NONPROFITS: FUNDRAISING & DEVELOPMENT

New Surveys: Alarm Bells for Nonprofit Sector

06.26.23 | Linda J. Rosenthal, JD

"The nonprofit sector has been roasted on the outside."

That's the startling observation recently by Tim Delaney, the CEO of the National Council of Nonprofits (NCN). See *Uncertain Economy — and the Nation's Debt Debate — Snag Nonprofit Finances* (May 31, 2023) Sara Herschander, *The Chronicle of Philanthropy*.

It's like "…a hard pretzel rod on the verge of snapping in half. That's how fragile things are right now," Mr. Delaney elaborates. And he, certainly, is one who knows about the "state of things."

He is not surprised; an "ominous sign" is that "… the most popular page on NCN's website for the last few months has been an article on how to shut down a nonprofit." It's a "kind of burnout at the highest level …. Leaders are beyond fried," explains the head of the nation's largest group of nonprofits. "They've been trying to hold things together with baling wire and chewing gum."

In her May 31st *Chronicle of Philanthropy* article, Sara Herschander describes the key elements comprising the uncertainties facing the nonprofit community as summer 2023 opens: (a) government cuts and the end to COVID-19 special programs; (b) inflation, easing but still a concern; (c) staffing problems and upward-compensation pressures; (d) stock-market volatility; (e) a drop in consumer sentiment; and (f) a sluggish GDP.

In the past week, two major surveys have been released that shed the light of hard data on one aspect of this "state of things": that is, recent funder and individual-donor activity. The reports are:

- *Giving USA 2023: The Annual Report on Philanthropy for the year 2022* (June 19, 2023). The full report is subscription only, and will be released by mid-July, but there are valuable

interim summaries and analyses. [A representative headline is: "*Fundraising in 2022 Was Among the Worst Ever, 'Giving USA' Found*.]

- Center for Effective Philanthropy (CEP): *State of Nonprofits 2023: What Funders Need to Know* (June 20, 2023); downloadable Full Report, (24 pp. PDF); Report Highlights. ["Issues related to staff—including burnout, filling staff positions, and retaining staff—are the top challenge facing nonprofit leaders" but there is "a hopeful outlook."]

Giving USA Report

For over 65 years, the nonprofit community and the nation's funders and donors have relied on "Giving USA: The Annual Report on Philanthropy in America" for "comprehensive charitable giving data."

This much-anticipated research, published by the Giving USA Foundation, part of The Giving Institute , was researched and written by the prestigious scholars at the Lilly Family School of Philanthropy at Indiana University. It is the "annual estimate of contributions from foundations, individuals, and corporations."

The Lilly School researchers have offered a summary awaiting the mid-July release of the full report: *Giving USA: Total U.S. charitable giving declined in 2022 to $499.33 billion following two years of record generosity* (June 20, 2023) *philanthropy.iupui.edu*.

There are several other helpful commentaries and analyses now online:

- *Drop in Giving From 2021 to '22 Was Among the Steepest Ever, 'Giving USA' Found* (June 22, 2023) Rasheeda Childress and Emily Haynes,*The Chronicle of Philanthropy* ["Giving dropped 10.5 percent after inflation, marking only the fourth time that donations have fallen since Giving USA started keeping track in 1956." Among the "most alarming" data results is that individual-donor giving, that usually provides "the bulk of all donations, fell by 13.4 percent after inflation."]
- *US Philanthropy Plummeted $17 Billion As Donors Disappeared* (June 20, 2023) Paul Clolery, *The NonProfit Times* ["Giving to nonprofits in the United States plunged during 2022, led by the disappearance of individual donors. Giving dropped to an estimated $499.33 billion – down 3.4% in current dollars and 10.5% after adjusting for inflation from a revised total of $516.65 billion in 2021."]
- *Total US charitable giving declined in 2022 to $499.33 billion* (June 20, 2023) Candid, *Philanthropy News Digest* ["Stock market drop and economic uncertainty accompanied decrease after giving surpassed half-trillion-dollar milestone during pandemic era."]

Main Points

"Following the two best years on record for charitable giving, including 2021 when giving surpassed $500 billion for the first time," in 2022, "total giving decreased." This is a "relatively rare occurrence usually seen during years with difficult or unusual economic conditions." There were only three other times in the last 40 years that total charitable giving fell in current dollars: in 1987, 2008, and 2009.

Among the most troubling pieces of data was the result for individual giving in 2022: While it totaled an estimated $319.04 billion, that is a *decline* of 6.4 percent but – as adjusted for inflation – the true figure is 13.4 percent.

According to Dean Amir Pasic of the Lilly Family School of Philanthropy: "Declines in giving like those we saw in 2022 have a tangible impact on nonprofit organizations, especially those that rely on charitable dollars to support their daily work. Nonprofits and donors alike experienced the steady, negative impacts of inflation such as the growing cost of goods and high interest rates throughout 2022, and many of those challenges remain." He sees "a case for hope," though, because "we have seen charitable giving rebound from each decline."

And Una Osili, Ph.D., Associate Dean for Research and International Programs, shares her belief that "…there are a lot of silver linings in the data. The good news here is when we shared the findings, most people who had been paying attention to the economic data were not surprised."

She adds: "Despite the downturn in financial markets in 2022, there were some bright spots in the economy thanks to a strong labor market and 9 percent growth in GDP. The economic picture that emerges suggests that many households were stable—we did not see job losses or an increase in unemployment the way we did in the Great Recession. However, households tend to give when they are financially and economically secure – and the inflationary pressures meant that fewer households had extra to give. In addition, donors may not have been as compelled to respond to immediate needs as they had been during the early days of the COVID-19 pandemic or during the Great Recession."

Additional Observations

But this is a huge alarm bell and wake-up call. "….[It's] now clear just how big a giving hole charities will be trying to fill in 2023.' And "… the first six months of 2023 demonstrate that donors are holding back their contributions." It will be "… a tough fundraising year, " according to Rasheeda Childress and Emily Haynes in *The Chronicle of Philanthropy*.

The chief data officer for Giving Tuesday, Woodrow Rosenbaum, is … not surprised by the drop in giving." While there may be other factors, "… the dominant trend has been for nonprofits to focus on large donor stewardship at the expense of everything else, and for lots of good reasons, as well as some that might be misguided." It's "what we would expect to see when affluent donors pull back,."

Charity "…leaders must fundamentally change their pursuit of donors," says Chris Pritcher, CEO at national fundraising firm RKD Group in Dallas, interviewed for *The NonProfit Times*. "'This study is the latest in a series of alarm bells, but it doesn't even touch what might be the loudest alarm. I'm bothered by the fact that individual giving revenue is down 6.4%, but I'm more concerned that the number of donors continues to decline.'"

"The funding map looks quite different now," Anna Pruitt, managing editor of "Giving USA told *The Chronicle of Philanthropy*." "The only category of giving that increased in 2022 was international aid, on account of the Ukraine war and refugee crisis." And, otherwise, "… more money came from 'just a handful of' ultra rich donors."

Center for Effective Philanthropy

The Center for Effective Philanthropy is a leader in "data, feedback, programs, and insights to help individual and institutional donors improve their effectiveness." Particularly during the pandemic, CEP was at the forefront of advocacy for funders to take immediate and meaningful measures to loosen up their grantmaking policies and practices, and otherwise accommodate the long-standing pleas from nonprofits to increase funding, especially for general operating support.

CEP released a new research study on June 20, 2023, as part of its ongoing Nonprofit Voice Project. Titled *State of Nonprofits 2023: What Funders Need to Know*, it is a 24-page, visually appealing and easy to read, PDF document available online right now. See the full report and a highlights summary.

While the survey findings and report document key obstacles facing the nonprofit sector *and* its funders, it presents a decidedly more upbeat sense than the Giving USA Report.

Survey Purpose

"Nonprofits across the United States played a vital role during a period of crisis that began in March 2020 with the COVID-19 pandemic and was followed by a nationwide racial justice reckoning that summer. As nonprofits experienced heightened demand coupled with marked uncertainty about revenues, they responded with resiliency and imagination, while many funders also stepped up, increasing philanthropic giving in a time of urgent need."

So, "[f]ollowing this intense period of trial and turmoil," the Center for Effective Philanthropy, " wanted to take stock of current nonprofit perspectives and understand their evolving experiences with funders."

The "aim was to explore the state of nonprofit relationships with both foundations and individual donors, how nonprofits are perceiving current challenges, and their recent and projected financial results."

The methodology included surveying "the 500 nonprofit leaders participating in [the ongoing] CEP's Nonprofit Voice Project in early 2023." There was a 57 percent response rate; that is, 284 organizations."

The results of the nationally representative survey of nonprofit leaders reveal the following data points, among many other insights:

- More than half of nonprofit leaders perceived an increase in trust during the past year from their funders. This increase was accompanied by shifts in practice described in the report.
- Issues related to staff are the top challenge facing nonprofit leaders; nearly all nonprofit leaders surveyed indicated concern about burnout.
- Less than a quarter of nonprofits reported a deficit in the last fiscal year."

Key Findings

The main takeaways are:

- "Finding 1: Many nonprofit leaders report an increase in trust from funders and are experiencing changed practices, such as streamlined applications and reporting, removalof restrictions, and receipt of multiyear funding from foundations. In addition, most nonprofits report an increase in dollar amounts given by at least some individual donors.
- Finding 2: Issues related to staff—including burnout, filling staff positions, and retaining staff—are the top challenges facing nonprofit leaders.
- Finding 3: Despite a challenging economic context characterized by high inflation, most nonprofits experienced either a balanced budget or surplus in the most recently completed fiscal year, and the majority anticipate at least breaking even or having a surplus this fiscal year."

In a related CEP blog post, *New Evidence of Growing Funder Trust as Nonprofits Confront Continued Challenges* (June 20, 2020) *CEP Blog,* Phil Buchanan, CEO, and two co-authors discuss the findings. "There is increasing evidence that the shifts in funder practices that began in 2020 are continuing in the years since." CEP researchers "have documented changes in the past year in how both individual and institutional donors work with nonprofit organizations they support, as experienced by the nonprofits themselves."

See also *A Window into the State of Nonprofits Right Now* (June 21, 2023) Cathy Moore, *cep.org,* observations by a nonprofit leader and participant in the survey.

Conclusion

From a public policy perspective, the report highlights the critical importance of Congress passing the Charitable Act (S. 566/H.R. 3435), which would reestablish and expand a non-itemizer or universal charitable deduction." See *Charitable Giving Plummets in 2022* (June 26, 2023) *Nonprofit Champion*, *National Council of Nonprofits.*

"Congress had adopted the non-itemizer option on a temporary basis for 2020 and 2021. The new data show the huge drop off when that law expired. Restoring a non-itemizer deduction would help offset the reductions in individual philanthropy by encouraging more people to give more generously to the work of charitable nonprofits…."

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