The Landscape of the Nonprofit Sector

chapter
ONE

The word *nonprofit* is used to distinguish organizations that work for the public good without seeking profit. Unlike businesses and corporations, which may work for the public good, nonprofit organizations are not beholden to individuals or shareholders to deliver a profit, even though they still have to operate in a businesslike manner and pay attention to their financial health. Over the past thirty years, the word *nonprofit* has gradually replaced the word *charity*, as more and more nonprofit organizations do work that is not strictly "charitable," such as community organizing, advocacy, arts, or environmental protection. The word *charity* also carried a whiff of noblesse oblige—upper-class, "fortunate" people helping the "less fortunate." This whole concept and way of doing business has been rejected by progressive nonprofits, which seek more to work "with" people than "for" them.

Many have argued that *nonprofit* is an unfortunate word, as it describes an entire sector by what it is not, and have suggested using the term *community benefit organization* (CBO) instead. In most countries other than the United States, nonprofits are referred to as "nongovernmental organizations" (NGOs) to distinguish them from the work of government. In this book, I use the term *nonprofit* most of the time. While recognizing its limitations, I also know that it is the most commonly used and commonly understood word to describe the sector in the United States. To describe an individual nonprofit entity, I mostly use the word *organization* or *agency*. To remind ourselves that we are organizations set up to benefit the community, and that we do not take the place of government, I will occasionally use NGO.

The word *philanthropy* comes from two Greek words that together mean "love of people." In modern times, this goodwill or humanitarianism is often expressed in donations of property, money, or volunteer time to worthy causes. Similarly, the word *charity* comes from a Latin word meaning *love* in the sense of unconditional loving kindness, compassion, and seeking to do good. The roots of these words remind us of the fundamental reasons for the work of most nonprofit organizations.

Measured as a share of total employment, the nonprofit sector in the United States is the fifth largest in the world. The Netherlands has the largest proportional nonprofit sector, followed by Canada, Belgium, and Ireland. (For more information on nonprofit sectors in other countries, see *Global Civil Society: Dimensions of the Nonprofit Sector* by Lester Salomon and others and *The Canadian Nonprofit and Voluntary Sector in Comparative Perspective* by Michael Hall and others, both of which can be found at ImagineCanada.ca.)

If the nonprofit sector in the United States were a single industry, it would rank as the nation's largest industry, accounting for about 10 percent of the workforce and about 5 percent of the gross domestic product. As of 2010, more than 1,800,000 organizations in the United Sates were listed on the Guidestar Web site (which collects information on nonprofits) as organizations recognized as nonprofits by the Internal Revenue Service.

Several million more small, grassroots organizations are not registered with the government and have no formal tax status. These include organizations just getting started; organizations that use very little money, such as neighborhood block clubs; organizations that come together for a one-time purpose, such as cleaning up a vacant lot or protesting something; and organizations that don't wish to have a structural relationship with the state or federal government.

Because of the size and growing sophistication of the nonprofit sector, it has increasingly drawn government attention, as well as that of researchers, academics, and many members of the general public. Although recognized nonprofits are regulated by federal, state, and local government laws and regulations, public awareness coupled with the role of individuals in funding nonprofits means that voluntary compliance with accepted ethical standards of accounting, personnel, and fundraising practices provides an added, and usually sufficient, layer of self-regulation. Nonprofit status is a public trust, and tax exemption is, in effect, a public expense. Even if an organization has no formal tax status, if it seeks to raise money from the public it has the same moral duty as registered nonprofits to operate ethically, be truthful with donors, and provide the highest quality of services to clients.

THE FOUNDATION AND CORPORATE GIVING MYTH

As with many endeavors that are critically important and use the resources of millions of people, it is not surprising that a number of misconceptions have grown up about philanthropy and charities.

The most serious misconception for fundraising is many people's belief that most money given to nonprofits comes from foundations and corporations. The truth is far different. About half of all the income of all nonprofits is earned income: that is, it comes from fees for service or products for sale. About 30 percent of nonprofit income is derived from government funding programs (collectively known as "the public sector"). Extensive cutbacks in government funding starting in the 1980s and continuing to the present day have reduced government funding a great deal, but it remains a significant source for many organizations. The final 20 percent of nonprofit income is from the private sector: individuals, foundations, and corporations. For most of the organizations using this book, the private sector will supply the majority of your funding. Surprisingly to most people, individuals give the bulk of private-sector funding, far more than all donated foundation and corporate money combined.

This book focuses almost entirely on how to raise money from that enormous market of individual donors.

I said earlier that there is now an enormous body of research on philanthropy, both in the United States and in other countries, and most of this research tries to determine who gives, why they give, and to what they give. The most widely used report is *Giving USA,* compiled yearly by the American Association of Fund Raising Counsel. Every year since 1935, Counsel authors have calculated just how much money was given away to nonprofits and which sources gave how much. They have identified four sources of gifts from the private (nongovernmental) sector: living individuals, bequests (a cash or other donation an individual arranges to be given to a nonprofit on his or her death), foundations, and corporations. Their research shows that the proportion of giving from each of these sources remains constant, varying from year to year by only two or three percentage points, with gifts from individuals (living or deceased) exceeding the rest by 9 to 1.

A look at the numbers brings this reality out starkly. The chart shows private-sector giving for the year 2009.

Sources of Contributions, 2009

From	Amount in Billions	Percentage of Total
Individuals	227.41	75.0
Bequests	23.80	8.0
Foundations	38.44	13.0
Corporations	14.10	4.0
Totals	303.75	100.0

Given these facts, an organization should have no trouble knowing where to go for money: individuals provide the vast bulk of private support to nonprofits.

WHO GIVES AWAY MONEY?

The logical follow-up question—Who are these people?—is more difficult to answer because there are many complex variables that make it difficult to draw a single profile of givers. One way to begin to answer the question is to look at how and what data are collected on giving.

There are three main ways to collect data on giving:

- Analyze tax returns of people who itemize and extrapolate from the results
- Survey a random sample of the population and extrapolate from their responses
- Compare either or both of the results from these methods with what is reported from charities either in their reports to the IRS on their income (these reports are on the IRS Form 990 and are often referred to simply as 990s) or in polls and surveys

Further research can done by demographic variables, such as age or income, or by carrying out longitudinal studies (following the same people over several years) comparing donors and non-donors via surveys, detailed focus groups, or other methods.

Discrepancies in reports about who gives away money and how much they give largely turn on the study methodology employed. *Giving USA* looks at itemized tax returns, which limits its results because only 30 percent of Americans file an itemized return. The 70 percent of Americans who file a "short form" do not exceed the standard deduction and therefore receive no special tax benefits from their giving. Estimating how much people who do not itemize gifts on their tax return give is done with an econometric model, and there is no reason to think it is wildly inaccurate. However, it is probably conservative, undercounting a lot of giving. Independent Sector, a coalition of approximately six hundred nonprofit organizations that speaks for the sector, bases its data about giving on telephone and written surveys. Arguments can be made for and against all of these methods. Do people who itemize lie on their taxes and exaggerate their giving? Probably. By how much? It's hard to say. Do people exaggerate their generosity to a phone surveyor? Probably. By how much? Again, it's hard to say. People also underreport on their taxes, as a number of studies have shown, and certainly people often forget how much they have given to a nonprofit when they have no incentive, such as a tax deduction, to help them remember. Possibly the exaggerators cancel out the underreporters. Add to that mix that rules about what is tax deductible are confusing even to nonprofits, and we can safely say that it is difficult to say with great accuracy exactly who gives away money and how much they give every year.

There are some other variables that make knowing who gives away money difficult:

- Although the majority of people give money from their annual income, the wealthy minority give from their assets. Some studies looking at who is generous relative to their ability to give only judge generosity by level of income; others look at net worth. These two factors can yield very different results. For example, a family with little income could be wealthy in terms of assets (such as ownership of homes, businesses, art, and the like), or it could be very poor.
- Studies that calculate which region of the country is the most generous usually fail to take into account cost of living. For example, two states may both have a median income of $40,000 per family, but the median cost of housing per

year in one state may be $20,000 and in the other twice as much. The people living in the second state might well give less money away than those in the first state; however, factoring in cost of living may reveal that both groups are equally generous.

- Almost all studies try to focus on formal philanthropic giving, but if we were to count the numerous acts of unrecorded kindness—money donated to homeless people on the street, or sent as remittances to family members in other countries, or help given to a friend to go to college or to a poor family to pay rent for a few months—our studies not only would show much more giving but might yield even more demographic differences among givers.

Looking at what nonprofits declare as income would seem to give the most accurate data, and those figures are helpful to a point. However, giving to religious organizations, which make up a full third of the nonprofit sector, is obscured because these organizations are not required to file 990s, in accordance with the separation of church and state. Likewise, organizations with annual budgets of less than $25,000 are not required to file a 990, which leaves out thousands more organizations.

So you can see the problem of knowing who gives away money and how much: the majority of people are not declaring their giving on their taxes, and a vast number of nonprofits are not reporting their income sources, requiring a good deal of sleuthing on the part of researchers to figure out what might be true.

A final compounding factor is how the U.S. economy has changed over the past ten years. For many years, the vast majority of money given away in the United States came from middle-class and working-class people. In 1998, Independent Sector's research showed that about 82 percent of all giving came from households with incomes of $65,000 or less—the majority of people. Now we have a slightly different reality: *Giving USA* for 2009 reports that households with a gross income of $100,000 or less—92 percent of all households, according to the IRS—contribute approximately 52 percent of all giving, still the majority of giving, but no longer the bulk of giving. The 1 percent of households that have a net worth of $5 million or more, they say, contribute 28 percent of all gifts. Of course the share of private wealth that these households own is more than the bottom 90 percent of all households combined, so they are not particularly generous. (This gap reflects two decades of tax policy that redistributes money to the wealthy.) Bill Gates himself has as much wealth as the total of the bottom 40 percent of households. Other studies looking at the question of just who gives away all this money provide more detail and sometimes more contradictory findings. Some of the most common sources of studies are Independent Sector's biannual study, *Giving and Volunteering in the USA*; the Center on Philanthropy Panel Study (COPPS) at Indiana University; the Center on Wealth and Philanthropy at Boston College; the Foundation Center; the National Center for Charitable Statistics; the NewTithing Group; and empty tomb (for research on religion), just to name a few.

Giving USA notes, "The researchers suggest that the trend toward increasing inequality in income in the past two decades paired with different giving patterns to charitable organizations by income level will affect the overall distribution of contributions among nonprofit organizations in the coming years." Further, as United for a Fair Economy (UFE) points out, as of 2007, that inequality in income is increasing: the pay ratio of the average CEO among the Standard and Poors's 500 companies in the United States (average $10.5 million per CEO) to production worker pay (average $30,617 per worker) is 344 to 1. "Thirty years ago," UFE comments, "chief executives averaged only 30 to 40 times the average American worker paycheck."[1] To put this in perspective, if the minimum wage had risen as fast as CEO pay since 1990, the lowest-paid workers in the United States would be earning $23.03 an hour today, not $5.15 an hour.[2] We have the largest gap between rich and poor of any country in the world, with a shrinking middle class.

WHAT IS TRUE ABOUT WHO GIVES

Despite the difficulties inherent in research about who gives, there are some facts that are found in a number of studies, remain constant year after year, and are borne out by the experience of development professionals all over the world.

- About seven out of ten adults in the United States give away money. Where these numbers have been studied more closely on a local level, we see some interesting variations. For example, in Hawai'i, nine out of ten adults give away

[1]Sarah Anderson and others, Institute for Policy Studies, and Mike Lapham, United for a Fair Economy, *Executive Excess 2008*, August 25, 2008.

[2]United for a Fair Economy.

money, compared to Alaska, where six out of ten give. In Boulder, Colorado, where I grew up, a smaller percentage of the population gives away money than in nearby Denver. Eight out of ten Canadians give away money, but more people give away money in Nova Scotia than in British Columbia. (Here's a fun sampling from around the world: in Holland, almost 90 percent of the population gives away money, despite paying very high taxes. In South Korea, 64 percent give; in the Philippines, 80 percent.)

- Middle- and lower-income donors are responsible for a significant percentage of the money given—from 50 to 80 percent—and are the majority of givers.
- The vast majority of donations come from families with annual incomes of less than $90,000.
- Most people who give to nonprofits give to at least five and as many as fifteen groups.
- About 20 percent of people on welfare give away money (average gift of $74) and about 97 percent of millionaires give away money.
- Volunteers are more likely to be donors than are people who don't volunteer.
- More people give away money than vote.
- The majority of people who give away money describe themselves as religious or spiritual, whether or not they are involved in a formal religious or spiritual community.
- And finally, a theme I will return to a thousand times: people give when they are asked.

In the United States, the lion's share of private-sector giving, according to all studies, goes to religion. Religious organizations also make up the majority of nonprofits in the United States. Religion has lost market share over the years. When I entered the field of fundraising in 1976, religious giving was 50 percent of all giving; now it is just over 30 percent.

Regardless of the methodology used or the variables considered, study after study gives us a picture of a generous country, with most people making donations and feeling good about doing so. They also give us a picture of middle- and lower-income donors making up a significant percentage of all money given away and of a constantly increasing amount of money given every year.

Foundations and corporations, which have the false reputation of keeping charity alive, are overrated as a source of funds, and the help they can provide is often misunderstood. Although foundation and corporate giving will always play a vital role in the nonprofit sector, the limitations of that role must be clearly understood.

FOUNDATIONS

Foundations give away relatively little money compared to individuals, and that money is in very great demand. Many of the larger foundations report receiving a hundred proposals for every two they are able to fund. As more information about foundations is easily available, the demand is increasing. Online databases help potential grantees identify more and more sources. Most foundations that publish guidelines and annual reports post them on the Internet, and increasingly ask to receive proposals by e-mail. Some progressive foundations have adopted a standard grant application form, allowing grantees to submit exactly the same proposal for many different foundations. The very things that thus make foundations more accessible also make them inundated with requests.

Although many nonprofits, especially new or small organizations, think foundation funding would be the answer to their money problems, in fact foundation funding is designed to be used only for short-term projects. These include the startup of a new organization and its first few years of operation; capital improvements; new programs; one-time projects, such as studies or conferences; capacity building; or help through a particularly rough period in the life of an organization for which it has a good excuse and a recovery plan. More recently, foundations have been creating "initiatives," for which they focus most or all of their grantmaking on one area, such as preschools, youth organizing, or immigrants' rights. These initiatives are often helpful for bringing together a number of organizations working on the same issue, allowing them to share ideas and create joint strategies. Sometimes several foundations join an initiative. However, the foundation funding invariably dries up before the problems identified by the initiatives have been solved, leaving organizations that have relied heavily on this funding unable to continue programs that may just have been starting to show success. Many foundations, recognizing the limits of their funding, have provided capacity-building grants, which are largely efforts to help organizations move away from the foundation to a more diverse set of income streams.

If an organization has come to rely on foundation funding, decreasing reliance should be an important part of its financial planning. If an organization has never become reliant on foundation funding, it should plan not to. And all organizations should guard against making the mistake common to many small organizations of seeking more foundation funding as the years pass rather than less.

CORPORATIONS

Corporations are different from foundations in a key way: unlike foundations, whose job is to give money away, corporations exist to make money. Giving money away is primarily an activity that a corporation hopes will directly or indirectly help it to make more money. Even so, only 11 percent of corporations give away any money at all, and the average amount these companies give away is a mere 1 percent of their pretax profits, even though they are allowed to give away up to 10 percent of those profits.

Corporations generally give money to the following types of organizations or activities:

- Organizations that improve the life of the community where their employees live (symphonies, parks, museums, libraries)
- Organizations that help their employees be more productive by addressing common employee problems (alcohol and drug rehabilitation, domestic violence, stress reduction, wellness)
- Organizations that provide volunteer opportunities for employees, or to which employees make donations
- Research activities that will help the company invent products or market existing products (various departments in universities get much of their research funding from corporations)
- Education programs for young people to ensure an adequate future workforce for the company (literacy programs, innovative schools, scholarships, internships)

More frequent and generous is corporate giving to match employee donations. Although many corporations have had matching gift programs for some time, the scale of today's matching programs has come to be called "employee-driven philanthropy." For this reason it is important to know where your donors work and whether their corporation will match their gift.

Corporations also make valuable donations besides money, such as expertise (loaning a worker to help a nonprofit with accounting, marketing, or personnel), space (free use of conference or meeting rooms), printing, furniture, office equipment (computers, printers, fax machines, copy machines), building materials, and so on.

The past couple of decades have seen many corporations joining with nonprofits in what is called "cause-related marketing" efforts, in which a corporation donates a certain percentage of its profits from a particular item or a certain amount of each sale to its partner nonprofit. The agency and the corporation advertise the arrangement and encourage people who may be choosing among similar products to choose the one that also benefits the nonprofit. Variations on this theme include corporations that offer to give a percentage of profits to a certain kind of organization (environmental, progressive, feminist) or that allow customers to nominate groups that should receive corporate funding. Cause-related marketing has benefited many organizations by allowing shoppers to feel that their spending can also serve a charitable purpose, but it does not serve to build a donor base.

Some organizations using this book will not be able to get corporate funding because their work is too controversial, others are not located near any corporate headquarters, and others will not seek corporate funding because they wish to avoid appearing to endorse a corporate product or a particular corporation's way of doing business. However, for those who do wish to seek corporate funding, keep in mind that the key element is knowing someone in the corporation. Having "a friend at the bank"—literally and figuratively—is important, and the many ways a corporation can help you should not be overlooked. Just like foundation giving, however, corporate giving should not be relied on.

THE POWER OF INDIVIDUAL GIVING

It should be clear by now that a broad base of individual donors provides the only reliable source of funding for a nonprofit year in and year out, and the growth of individual donations to an organization is critical to its growth and self-sufficiency. Further, relying on a broad base of individuals for support increases an organization's ability to be self-determining: it does not need to base program priorities on what foundations, corporations, or government agencies will fund.

Recipients of Charitable Giving

To really understand private-sector giving, it is important to look at not only who gives this money but also who receives it. Again, with only a few percentage points of variation from year to year, *Giving USA* has reported a consistent pattern of where gifts go. A little more than one-third of all the money given away in the United States goes to religious organizations, with education a distant second, followed by human services, health, the arts, and five other categories that receive small percentages of giving.

Uses of Contributions, 2009

Contributions to	Amount in Billions	Percentage of Total
Religion	100.95	33.0
Education	40.01	13.0
Health	22.46	7.0
Human services	27.08	9.0
Arts, culture, humanities	12.34	4.0
Public-society benefit*	22.77	8.0
Environment or animals	6.15	2.0
International affairs	8.89	3.0
Gifts to foundations**	31.00	10.0
Foundation grants to individuals	3.51	1.0
Unallocated giving***	28.59	10.0
Totals	303.75	100.0

*This category includes organizations that work in the areas of community organizing and civil rights and civil liberties as well as United Way, Jewish Federation, and other combined funds, such as the Combined Federal Campaign.

**This category includes giving to community and private foundations.

***This category includes deductions carried over, which are amounts claimed for a gift made up to five years earlier. These deductions apply when charitable contributions exceed 50 percent of a taxpayer's gross adjusted income and for grants made by foundations to organizations outside the United States. Most interesting to anyone concerned about privatization, these deductions also apply to deductible gifts individuals give to government entities, such as public schools, public libraries, public health departments, and the like. Government entities are not required to report private gifts, mostly because no one ever thought public agencies would be raising money privately.

Source: Giving USA, 2010

Giving to Religion

Religion as a category receives one-third of every charitable dollar; only a small percentage of giving to religion is from foundations and virtually none of it is from corporations. Until recently, because of the constitutional separation of "church" and state, religious activity received little government funding either, except for when providing a specific social service. President George W. Bush created an office called Faith-Based and Neighborhood Partnerships that provided some money to religious organizations and helped programs run by faith-based organizations or houses of worship know what federal grant dollars might be available to them. Today this office does not administer federal grant programs but still provides assistance in identifying grant opportunities (whitehouse.gov/administration/oep.ofnp). Many religious groups opted not to apply for this money because they did not believe religious organizations should do the work of government; those that did receive funding often found the process onerous for the amount of money that was actually available. Even with this money, the vast majority of funding that religious organizations receive is from their own members.

We can learn a lot by examining what makes fundraising for religious institutions so successful. At first glance, many people think that religious institutions receive so much money because of their theology: the reward of heaven, the blessing of giving, the threat of eternal damnation for those who do not give. Although these enticements may play a role in some people's giving, it is clear that in the wide variety of religious expression, these motives are not enough. Some religious traditions do not believe in any form of eternal life; some don't even believe in God. Even in traditions that encompass some of these beliefs, mature adults can be given more credit than to think that their behavior is based simply on a desire for rewards or a fear of punishment.

So, why do religious organizations receive almost one-third of all private-sector dollars? Although religious institutions offer ideas and commitments that are of great value, the reason they get money—and this is key to understanding successful fundraising—is that they ask for it.

Let's take as an example a Protestant or Catholic church. (If you are of a different religious tradition, compare your own tradition to what follows.) Here is how they raise money:

- They ask every time worshippers are assembled, which is at least once a week.

- They make it easy to give: a basket is passed to each person in the service and all gifts are acceptable, from loose change to large checks. Everyone—whether out-of-town visitor, occasional churchgoer, or loyal and generous congregant—is given the same opportunity to give. The ushers are not concerned about offending someone by asking. They would never say, "Don't pass the basket to Phyllis Frontpew—she just bought the new carpet," or "Skip over Joe because he just lost his job."
- They make it easy to give, even if you are not a regular congregant. Once a year, most houses of worship have some kind of stewardship drive or all-member canvass; in many churches, someone will come to your house and ask you how much you will be pledging this year. You can pay your pledge by the week, month, or quarter or give a one-time gift. The option of pledging and paying over time allows people to give a great deal more over the course of a year than most could in a single lump sum.
- They provide a variety of programs to which you can give as you desire. If you are particularly interested in the youth program, you can give to that, or you can buy flowers for the altar, support the music program, or help fund overseas missions. Many churches have scholarships, homeless shelters, food banks, or other social programs. And of course, if you are a "bricks and mortar" person, you can contribute to any number of capital improvements: new hymnals, a new window, a better organ, or a whole new sanctuary.

Finally, religious institutions approach fundraising with the attitude that they are doing you as much of a favor to ask as you will be doing them to give. In other words, they recognize that fundraising allows an exchange to happen between a person who wants to see a certain kind of work get done and an institution that can do that work. If one of your values and beliefs is that a house of worship and the work it does are important, then in order for that institution to exist, you will need to help pay for it. Giving money allows you to express your desire and commitment to be part of a faith community and allows your commitment to be realized.

All organizations should institute the diversity of fundraising methods that characterizes most religious institutions. In the chapters that follow, I will show you how.