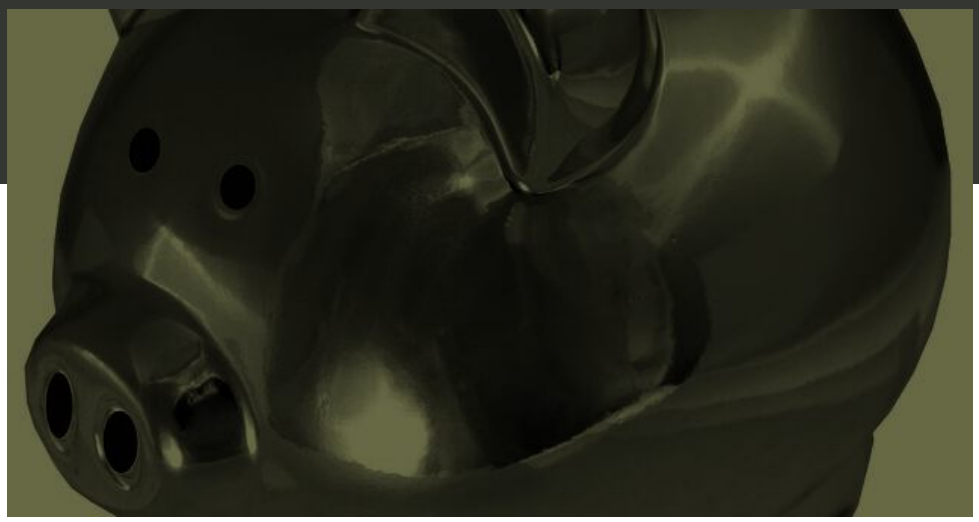
NONPROFITS: DONATIONS

About Those Massive Unrestricted Grants ....

02.16.23 | Linda J. Rosenthal, JD



"It is one of the ideas with the greatest currency in philanthropy right now: More funders need to make large, unrestricted grants, and then trust nonprofits to use them well."

Earlier this month, there was "stunning" news from the San Diego Foundation about a mountain of money that landed on its doorstep just a few weeks earlier. A $100- million bequest from someone they had "never cultivated" was suddenly entrusted to its care and judgment.

The area's largest regional community foundation announced "… a historic, transformative unrestricted $100 million cash gift from the estate of a local entrepreneur, Jay Kahn." *San Diego Foundation Receives Historic, Transformative $100M Gift* (February 2, 2023) Press Release, San Diego Community Foundation, *sdfoundation.org*.

"Perhaps even more extraordinary than the nine-figure bequest is the utter lack of strings tied to it. Kahn gave the money to the charity to do with whatever it sees fit, foundation officials said." *Unexpected and unrestricted: San Diego Foundation gets stunning $100 million gift from stranger* (February 2, 2023) Jeff McDonald, *The San Diego Union-Tribune.*

The icing on the cake? This "largest-ever gift of its kind to a San Diego nonprofit" and "… the third-largest gift of its kind to a U.S. community foundation" was a surprise, landing on the doorstep of the San Diego Foundation from someone with whom they "had no existing relationship." *San Diego Foundation Receives Historic, Transformative $100M Gift* (February 2, 2023) Press Release, San Diego Community Foundation, *sdfoundation.org*.

The first recipients of funds from this enormous bequest were announced the same day that the community foundation told the world about this pot of gold falling from the sky. The late donor had been a classical musician who played clarinet in area university symphonies. Each of ten San Diego-based music- education nonprofits was granted $150,000 "to advance their work with under-

resourced children."

There is film of the ceremony; saying the grantees were surprised and overjoyed is no understatement.

But how will all this work out? Will it – looking back in a few years' time – have been a good idea?

There's a major new study out that may shed some light on what can be expected.

Studying MacKenzie Scott Giving

In November 2022, the Center for Effective Philanthropy (CEP) published *Giving Big: The Impact of Large, Unrestricted Gifts on Nonprofits: Results from Year One of a Three-Year Study of MacKenzie Scott's Giving,* 46 pages, downloadable PDF.

This research was conducted independently, having been funded by some of the nation's largest philanthropies. An impressive outside advisory group provided input and review.

"In late July 2020," the authors write in the Report's Introduction, "MacKenzie Scott shocked the philanthropic and nonprofit worlds with the announcement that she had given $1.7 billion to 116 nonprofit organizations. The gifts came in the form of massive, unrestricted grants, with a significant proportion given to organizations focused on issues of equity, and were made with no restrictions — only an expectation of an annual three-page letter to the donor for the three years following their receipt."

Ms. Scott has continued since then with the same approach, giving nearly $13 billion as of spring 2022. (For the details, see her new website, Yield Giving, with detailed grants information as well as her philosophy and plan for divesting much of her wealth.)

Praise and Critique

"Many observers noted that Scott's approach, though not necessarily new in any of its specific elements, challenges what have been norms in "big" philanthropy for decades. Some hailed it as the ultimate embodiment of 'trust-based' philanthropy and a refutation of a top-down style that has characterized many other big donors' and foundations' giving in recent decades."

Many of those – including grant recipients – praising her efforts point to her emphasis and commitment to inclusion and diversity.

"Still, there has been critique." Some have worried "that recipient organizations might be overwhelmed by the gifts" or that the grants "would lead to unintended, negative consequences — or that there might be misuse of funds."

Additional concerns have been: (1) the one-time nature of the gifts, wondering if other donors might reduce support and (2) the effect on organizations in fields Scott supported but who were not selected: will donors or board members respond badly?

Scott's "lack of transparency relative to that required or expected of large foundations" has also been mentioned as a downside. "It's an inspiring model, but it relies on an inaccessible process. Scott has been vague about her selection methods, and there is no way for organizations to actively

make their case…."

Methodology and Findings

The Center for Effective Philanthropy, "understanding Scott's giving as a departure from prevailing norms," undertook a three-year research study "examining the impact of these large, unrestricted gifts on recipient organizations." This new, November 2022, Report is the first one of the three published; its findings and conclusions are preliminary because they are based only on the data to date.

The Report focuses "on a set of questions about the effects on recipient organizations:

- Do nonprofits believe this gift has increased their impact? In what ways?
- How did these nonprofits allocate the grant? And why?
- Have the nonprofits experienced unintended negative consequences of the gift? What have been the downsides of receiving this gift, if any?"

The bulk of the Report sets the stage for, and explains in detail, three key findings that are overwhelmingly positive:

- Surveyed leaders of nonprofits see the "large, unrestricted grants as transformational,…significantly strengthening their ability to achieve their organizations' missions,…."
- Grant money is being used to conduct or expand their work, and is often used to bring on new staff and "to fairly compensate and support staff."
- Few recipients have faced disruptions or organizational challenges.

Conclusion

The Center for Effective Philanthropy has had multiple goals in connection with this important research. First, it hopes that the findings will "reveal insights that are relevant to a broad spectrum of other donors — individuals and foundations — at a range of giving levels."

Second, based on the experiences of the Scott recipients, other nonprofits (like the new San Diego Foundation grantees, perhaps) can "… be prepared should they find themselves in the position of receiving a large unplanned and unrestricted gift."

– Linda J. Rosenthal, J.D., FPLG Information & Research Director