

How Can Giving BE LEVERAGED?

Leverage is the idea that a smaller amount of effort can create a larger result. This is what a lever achieves. In business, debt creates leverage, as it does in our personal life. A family buys a \$1,000,000 house, but only expends \$200,000, at least at the outset. For a deposit of 20% they get access to 100% of the house. That's leverage.

LEVERAGE STRATEGIES

Are there ways to give that, in effect, create more good than just the monetary value of the gift? Here are some ideas:

1. **Replicable models**—Often a program is being developed at one location and could readily be replicated in other places. Helping to develop a program that is designed to be multiplied will potentially create leverage. So does funding the “franchising out” of an already developed replicable program. Replication is often more difficult than it appears because the founder/creator cannot lead all the replication sites, and the second-generation leadership cannot immediately perform at the level of the originator.
2. **Entrepreneurial strategies**—Supporting a small, young, innovative program that has potential—if successful—creates leverage. A crucial \$50,000 now can help launch a ministry that does millions of dollars of work over the next decade. There is risk here, as there always is when pursuing leverage. There is also potential for great success and satisfaction when the program is carefully selected. Donors to this type of opportunity may want to take a more “hands on” approach and help ensure the initiative succeeds.
3. **Program expansion**—Leverage can be achieved by supporting the expansion of an existing program. In this scenario, once established, the organization can fund the operating costs—but funds are needed to cover the initial cost of developing an expanded program. An educational group may need support to create a new newsletter that, once developed, can readily attract operating funds; or a symphony may need help to create a youth program that subsequently is self-funding.
4. **Lending programs**—Organizations that lend to the poor offer two levels of leverage. The organization is repaid and thus can lend the same money over and over, helping new borrowers every few months. The borrower, a hard-working entrepreneur, uses a small loan to purchase inventory, acquire equipment, hire a worker, or some other endeavor that expands and stabilizes her business. Thus, leverage occurs at two levels. Microfinance institutions are the primary example of this kind of leverage. Incidentally, often a sophisticated microfinance network can further leverage funds by borrowing in capital markets against donated capital, creating a third level of leverage.
5. **Development officer or development program**—For small or new nonprofits, funding an initiative that lifts its fundraising capacity to a new level will create significant leverage. This may take the form of underwriting the creation of a development department with a fulltime professional development officer, or sponsoring an event such as a banquet that attracts a large number of donors at one time, or any number of other strategies suitable to a specific case.
6. **Challenge gift**—A donor can offer a contingent gift that requires the organization to raise other money to obtain it. Care needs to be taken to design this such that the organization doesn't simply take funds it would have received anyway and claim they were obtained for the match. This may be accomplished by specifying *how* the matching funds must be raised. A variation of this concept is to make a challenge gift that is not contingent on raising other funds, but depends on meeting a performance or programmatic benchmark.
7. **Monthly pledge program**—A donation can offer leverage if it helps an organization set up a direct-debit monthly pledge program and acquire donors into it. The initial donation here is “the gift that keeps on giving”—it attracts new regular donors, and, once acquired, they give repeatedly every month.

8. **Capacity building**—A much overlooked area for giving and leverage is fundamental strengthening of an organization’s infrastructure. An accounting and reporting system that enables analysis of program spending, tools to track metrics or an outcome-based evaluation system, an appropriate IT system that increases productivity—these are more mundane items that are one-time expenses with a long term “tail” of value for years afterward. Gifts that increase the organization’s efficiency and ability to grow create a form of leverage.
9. **Philanthropic capital expansion**—Another form of leverage is to expend funds that serve to attract new funders into the philanthropic community or for a specific project, or to attract additional funds from existing funders. Efforts that “show and tell” the need and opportunity to help will often serve to recruit new capital. A gift that brings new partners to the table is a leveraged gift.

SELECTING YOUR PREFERENCE

Not all donors are called to give leveraged gifts. This concept is attractive to some persons, particularly entrepreneurs. It is not necessary; it is just one way to approach giving. Organizations need donors who support day-to-day operations, others who help with capital items, and yet others who are willing to risk and experiment with new fields of endeavor that offer leveraged returns. Donors usually have a clear sense of the kind of giving in which they want to engage.

CALVIN EDWARDS
& COMPANY
Maximizing the Good of Giving

1200 Ashwood Parkway, Suite 140 Atlanta, GA 30338
PHONE 770.395.9425 EMAIL Info@CalvinEdwardsCompany.com