight of the poor.

However, community foundations share with these donors grant applications for which they lack sufficient discretionary income. Because the foundations know these donors and their interests, this is often an effective means of funding important community causes.

Since the early 1990s, commercial donor-advised funds – created by investment houses as “commercial charitable gift funds” – have offered new challenges to community foundations. The latter are unlikely to outperform the investment portfolio of a Fidelity or Vanguard Fund. And they never will be able to process grant suggestions as quickly as the commercial providers.

On the other hand, community foundations know their communities and the nonprofit sector and can offer donors valuable information and insight. That will continue to be their primary advantage over the commercial donor-advised funds.

Because the investment houses are not in the business of building endowment, the entire corpus of their donor-advised funds can be distributed, which is highly valued by many of those donors who establish these funds. However, community foundations are flexible. They can allow distributions of principal from an advised fund and not restrict distributions to income only. This allows significantly more money to be made available for community use in the near term.

Many foundations have developed well-organized programs that encourage donors to support specific community causes. These efforts, which also increase interaction between the foundation and donors, appear to be working well.

At the Community Foundation for Greater Atlanta, for example, staff members become familiar with local nonprofits through discretionary grantmaking and then educate their donors about the effects of these grantees and encourage support for them. Thus, their discretionary grantmaking is supplemented significantly by distributions from donor-advised funds.

Donor-advised funds provide the community foundation with the opportunity to develop a relationship with an individual, and this can be parlayed into the foundation's inclusion in that individual's estate plan.



Donor-advised funds have not become widespread outside North America, but they do exist elsewhere. The community foundation in Togliatti, Russia, has created several corporate-advised funds. And community foundations in the United Kingdom allow donors to become more involved in grantmaking decisions. For example, donors might want to receive information about pending proposals, select projects to support from a short list provided by the foundation or nominate grant recipients. These donors also may meet with foundation staff to discuss expanded interests for future grantmaking.

Benefits to community foundations of donor-advised funds

Donors with advised funds comprise a natural constituency for planned gifts to community foundations. They work with foundation staff and board members as they suggest distributions from their funds and learn to respect the foundation and develop confidence in its stewardship.

Because endowment building requires focus on major gifts of assets, the community foundation usually finds that the time spent on working closely with living donors as they realize their charitable dreams will result in the establishment of a substantial planned gift. It is vital that the community foundation talk to these donors about the importance of sustaining their charitable concerns in perpetuity, and successful foundations do so.

How the vehicles are created

After a community foundation has developed policies about the kinds of gifts it will accept, created an investment policy that sets guidelines for return rates and asset mix, and established policies outlining the kinds of funds it will create, the stage is set for serious asset development.

Community foundation asset development strategies vary throughout the world. They can include coin canisters placed in strategic places in Ukraine or appeals to high-powered financial advisers in North America and the United Kingdom. The one common element essential to raising money is the “ask.” If the request is made often and strategically enough, funds will be forthcoming.

Board members almost always play critical roles in asset development. The board provides credibility and has ultimate fiscal responsibility. It should have at least some members who have connections with prospective donors, and all members must be willing advocates for the foundation as the appropriate recipient for gifts.

In North America, successful asset development efforts are relationship-based. That relationship can be between the community foundation and an individual donor, a corporation or a financial adviser. This sets the community foundation apart from other organizations such as United Ways, which also raise substantial amounts of money, but mostly through mass workplace-based giving campaigns. This is a much less individualized approach than those usually employed by community foundations.

In fact, most community foundations in North America and the United Kingdom try to avoid fundraising that competes with other charities and nonprofits. Special events such as raffles or bowling tournaments are avoided as ways to build assets. Rather, the focus is on major gifts, and the development efforts are targeted on sources who have the financial capacity to provide them. While small gifts are welcome, not much staff time and energy go toward raising them.

Asset development activity in the U.S. often is focused on securing major gifts through attorneys, certified public accountants, financial advisers, stock brokers and trust officers. These professionals have clients with resources to share. Often, they know their clients' charitable inclinations, and they understand tax implications and provide estate planning.

If professional advisers understand the flexibility and stewardship of a community foundation, if they understand that the foundation is not just another charity to give to, but rather to give *through* – they will be comfortable discussing it with clients. This approach also has proven successful in Canada and the United Kingdom.

In other parts of the world, tax benefits associated with giving are not generous, and opportunities to amass wealth, even modest wealth, are not as common.

Rather, most asset development activity is focused on soliciting small gifts from individuals, on obtaining larger sums from corporations, on securing funds from local governments, or on seeking grants from private foundations.

Most community foundations in North America and the United Kingdom try to avoid fundraising that competes with other charities and nonprofits.

Many private foundation grants to community foundations outside North America have required local matching funds, thus encouraging local giving. In Germany, Poland, Russia, Slovakia, South Africa and Zimbabwe, strenuous asset development efforts have resulted in the creation of permanently endowed funds. Private foundation gifts also have provided seed money to cover administrative costs and grantmaking funds to spread the community foundation concept.

A Global Fund for Community Foundations has been created through the efforts of the Ford and Charles Stewart Mott foundations, the World Bank, the European Foundation Centre, and the Worldwide Initiative for Grantmaker Support (WINGS). By supporting community foundation development throughout the world, this resource already has provided training and technical assistance resources, as well as modest levels of seed money.

As national economies continue to grow and wealth becomes more widespread, the community foundations in Central/Eastern Europe, the former Soviet Union, the Middle East, sub-Saharan Africa, Asia, Central and South America will be well-positioned to expand both asset levels and grantmaking capacities.



Summing it up

Whether a community foundation creates permanent endowment or pursues funds for immediate grantmaking is a decision made by its board. Permanent endowment is usually thought to be an integral part of the definition of a community foundation. But perhaps a more practical definition would require that the fundraising activities of the foundation focus primarily on providing a vehicle for the gifts of local citizens, corporations or organizations, whether the end results be permanent endowment or immediate grantmaking.

Arguments can be made to support both positions. However, changes in circumstances may dictate different approaches at different points in a community foundation's life cycle. Sometimes, pursuit of a permanent endowment needs to be deferred. However, if sustainability is the ultimate goal, there is no question that creating permanent endowment is preferred. In either case, community foundations have proven to be flexible, efficient vehicles with the potential to help communities take advantage of opportunities, as well as address needs.

This has been demonstrated throughout the world, and we should expect the continued growth, expansion and evolution of this important form of philanthropy.

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The Balancing Act



III. The Role of a Community Foundation as a Community Leader



CHARLES STEWART
MOTT FOUNDATION

OCTOBER 2008

Close to home ... close to the heart

Over the years, we have come to embrace a simple, but inherently human, concept of the charitable impulse: Philanthropy begins on Main Street. In other words, we believe that people support causes close to home and often close to the heart.

Through our grantmaking in our hometown, our state, our nation and in selected parts of the world, we've come to view community foundations as powerful — and empowering — vehicles to nurture individual giving and to foster community.

We have witnessed repeatedly the flexibility and creativity of community foundations and community-based philanthropy not only to channel financial resources to local charities, but also to establish partnerships, foster collaborations, nurture vitality and build endowment — all to benefit communities for the long-term.

During the past 30 years, we have provided more than \$122 million in grant support to the community foundation movement around the globe. But our support has gone beyond grants. We also have underwritten the cost of technical assistance given by recognized experts to individual community foundations, as well as their networks and infrastructure organizations.

Our most recent technical assistance efforts have been largely undertaken by Dorothy “Dottie” Reynolds, whom we came to know and admire when she served as the CEO of the Community Foundation of Greater Flint (CFGF) from 1990 through 1997. Her energy, enthusiasm and knowledge were constantly on display in our hometown and played a big part in the growth of CFGF.

Since leaving that post, she has served as a consultant to our community foundation grantees. In this role, Dottie, who also worked for many years for the Columbus (Ohio) Foundation, has provided advice and assistance to community foundations and support organizations in a number of countries throughout Africa, Asia, Europe and North America.

Her expertise is in such demand that we decided we wanted to share her insights more broadly through a series of three monographs that explore the various roles a community foundation can play, including as a grantmaker, a vehicle for local philanthropy and a community leader.

We hope you find this series helpful and we welcome your comments.



William S. White
President

Preface



Simply put, a community foundation has three functions. It is a grantmaker. It is a vehicle for the philanthropy of individuals, corporations and organizations that have concern for a specific geographic area. It provides leadership in the community it serves as an effective, independent arena for addressing difficult issues and/or advocating for needed programs, services or policies.

Throughout most of the nearly 100-year history of the movement, community foundations have built endowments and used income from these funds to make grants to address changing community needs and opportunities. Building endowments is a slow process, and, although it still remains central to the development of most community foundations, more attention has been paid in recent years to raising funds for immediate use.

But, that gets us ahead of our story ... so let's begin with a short and simple summary of what is a long and fairly complicated narrative.

In the U.S., the history of the community foundation movement can be divided into three periods: 1) the era of the "dead donor," in which program officers recommended grants from unrestricted funds left to the foundations through estate plans (1914 until the late 1980s); 2) the era of the "living donor," in which donor-advised funds (funds that allow donors to recommend grants) dominated the field (late 1980s until the mid-2000s); and 3) the current era of "community foundation leadership," in which program officers, donors, foundation executives and their boards are forging solutions to community problems and developing strategies to take advantage of community opportunities.

The evolution of the movement outside the U.S dates to the late 1980s, and has followed a zigzag path. Many of these foundations started by playing a leadership role. Most have relied on re-granting funds secured from organized philanthropies external to their home locales. Endowment building has been spotty. Creating local donor bases has depended far more on combining the gifts of many individuals/families/groups, rather than relying on major gifts from the relatively affluent.

Nevertheless, this balancing act of being a grantmaker, a vehicle for local philanthropy and a leadership force within the community is widespread, no matter where the community foundation is located.

Over the past decade, I have had the rare privilege of working with community foundations in a number of settings, both in the U.S. and internationally. In the course of this work, I have found far more similarities than differences in the ways they operate, and I welcome this opportunity to tell the story of this balancing act through personal observations and case illustrations.

I should add that the opinions and observations presented in this monograph are mine alone, and may not reflect the views of the monograph publisher, the C.S. Mott Foundation.

Dorothy Reynolds



The role of a community leader



Because of their experience working with a variety of donors, nonprofit organizations, grantees and units of government, community foundations' board and staff often have special insights into community issues. This gives them a broader perspective than those of most other organizations.

In addition, because these foundations do not depend on annual fundraising campaigns, they take a long view of community well-being, and they are well-positioned to address thorny issues and to take risks.

For years, tackling difficult issues was described by many foundations as one of being a facilitator or neutral party. But, recently, this role is more correctly described as "community leader." This more assertive position reflects what is going on throughout the field.

A community leader can be defined as an individual or organization that identifies an issue, has a general sense of a desired outcome, and conducts a process that includes a broad range of community interests. Ultimately, this results in consensus about a method to achieve a specific outcome. Sometimes this leadership takes the form of acting as a convener and bringing together differing elements of the community. In other instances, the community foundation initiates the process to effect the desired outcome.

Community foundations have frequently described themselves as "neutral parties." Of course, one can argue that this is not a particularly accurate description of, or a desirable posture for, most community foundations. They can, and should, be non-self-serving. And they most certainly are, and should be, independent. But for the most part, they can, and should, be advocates for the best possible outcomes for the communities they serve.

It is obvious that community foundations must exercise care to avoid offending the entire community, or even significant parts of it. Thus, consensus building and compromise often are required.

There are a number of themes to consider in this leadership role.

The appropriateness of leadership

Leadership implies the foundation's board and staff have a vision for the community and have some sense of the preferred outcome of a given situation.

When considering engagement on an issue, board and staff should examine the degree to which that subject is one in which the foundation has an interest and/or a level of experience that would make it appropriate to assume a leadership role.

Clearly, this role can be taken up only when there is clear agreement that such action is appropriate. Conflict or duality of interest, potential for partisan political ensnarement and compatibility with the foundation's grantmaking or other programmatic interests are other concerns.

A community foundation and its representatives must be capable of leading

with grace. This means being willing to step into the shadows if achieving the desired outcome requires others to bask in whatever glory may be forthcoming.

The individual leading the effort must be skilled and well-regarded. This person must be a leader without needing to be a star and must have standing in the community. If personal glory is important, the individual, and by extension the foundation, can be seen as self-serving.

The capacity for leadership

Being thrust into a leadership role, either through initiating the effort or receiving a request to do so, may divert time, financial resources and energy from a community foundation's day-to-day operations. However, a foundation with adequate staff and resources can offset the loss of the full attention of the staff or board member acting as leader.

Aside from human resources, the community foundation must consider whether it is appropriate to divert some of its funding or other program resources to the effort. A foundation may make proactive grants in support of a communitywide effort to address a problem, and/or it might leverage outside financial resources. Financial capacity makes the community foundation an attractive leader. But accepting the leadership role and providing funding may result in more invitations to lead than the foundation can handle.

The community foundation must seek a fine balance when acting as a leader, lest it fall into the trap of becoming a program operator. Although operating programs is becoming more common in philanthropy, too much of this activity can seriously jeopardize a community foundation's flexibility and time-honored ability to respond to changing community circumstances and/or needs.

Because it is not dependent on any one segment of the private sector, or on government funding, the community foundation can be a good facilitator in instances where independence is valuable. Its leadership can be particularly important in situations that require a bridge between communities of affluence and communities of need. There are also situations where bridges between private and public interests must be built.

There are some notable examples of leadership throughout the U.S.:

- ▶ In the spring of 2001, civil unrest gripped Cincinnati following the fatal shooting of a young African-American male by police. Initially, the mayor created Cincinnati Community Action Now (CAN) to improve police/community relations and create more opportunities for minorities. After a year of mixed success, CAN recruited the Greater Cincinnati Foundation to assemble a coalition of 15 local foundations and funders to raise \$7 million and form Better Together Cincinnati. The first grants were awarded in 2003. One of the most significant results has been funding of the Community/Police Partnering Center, which has fundamentally changed law enforcement attitudes in the community. The community foundation also provided seed money for a minority business accelerator program, now operated through the local chamber of commerce.



- ▶ New Mexico ranks highest in the U.S. in rate of child hunger. The Albuquerque Community Foundation, together with the McCune Charitable Foundation and the PNM Foundation, are leading a campaign to reduce child hunger in the state. Using a variety of media, the campaign seeks to increase awareness of the issue, and raise funds for the Road Runner Food Pantry from individuals, corporations and other foundations. In addition, the New Mexico Community Foundation and the New Mexico Coalition of Community Foundations are playing significant roles in this effort. Thus, leadership by the community foundation has leveraged additional resources as well as alerted the general public to a pervasive, statewide problem.
- ▶ The Community Foundation of Greater South Woods County in mid-Wisconsin is located in a rural area that lost a major employer and experienced a decline in the demand for cranberries, its chief agricultural product. This newer foundation, founded in 1994 and with assets of less than \$20 million, teamed with the Heart of Wisconsin Business and Economic Alliance to mount a three-year community economic development program, the Community Progress Initiative. This grassroots effort engaged citizens in discussions about local control and community development. It also resulted in a decision by Ocean Spray Cranberries, Inc. to expand its local operations, creating 100 new jobs in the region. Ocean Spray has also cited the Community Progress Initiative as a major factor in this decision.

Dealing with the consequences

There are times when the consequences, intended or unintended, of leadership can put a community foundation in an awkward position. A major donor, a potential donor or a board member may not agree with – or even oppose – the outcome the community foundation has facilitated.

For example, a U.S. community foundation in the Midwest belonged to a coalition of organizations concerned about children. This alliance opposed a ballot issue that would have allowed carrying concealed weapons. Several organizations dropped out of the coalition because their board members feared repercussions from major donors.

However, the community foundation remained steadfast despite similar concerns expressed by several of its board members, and the ballot issue failed. Despite its potentially controversial stand on this issue, the community foundation has continued to grow at a rapid pace.

There are times when efforts to build consensus or resolve vexing problems are dismal failures. However, the community foundation must take a long view and not judge success or failure in the short term.

Leadership activities should not be undertaken without considerable planning and discussion, and there should be a high level of comfort among board members about the foundation taking a convener or leadership role. For the most part, a community foundation will find it is better to act and fail than to avoid risk entirely.

The relevance of leadership

Leadership long has been a hallmark of community foundations. In fact, the Cleveland Foundation, which was founded by prominent civic leaders a century ago, employed a community leadership strategy during its first five years, because it did not have enough assets to make grants. During this period, its leaders devoted energy to improving the nonprofit infrastructure in Cleveland and developing a communitywide fundraising mechanism to support the sector.

They also organized a network of settlement houses, which were social service organizations set up in the early part of the 20th century to integrate new immigrants into life in the U.S. These houses existed throughout big cities in the East and Midwest. Today, those that remain mostly have become comprehensive social service agencies serving low-income, minority neighborhoods.

Early in this century, the focus on leadership was revived, due – in no small part – to criticism (as documented in two reports) that the leadership role of community foundations had been severely compromised in the 1990s by their efforts to increase assets and serve the needs of living donors.

A 2004 study by the Chapin Hall Center for Children at the University of Chicago, “Community Change Makers: The Leadership Role of Community Foundations,” received some attention.

But the field really sat up and took notice with the 2005 release by Blueprint Research & Design and Monitor Company Group of “On the Brink of New Promise: The Future of U.S. Community Foundations.” This report recommended – in fairly blunt language – that community foundations needed to modify their focus on donor needs and pay more attention to the potentially larger role of community leadership.

Citing increasing competition from the commercial sector and technology that permits donors direct and immediate access to make gifts to charitable organizations, authors Lucy Bernholz, Katherine Fulton and Gabriel Kasper wrote:

“Individual community foundations and the field as a whole will need creative and courageous leadership to thrive in the era ahead. Much of the mindset that has guided the field to this point needs to be replaced with a new set of assumptions about priorities, operations and the definitions of success.”

Both reports cite the access, agility, credibility and local knowledge of community foundations as valuable leadership attributes. They note that community foundations have diverse financial, intellectual and institutional resources. In addition, the foundations are independent and should be responsive to, if not responsible for, the communities they serve.

Since these reports were published, the Community Foundations Leadership Team of the Council on Foundations Inc. awarded a grant to CFLeads to implement a leadership development program. Working with the Aspen Institute’s Community Strategies Group, CFLeads has initiated two leadership networks involving 16 community foundations.

In addition, the National Task Force on Community Leadership, a group of 30 philanthropic leaders, has been created as a one-time, high-profile effort to



create frameworks for community leadership at both individual community foundation and field levels. (See www.cof.org.)

Developments outside the U.S.

The community foundation movement is still so new in many regions outside of the U.S. that most of these foundations have focused their attention on raising money and/or making grants. But some notable leadership has been exercised in community and economic development, which in turn has enabled the foundations to build identity and trust in their communities.

It can be argued, however, that their primary – and most important – leadership role is developing local philanthropy based on gifts from ordinary citizens and organizations. Particularly in Central/Eastern Europe, the former Yugoslavia and the former Soviet Union, the role of the community foundations as vehicles for local philanthropy is an important form of leadership.

A few outstanding examples of leadership by community foundations outside the U.S. can be cited:

- ▶ The grantmaker association, Community Foundations of Canada (CFC) now publishes a report card, *Vital Signs*, which was started by the Toronto Community Foundation in 2001 and which provides a picture of the overall social health of Canada. This annual check-up, conducted by 11 community foundations across Canada, measures community vitality, identifies significant trends and assigns grades to at least 10 areas critical to quality of life. Community foundations and others have used these reports to enhance their support for local activities. For example, the Kitchener and Waterloo Community Foundation realized, through the 2007 *Vital Signs* report, that literacy levels in its communities were below average. The foundation subsequently made a multiyear grant to a literacy program. In Ottawa, the 2006 *Vital Signs* report revealed lower levels of support for the arts than in other regions. The result has been increased arts funding from the local community.
- ▶ In Ukraine, the Donetsk City Charity Foundation “Dobrota” (Kindness) is a one-stop philanthropy. Dobrota collects information and updates its database of 7,000 donors and partners; communicates with potential donors on a regular basis, and negotiates with respondents, appealing for their participation in charitable programs. Dobrota makes grants to health-care institutions, educational and social protection (human services) institutions, and societies for the disabled. In addition, it provides direct financial support to indigents. Through these actions, Dobrota sets an example for the entire community to develop a culture of civic participation. It lives its slogan, “Doing Good Is Everyone’s Business.”
- ▶ The Tuzla Community Foundation (CFT) is the first community foundation in Bosnia and Herzegovina, established in 2003. It coordinates the activities of the Youth Empowerment Partnership Program (YEPP), a transnational

program that involves young people in identifying local, national and regional issues of concern through conferences, workshops and training; and a Youth Bank. A major activity of the YEPP has been establishing and maintaining a community center, which has become a popular meeting place for those concerned with civil society development and for many nonprofit organizations. The Youth Bank, in which young people recommend grants to meet community needs, was developed with assistance from the Community Foundation for Northern Ireland.

The community foundation field is well-developed in the United Kingdom, and leadership activities abound. Some examples:

- ▶ As a response to increased youth gang activity, the Community Foundation for Merseyside (CFM) approached the Merseyside Police about creating a Merseyside Youth Transformers Program. This pilot effort provided diversionary activities, involving both education and recreation, for more than 10,000 young people and resulted in an 11 percent reduction in anti-social behavior. Based on CFM's evaluation of the initial programs, plans are in the works to roll out a national model for community foundations in communities that are experiencing similar problems with gangs and street violence.
- ▶ Concerned about the health of middle-aged men, the Community Foundation Serving Tyne & Wear and Northumberland launched a multiyear lifestyle improvement campaign in 2001. A major public relations campaign, featuring a mascot, "Idle Eric," encouraged small lifestyle changes. In 2004-2005, the campaign promoted walking as a form of exercise. In 2006-2007, the focus was on nutrition, sexual health, physical activity, smoking, drugs, alcohol, self-examination and mental health. In 2006, a local general practitioner's clinic targeted men living in rural areas. In 2007, the campaign highlighted the benefits of drinking water and 15,000 water bottles were distributed to local football teams. The foundation also has made a number of small grants totaling more than £18,000 to local community groups to support healthy-living activities.
- ▶ The Community Foundation for Northern Ireland (CFNI) is in a class by itself, having been a leader in the development of the Youth Bank movement. Through its extensive and inclusive grantmaking, CFNI has helped bring together opposing sides in the years of the sectarian "troubles." The Secretariat of Foundations for Peace, an international membership organization dedicated to promoting peace in regions of conflict, currently resides with CFNI.



Summing it up

Community foundations are natural leaders, sometimes as conveners and often as initiators of processes to resolve community issues or address community opportunities. The field has embraced the challenges posed by “On the Brink of New Promise’ with great enthusiasm, so it appears fairly certain that this role will continue to expand in the U.S. Outside the U.S., many community foundations are assuming leadership roles in their communities, and others will follow as their presences in their communities become more visible and they become more experienced.

Assuming the leadership role may raise the operating budget of a foundation, because additional staffing may be required. However, I believe the added visibility the foundation gains likely will result in bringing more donors to the organization.

Becoming more than a donor-services organization and “feel-good” grantmaker has its risks, for sure. But those risks pale in the light of what can be achieved. The examples cited here are but a sampling of the enormous potential for leadership in the growing community foundation movement. I find it difficult to identify the downside for community foundations as they work in leadership roles to make both their communities and their world more just and sustainable.

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