

**Impact of recession on philanthropy**  
**Presentation at CGAP/EAPG seminar 08.07.09**  
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Predicting the full economic impact of recession on the voluntary sector's resources is – as with other aspects of the UK economy - fraught with the uncertainties.

For example, one set of issues is around the recession itself – its length, depth and particular characteristics

A second set of issues is around the problems of measurement. The picture emerging to date presents some conflicting evidence, and it is still difficult to tell with any certainty yet what is happening:

- several surveys have reported wide anxieties across the sector about falling income
- and there are individual charity reports of increasing difficulty in getting income from certain sources such as companies badly affected the recession, particularly the financial services sector, and of the negative impact this is having on services
- there are some reports of individual major donor reining in – ARK, Hunter etc.

The available research is still mainly perceptual and attitudinal, recording charities' anxieties and impressions. You will have seen some hyper- headlines about imminent sector implosion or 'cliff edge' - it really has been the 'silly season', and anyone could be forgiven for feeling confused.

The problem has been the lack of any comprehensive empirical research, and rather a confused picture has been emerging: for example:

- Rapidata has reported in March 2009 this year that the rate of attrition in direct debits had increased compared with the previous year;
- PFRA has just predicted that attrition rates for street fundraising might rise by 10%.
- But there is also other evidence of donations holding up: Comic Relief had its best year ever, far outstripping all previous fundraising targets with a £80 million figure.

Few charity accounts covering the 08 or 08/09 financial years have yet been published or analysed systematically. The new Charity Market Monitor 2009, which updates annual trends in the voluntary income of the major fundraising charities, and giving by trusts and corporate donors, is one of the first large-scale pieces of evidence, but still only goes up to Autumn 08 – while in fact the major contraction in the economy took place in the final quarter of that year, and the first quarter of this one.

I want first to look specifically at individual giving. There is some limited US and UK evidence of what has happened in previous recessions.

- recent research has tracked long-term trends in the voluntary donated income of the UK's top fundraising charities, including the period covering the

recession of the early '90s.<sup>1</sup> Its findings indicate that while total household income began to fall in real terms in 1990, charity donations **still grew** in 1991, but subsequently showed falls in 1992 and 1993; they then rose robustly again, and over the period of the early '90s as a whole, donations rose;

- the research indicates that changes in donations move in line with changes in income. So if there is an overall 3-4% downturn this, this is likely to mean a fall in donations of around the same;
- if we pull out of recession quickly, it is likely that falls will quickly be compensated by new rises.

This scenario is similar to that emerging from the more comprehensive data available from the US. Evidence from the authoritative work carried out by the American Association of Fundraising Counsel, and by the Center on Philanthropy at Indiana University includes:

- a 2008 report by the Center arguing that giving has increased at an average real 2.8% per annum for the last forty years, but fell in years of recession;
- that where the recession lasted more than 8 months in a year, giving fell at around 3%<sup>2</sup>;
- that economic downturns have mainly tended to slow down the longer-term rate of growth in giving.

However, this is where the unknowns in the current recession become important – we don't know how far we can extrapolate from previous recessions, and what the longer-term economic scenario will be. The recent Giving USA survey, for example, reveals that giving fell by a real 5.7% between 2007 and 2008, and was the first fall since 1987.

All surveys of giving show that the strongest determinant is income. So it's very important to factor income trends into any predictions about what might happen to major giving. Giving by the wealthy is particularly affected by longer-term investment values, while spontaneous one-off giving by the general public is particularly affected by the employment rate.

What held up giving in the US in previous recessions was planned giving, including legacy income, which tends to be related to deferred income and savings, and not current income - so there may be a potential giving time-bomb in today's falling levels of investment and property value.

Data in the new Charity Market Monitor 2009 shows that foundation income and giving in 2007/08 was largely held up by major transfers of wealth made in the previous boom period of the last decade, and by the growing propensity of some wealthy donors to spend up during their lifetimes. Investments showed no growth.

Foundation giving is likely to take a knock in the longer-term if the major wealth accumulation of the last decade does not see a re-birth, and investment values just bump along.

The new Charity Market Monitor also shows that donations to the largest 300 fundraising charities fell in real terms in 2008. It also shows, as last year, that the underlying trends in legacies are of little growth.

All of this evidence indicates that giving is far from being on a cliff edge, but is likely to decline at a rate corresponding to trends in the wider economy over the next two-three years, and that this will face donors and funders with some difficult choices.

Some might see this interpretation of the giving situation as a kind of 'economic determinism' – but it does *not* mean that there are not some donors who are giving more, and many individual quixotic acts of generous giving. But the overall trends are likely to be downward.

It is therefore important to think about ways in which major donors can be encouraged to invest as much as possible in charities today. Around 10% of the tax-paying population is responsible for around two-thirds of tax-effective giving, and around one-fifth of all giving. Wealthy households are much more likely to give than poorer households, even if the proportion of income they give is not so generous. The donations of the most affluent will have a huge effect on future charity income.

The note which Tom McKenzie and I have prepared as background for today's seminar attempts to identify the different ways in which various actual and proposed changes in today's tax environment might influence major giving decision-making from an economic point of view:

the 50p tax-band may reduce incomes at a time when they are already falling and could have a negative effect on giving;

on the other hand it reduces the 'cost' or 'price' of giving, which could have a positive effect as long as donors see tax given back to charities (rather than to themselves) as a cost reduction;

if, however, donors do not see the tax-relief currently paid back to charities as reducing the 'cost' of giving to themselves, then any move to re-direct further tax-relief away from donors to charities may have a very negative effect.

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<sup>1</sup> Micklewright, J and Pharoah C. Evidence to House of Commons Parliamentary Select Committee on International Development Aid. 31.03.09

<sup>2</sup> The Center on Philanthropy at Indiana University. (2008) Special briefing on the economy and charitable giving. November 2008