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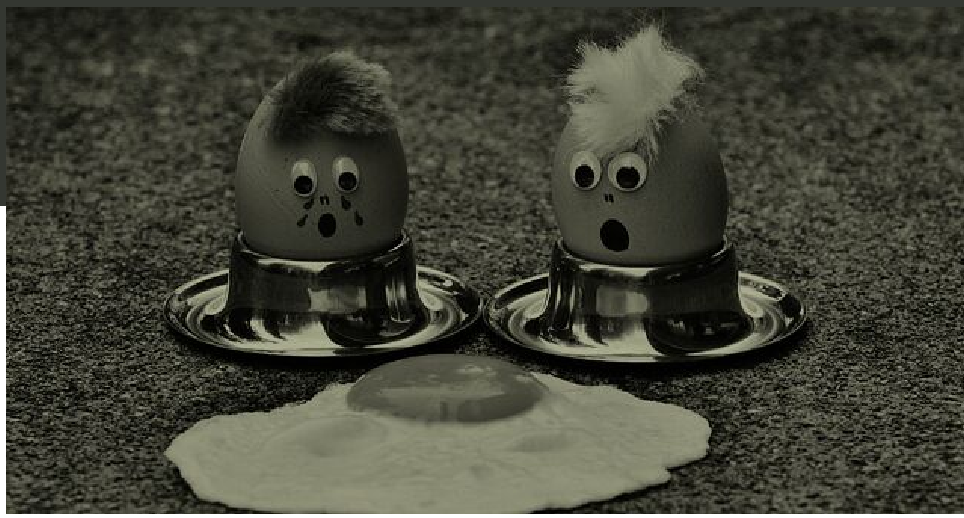
NONPROFITS: FUNDRAISING & DEVELOPMENT

“Thank You, Funders.” But There’s More Work To Do

07.25.23 | Linda J. Rosenthal, JD



A month ago, we featured two major new research reports with compelling – and somewhat gloomy – data about the challenges facing our community right now and in the near future. See *New Surveys: Alarm Bells for Nonprofit Sector* (June 26, 2023):

- Giving USA’s *Annual Report on Philanthropy for the year 2022*, (June 20, 2023) confirmed that the worrisome trend of fewer individuals and families contributing to charity has continued.
- The Center for Effective Philanthropy’s *State of Nonprofits in 2023: What Funders Need to Know* (June 20, 2023) reviews how much of the pandemic-induced loosening of grantmaking policies and procedures is continuing now that the acute crisis has subsided. The CEP researchers – (while not minimizing huge challenges facing the sector) – present a somewhat more “glass half full” prognosis than Giving USA’s “glass half empty” analysis.

These new studies have sparked an important sector-wide conversation. That includes a new open letter from Tim Delaney, the president and CEO of the National Council of Nonprofits. In *A Note of Gratitude and a Word of Warning from Nonprofits* (July 20, 2023), he responds to each of the Center for Effective Philanthropy’s three “key findings.”

From his perch as the long-time head of the nation’s largest association of nonprofits, Mr. Delaney felt obliged to throw a bit of cold water on certain of CEP’s observations and conclusions. After all, this was the author of the startling quote in a May 31st article in *The Chronicle of Philanthropy* on the “uncertain economy” snagging the finances of the nation’s nonprofits. “The nonprofit sector has been roasted on the outside …,” he said. It’s like “…a hard pretzel rod on the verge of snapping in half. That’s how fragile things are right now.”

Tim Delaney's thoughtful push back on these few points has been graciously published by the Center for Effective Philanthropy on its own blog.

Background

It may help to mention here the purpose and mission of the Center for Effective Philanthropy: "Foundations and major donors can take on pressing challenges that have defied government and business solutions. But being effective in this work is uniquely challenging …. To make every dollar count, foundations and major donors need to continually assess their performance, learn from data and exemplars, and adapt their practices in ways that are consistent with effectiveness. That's where CEP comes in."

The Center for Effective Philanthropy has taken a leading role, particularly in the last few years, in encouraging foundations to step up boldly with much *more* money and much *less* administrative and procedural hassle. See, for example, the insightful commentary last fall by CEP's president and CEO, Phil Buchanan: *Big Changes and 7 Big Questions for Big Philanthropy* (October 18, 2022).

"Our aim," explain the CEP researchers in undertaking the work underlying the June 20, 2023 report, "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."

That's the context for Tim Delaney's laudatory words at the beginning of his July 20th open letter: "Thank you funders. During the worst of the pandemic in 2020-2021, you pumped out an extra $29.3 billion to support the work of charitable nonprofits. …. The following article celebrates ['hero status'] funders … who gave general operating support as well as the ones who 'earned angel wings by jettisoning traditional resource-depleting grant applications and reporting regimes and replacing them with streamlined applications, multiyear funding commitments, and simplified reporting mechanisms.'"

And that takes us to Mr. Delaney's response to the first of CEP's three "key findings."

More Trust and Changed Practices

"***CEP Finding 1***: Many nonprofit leaders report an increase in trust from funders and are experiencing changed practices, such as streamlined applications and reporting, removal of 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."

Tim Delaney's response is an appropriate level of nitpicking the otherwise impressive effort by the nation's institutional funders during the pandemic emergency.

"CEP's report focuses on the good news that 52 percent of nonprofit leaders surveyed said that last year they experienced reduced reporting requirements from 'some' or 'most/all' of their funders." But, "…[W]hat about the other 48 percent who reported no changes and may still be enduring over-complicated reporting demands? And even among the 52 percent, there has been slippage, with some funders sliding back to their old ways. Now seems a suitable time to broaden and deepen the improved practices throughout the funding community."

Staffing Challenges

"***CEP Finding 2***: Issues related to staff—including burnout, filling staff positions, and retaining staff—are the top challenges facing nonprofit leaders."

A subheading to Finding 2 offers more nuance; namely, "…nearly all nonprofit leaders surveyed indicated concern about burnout" with "… about half reporting that staff-related issues were the biggest challenges facing their organization."

Tim Delaney responds: "The CEP report's second finding is … spot on" and is consistent with the National Council of Nonprofits's two latest nationwide surveys of nonprofit organizations, including the first that "confirmed the severity of nonprofit workforce shortages." See *Nonprofit Workforce Shortages: A Crisis That Affects Everyone* (December 2021) NCN.

That late 2021 NCN report also highlighted how these staffing shortages adversely affect the public at large. The demand by individuals and families for services from nonprofit organizations rose exponentially during the pandemic. "Fewer employees mean reduced capacity. When nonprofits can't secure the workforce needed to provide vital services, people suffer. Data from our surveys and others show that along with increased demands for services, there are longer waiting lists, reduced services, and sometimes elimination of services. When any of those happen, the ripple effects cannot be ignored: communities lose access to food, shelter, mental health care, and other vital services on which people depend."

Another point that Tim Delaney wants to see emphasized more in the sector-wide discussions is this: For most of 2022 and into 2023, there were devastating spikes in prices of just about everything. Inflation may be cooling at last, but COVID-19-era special government benefits are also ending abruptly. The most economically disadvantaged members of the population, to some degree kept afloat in the past three years, are now in immediate danger of floundering.

To provide the needed public services, nonprofits need money *and* staff. According to the NCN's second nationwide survey in April 2023 – (they are still analyzing results, but it's already clear that) – "… the workforce shortage crisis continues."

NCN has been "consistently" pointing out to governments that "their overly burdensome grantmaking and reporting regimes are contributing to the nationwide nonprofit workforce shortage." (CEP's own current report, Mr. Delaney notes, "confirms similar pains with foundations….")

Leaders responding to NCN's surveys have "… described a range of contributors to burnout, including funder practices that continue to challenge organizations." The consequence, one leader observed, is that "people… leave the sector" and "that brain drain hurts our communities.'" The job positions with the highest vacancy rate are "… typically … the staff positions that have the greatest connection with and impact on communities. No staff, no programs."

Tim Delaney adds additional – and very interesting – nuance, based on NCN's survey interactions with its members. He quotes responses from "frontline nonprofits: like –

- 'We are unable to compete with the likes of Walmart, Target, and Starbucks. Our jobs are working with abused and neglected children, it's hard work. Who wouldn't want to make more money with less stress?'; and

- 'We need funders to relax their expectations around salaries. Our case managers need to be paid more to make a living wage but … funders don't think case managers should be making so much.'"

When the NCN survey respondents "… were asked to identify the major factors affecting their ability to recruit and retain employees, almost three out of four respondents (72.2 percent) said salary competition, two thirds (66.3 percent) indicated budget constraints/insufficient funds…."

Left unsaid but strongly implied is that more general operating support is great, but griping and nickel-and-diming by grantors about salary line items is counterproductive, insulting, and demoralizing – leading (of course) to much more burnout.

Scarier Outlook

"***CEP 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."

Tim Delaney's reaction to CEP's Finding 3 includes a bit of gentle criticism of the survey methodology – while claiming he is *not* doing exactly that. "I don't doubt the data CEP collected from 284 nonprofits with an average of 36 staff members and average budget of $6,707,671 (see Methodology). But that's not reality for most nonprofits; 97 percent of America's nonprofits have budgets less than $5 million and 92 percent have budgets under $1 million."

Accordingly, Mr. Delaney says he "… must push back on CEP's third finding that nonprofits are doing fine financially" and the "financial performance has been – and is – relatively strong."

Moreover, "… assessing the state of nonprofits in 2023 requires consideration of multiple external, objective factors, …" some of which may not have been fully included in the CEP analysis. For instance, Mr. Delaney reiterates that "[i]nflation ate away 13.96 percent of buying power the last two years …, but very very few foundation grants increased to cover those higher costs. As a CEP survey respondent underscored, 'philanthropic dollars are not keeping pace with inflationary pressures.'"

On top of that, "[giving by individuals fell by an astonishing rate of 13.4 percent last year after factoring in inflation." That's data from the gloomy Giving USA new report, which was the other of the two recent surveys we highlighted recently.

And here's an unexpected head-scratcher: "Audit costs have shot up significantly due to shortages of accountants." See – on NCN's website: *A Storm is Brewing: The Accountant Shortage Is Already Affecting Nonprofits* (January 18, 2023) Jerilyn Dressler, CPA.

All in all, Tim Delaney's topic heading for his critique of CEP's Finding 3 succinctly sets the stage for his concerns: "The State of Nonprofits in 2023 is Far Scarier When Looking at the Full Array of Data."

Conclusion

The issue of burnout – and particularly the type specific to the nonprofit sector – is the next topic we'll explore. Stay tuned.

– Linda J. Rosenthal, J.D., FPLG Information & Research Director