

NationSwell Trend Report

October 2022



The state of play: U.S. **Philanthropy** in 2022

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Philanthropy provides risk capital in a way that government and business cannot. It is a necessary ingredient to solving the world’s social and environmental problems. A new wave of giving that can propel projects forward with equity and justice at the fore is increasingly contingent on funders not only donating their financial resources but also embedding the values of trust-based approaches into their overall strategy.

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Definitions

Clarifying our terms

Clarifying our terms



Definitions

Trust-based philanthropy strives to shift the inherent power-imbalance between donors and the recipients of their philanthropic investments by advancing equity and building mutually accountable relationships.

Collaborative philanthropy harnesses the resources and expertise of organizations who share similar goals. In collaborative models, organizations create new investment platforms that enhance the amount of philanthropic capital available to achieve impact.

Social impact bonds are a debt financing mechanism that typically create a pay-for-service agreement between issuers and service providers for the delivery of social impact programs. Social impact bonds have recently been issued by several large private foundations as a novel approach to funding new grants.

5 percent rule is a legal requirement for all 501(c)3 private foundations in the U.S. to distribute a minimum of 5% of non-charitable use assets from their total fair market value from the preceding year.

Trends and pulse checks

Understanding where the market is heading
and diagnosing your preparedness



TREND ONE

Funders have increased their giving over the last two years, sometimes significantly

But growth in nominal giving hides the fact that funders are donating less of what they earn



Funders are giving away more money than ever, but they're not necessarily becoming more charitable

Foundation giving is way up over the past two years, but payout rates are static

- Foundation giving increased by 16.1% in 2020 over the prior year, and again by 3.4% in 2021, setting an all-time high in terms of nominal dollars ([Giving USA](#))
- Despite giving more in absolute dollars, private foundations maintained an average payout rate of just 5.1% of their endowment in 2021 ([Common Fund](#))
- Impressive investment returns explain how foundations can give larger sums of money without increasing their payout rates
 - Private foundations averaged a 16.0% annualized investment return across 2018-2021 ([Common Fund](#))

Nominal corporate philanthropy is at an all-time-high, but giving as a percentage of profits at the lowest point in decades

- In 2021, total giving by corporations increased 23.8% over 2020, setting an all-time high in terms of nominal dollars ([Giving USA](#))
- Despite giving more in absolute dollars, corporate donations as a percentage of pre-tax profits fell to 0.7% in 2021, matching the lowest level since 1981 ([Giving USA](#))
- Corporate pre-tax profits grew 37.4% between 2020 and 2021, allowing for dramatic growth in philanthropy that represents a smaller relative share of profits ([Giving USA](#))

To increase their giving capacity while maintaining the integrity of their endowments, several large foundations issued social impact bonds. It is too soon to know if they're early movers in a new trend or not.

- [Bush Foundation](#): \$100M bond issued in 2020 to support investments in Black and Indigenous populations
- [California Endowment](#): \$300M bond issued to support movement building and health care infrastructure in 2021
- [W.K Kellogg Foundation](#): \$300M bond issued in 2020 to support investments in early childhood education, racial equity, and systems change
- [Rockefeller Foundation](#): \$700M bond issued in 2020 to support investments in renewable energy
- [Ford Foundation](#): \$1B bond issued in 2020 to support investments in social justice and inequality

How we’re doing: Funding levels

	YES	NO, BUT WE HAVE A PLAN	NO
We have a clearly articulated theory of change that is a core guiding principle for how we budget our philanthropic spending			
Our organizational leadership engages in exploratory, productive, and potentially challenging dialogue about novel approaches to funding			
We benchmark our philanthropic spending against organizations like ours and use that data to inform our goal-setting and funding strategy			

TREND TWO

Trust-based philanthropy found its foothold in the midst of crisis

Today, funders are sustaining and evolving those principles



Energized by concurrent crises, trust-based principles are showing some lasting power

COVID-19 and BLM called upon foundations to give differently

- The Trust-Based Philanthropy project emerged in 2018 as a leading initiative to restructure power inequities in philanthropy ([Trust-Based Philanthropy Project](#))
- The Covid-19 pandemic helped accelerate the adoption of trust-based principles by private foundations; 800+ foundations pledged to make funding more flexible, boost unrestricted giving, ease application and reporting burdens, and more ([Council on Foundations](#))
- In response to the murder of George Floyd and subsequent surge of attention on issues of racial justice, Groundswell Fund published an open letter in 2021 challenging grantmakers to transform how they donate to racial justice movements; signatories total more than 385 foundation executives and individuals ([Chronicle of Philanthropy](#))
- In a 2021 survey, 96% of surveyed foundations said their work with grantees was “somewhat different” or “very different” in 2020 compared to 2019; 97% sustained at least some of those changes into 2021 ([Center for Effective Philanthropy](#))

Corporations are starting to put trust-based principles to work, too

- T. Rowe Price Foundation applies trust-based principles in its grantmaking and community engagement. As an example, the Foundation provides capacity building support to nearly 1,000 organizations that don't receive direct funding; the value of utilizing all their capacity building services is equivalent to as much as a \$25,000 grant ([NationSwell](#))
- In 2020 Citi Foundation, in partnership with Synergos, launched a research initiative on the value of general operating support and capacity building grants ([Citi](#))
 - The company also committed \$10M in 2022 to strengthening community leadership through trust-based funding ([Citi](#))
- American Family Insurance Dreams Foundation diverted all funding towards general operating support for programs and services for economically disadvantaged; Black, Indigenous, and people of color (BIPOC); and youth/ young families ([AmFam](#))

How we’re doing: Trust-based philanthropy

	YES	NO, BUT WE HAVE A PLAN	NO
We are actively seeking to fund organizations that have close and trusted relationships with the communities we hope to serve			
We are increasing the level of unrestricted and multi-year funding commitments we make to our grantees and partners			
We are involving new voices – particularly those who are historically excluded from philanthropic processes – in our decision-making around funding			

TREND THREE

Funders are doing more to prioritize racial and social justice in their giving

Yet BIPOC voices remain too marginalized in decision-making



Funding commitments aren't matched by engagement with members of BIPOC communities

Corporations and foundations are sustaining their heightened commitments to racial equity since George Floyd's murder

- In 2020, 44 out of 50 of the largest public companies committed \$49.5 billion to address systemic racism, of which \$4.2B was in the form of outright grants ([Candid](#))
- 85% of major public and private companies reported that they contributed about the same or more to address racial equity in 2021 as they had in 2020 ([The Conference Board](#))
- In 2021, 73% of surveyed foundations reported that racial equity is somewhat or very relevant to their mission, up from 65% in 2019 ([Exponent Philanthropy](#))
- In 2021, 40% of surveyed foundations reported having increased the percentage of grant dollars to organizations serving Black communities and a little more than a quarter reported doing so for organizations serving Latino communities ([Center for Effective Philanthropy](#))
- 67% of surveyed foundations have changed their grantee selection process to reach more nonprofit organizations serving communities most impacted by systemic inequities, and 85% of those foundations intend to sustain those changes ([Center for Effective Philanthropy](#))

But BIPOC individuals are still underrepresented beneficiaries of and participants in philanthropy

- In 2021, 26% of BIPOC-led nonprofits received more than half of their funding in unrestricted funds, compared to 41% of White-led nonprofits ([Nonprofit Finance Fund](#))
- In 2021, among nonprofit BIPOC-led organizations, just 58% received corporate donations compared with 71% of white led groups ([Chronicle of Philanthropy](#))
- In 2021, almost two thirds of surveyed foundation leaders reported that their organization provides little or no grant dollars to organizations primarily serving AAPI (71%) or Native American communities (62%) ([Center for Effective Philanthropy](#))
- While a majority of the 500 largest foundations report receiving input from at least one person or organization affected by their work, only 10% of foundations reported delegating authority to their grantees through mechanisms like participatory grantmaking ([Giving USA](#))

How we’re doing: Social and racial justice

	YES	NO, BUT WE HAVE A PLAN	NO
We invest time, resources, and strategic attention in finding grantees doing credible, authentic, and impactful work to advance social and racial justice			
We measure and report on the amount of funding we direct toward social and racial justice causes, as well as the racial demographics of grantee leadership			
We routinely evaluate our application and funding processes for biases that may inhibit access to funding for historically marginalized groups			

TREND FOUR

Funders are realizing philanthropy's potential to support climate interventions

But their actual investments are incommensurate to the challenge



Climate action is generating lots of attention, but fewer dollars

Funders acknowledge the urgency around climate change, and some are taking bold action

- More than 90% of foundation leaders think that, in the coming decade, climate change will negatively affect the lives of the people they seek to serve, as well as the geographic areas in which they operate ([Center for Effective Philanthropy](#))
- Between 2020 and 2021 alone, total giving to organizations supporting the environment and animals increased by 11% in the U.S. ([Giving USA](#))
- Some corporations and foundations have made large commitments around this awareness:
 - [IKEA Foundation](#) and [Rockefeller Foundation](#) announced \$1B global platform to fight climate change and energy poverty
 - [Bezos Earth Fund](#) pledged \$2B (\$1B each) of it's \$10B climate commitment to landscape restoration and food systems transformation
 - [Gold Standard](#), created by WWF, backed by philanthropies, promulgates verification criteria and procedures for carbon credits sold in voluntary markets to build confidence in the market along with various other solutions and innovations for individuals, investors, businesses, and project developers ([McKinsey](#))

But philanthropic commitments generally fail to stand up to that urgency

- While the entrance of new donors and commitments led to a 14% increase in global philanthropic giving to climate change mitigation, it still represented less than 2% of total philanthropic giving in 2020 ([ClimateWorks Foundation](#)) and amounted to less than 1% of U.S. contributions in 2021 ([McKinsey](#))
- Of \$484.85B in U.S. philanthropic commitments made in 2021, just 3% was centered around the environment and animals ([Giving USA](#))
- In 2022, more than 70% of climate foundation leaders say that their climate funding is less than 20% of their total grant dollars for the current fiscal year ([Center for Effective Philanthropy](#))
- Between 2018 and 2020, the rate of median cash community investments by corporations in environment-related programs decreased by 9% and environmental giving accounted for the lowest amount of median cash community investments compared to other program areas ([CECP Giving in Numbers](#))

How we’re doing: Climate philanthropy

	YES	NO, BUT WE HAVE A PLAN	NO
We have interrogated the alignment between our organization’s understanding of climate realities and the financial resources we invest in climate interventions			
We seek strategic guidance and expertise on the use of philanthropy for climate goals, including the opportunity to de-risk capital for novel interventions			
We understand the points of intersection between climate and our other funding priorities so that we can make holistic and strategic investments			

TREND FIVE

Collaborative approaches are gaining momentum and proving their impact, even among institutional funders

Collective investing models adopt a power sharing approach, taking learnings from individual giving as well as trust- and place-based initiatives



Collective and participatory action are making new inroads in the institutional funder community

Collaborative models solve old problems, unlock new opportunities

- The Gates Foundation, in partnership with Bridgespan Group, funded a 2021 survey on the evolving landscape collaboratives and found that 2020 saw the highest number of collaboratives (16) formed in a single year ([Bridgespan](#))
- Compared to an average of \$2-\$3B in spending ability alone, existing collaboratives have increased grantmaking to \$10-\$12B annually ([Bridgespan](#))
- When executed well, funder collaboratives can drive tremendous results
 - In one review of 10 collaboratives, 94% agreed their collaborative was a success overall, 93% agreed they are on track to reach collaborative goals, and 92% of funders and 80% of grantees said their collaboratives benefits exceed the cost of participating ([SSIR](#))
- Reported benefits include: learning more and forming important relationships, funding a strategy more aligned to the scale of the problem, taking more funding risks
 - These benefits extend to grantees who report collaboratives pave way for: greater ability to drive impact at a systemic level, and greater reputation boost ([SSIR](#))

Once the domain of individual donors, collaboratives are making their way into the institutional funder community, particularly during the past two years

- **Collective ventures** apply participatory funding practices in which all decisions are made by a group of individuals who represent the communities they seek to serve (e.g. [Collaborative Fund](#), [International Trans Fund](#), [Female Founders Fund](#))
- **Collective pledges** unite organizations who commit to upholding a specific commitment toward a cause (e.g., [15% pledge](#), [OneTen](#), [The Climate Pledge](#), [Pledge 1%](#))
- **Collaborative place-based impact investments** coordinate efforts and leverage capital from across the community to design an investment collaborative ([Urban Institute 2018](#)) (e.g. [Village Capital](#), [Co-Impact Fund](#), [Thousand Currents Project](#))
- **Giving circles** form at the grassroots level to engage, connect, and give to community members ([PhilanthropyTogether](#)) (e.g. [Brooklyn Community Foundation](#), [Target Circle Community Giving](#))

How we’re doing: Collective and participatory grantmaking

	YES	NO, BUT WE HAVE A PLAN	NO
We are involving new voices – particularly those who are historically excluded from philanthropic processes – in our decision-making around funding			
We create meaningful opportunities for employees and customers to help direct our charitable efforts			
We embrace the opportunity to scale our impact by aligning and collaborating with like-minded funders, including joining public pledges and/or collectives			

Policy and regulatory movement

The rules that matter



The 5% rule

The Rule

A registered 501(c)3 private foundation must make charitable distributions amounting to a minimum of 5% of the average value of its endowment at the end of a calendar year by the following calendar year end ([National Center for Family Philanthropy](#))

The 5% rule attempts to balance the goal of ensuring foundations use their resources for philanthropic purposes against the goal of private foundations to sustain their endowments and grantmaking abilities in perpetuity ([Center for Effective Philanthropy](#))

While individual payout rates vary, the average payout rate for private foundations in 2021 was 5.1% ([CommonFund](#))

The Debate

Defenders of the 5% rule argue that it allows private foundations to sustain their grantmaking in perpetuity for the benefit of society, to respond urgently in times of crisis by preserving assets, and to maintain fidelity to original donor intent

Critics of the 5% rule argue that it acts as a de facto ceiling rather than a floor to foundation distributions, it enables inequitable wealth accumulation, and it prioritizes unknowable future needs over immediate and knowable needs

The Outlook

There is little momentum in congress to change payout requirements for private foundations. The Accelerating Charitable Efforts (ACE) Act was introduced in the Senate in June 2021 and again in the House in February 2022. The Act proposed to restrict the ability of private foundations to count distributions to donor-advised funds (DAFs) against their 5% payout requirement. It has stalled in both legislative chambers. ([Giving USA](#))

“A study, by Lilly Family School of Philanthropy professor Patrick Rooney et al, with samples of 50,000 for each rate tested, further found that raising payouts as high as 9 percent over the next 100 years would shrink assets over time, but not risk foundation closure” ([Stanford Social Innovation Review](#))

Practitioner spotlight

One organization helping to set the pace

CASE STUDY



Target

Target

PACE-SETTING GIVING

Target has given 5% or more of profits for the last 70 years ([Target](#)) toward philanthropy; the industry average is to give less than 1% of pre-tax profits per year

In 2020, Target invested \$245M in total giving with 94% (\$231M) going directly to local communities and programs ([Target](#))

Target's focus areas work across micro and macro level community systems –supporting local (hometown), national, and global communities ([Target](#))

Target Foundation “recognizes that the organizations they seek to serve often inhabit and contend with histories of disinvestment in marginalized communities and seeks to ensure that its grantmaking and philanthropic practice counters those patterns and enables communities to determine their own futures” ([Target](#))

A FOCUS ON EQUITY

Target has adopted a trust-based approach with values rooted in “advancing equity, shifting power and building mutually accountable relationships” ([Target](#))

In 2021, Target committed \$100M towards supporting local, Black-led organizations to ensure that resources are specifically designed for the communities they serve through their REACH committee ([Target](#))

PARTICIPATORY ENGAGEMENT

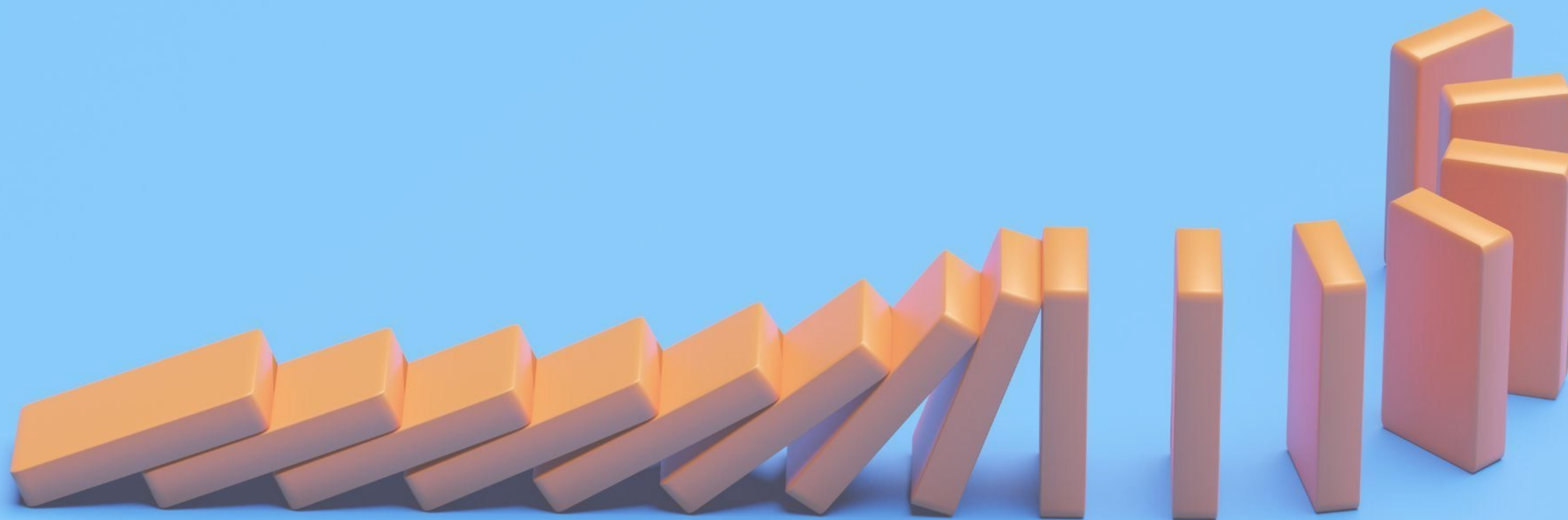
Target Circle is a community giving initiative in which Target guests have a role in selecting nonprofits for corporate grants in local communities ([Target](#))

Circle members are registered Target customers, who earn a vote for each Target trip. Guests can then use those votes to direct where funds go in support of nonprofits in their community and across the nation. As each voting period wraps, Target awards grants to the nonprofits based on the percentage of votes they receive ([Target](#))

Target's community engagement funds (CEF) allow stores and distribution center leaders across the country to support local programs and organizations by invitation, and key market grants are disbursed to support community vitality and resilience ([Target](#))

Further reading

From our library to yours



Suggested reading



1. [Four Imperatives for Centering Communities in Philanthropy](#) | NationSwell
2. [Trust-Based Philanthropy in 4 Dimensions](#) | Trust-Based Philanthropy Project
3. [Trust-Based Templates](#) | Trust-Based Philanthropy Project
4. [Centering Equity and Justice in Climate Philanthropy](#) | Candid Learning + Ariadne
5. [Climate Philanthropy Guide](#) | Active Philanthropy
6. [Social Bond Framework](#) | Ford Foundation
7. [Understanding Place-Based Philanthropy](#) | Milken Institute
8. [Guide to Collaborative Philanthropy](#) | San Diego Grantmakers

NationSwell would appreciate your feedback on this resource so that we can continue providing valuable insights to you and your organization. Please consider taking 30 seconds to complete this [brief questionnaire](#). For more information about this project, please contact Sreya Belbase at sreyabelbase@nationswell.com.



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Equity can only be realized when all people involved have an opportunity to help shape it. And even people who spend years learning about the same problem will disagree on the best approach. When our giving team focuses on any system in which people are struggling, we don't assume that we, or any other single group, can know how to fix it. We don't advocate for particular policies or reforms. Instead, we seek a portfolio of organizations that supports the ability of all people to participate in solutions.

MacKenzie Scott

From her March 13, 2022 essay entitled
[“Helping Any of Us Can Help Us All”](#)