The Size and Scope of the Nonprofit Sector

chapter **ONE**

The word *nonprofit* is used to identify organizations that work for the public good and that are not obligated to shareholders or owners to deliver a profit. In fact, organizations that are afforded nonprofit status by the Internal Revenue Service are subsidized by tax exemptions, financial donations, and the free labor of volunteers, all of which are designed to enable them to focus on fulfilling their mission rather than on seeking profits. Even though businesses and corporations can work for the public good, they must operate profitably in order to stay in business. Nonprofits balance their budgets by using donations to fill the gap between what it costs to do their work and how much they can earn from it—which is sometimes nothing.

Over the past 40 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 programming, or environmental protection. The word *charity* also carried a whiff of noblesse oblige—a sense of "fortunate" people helping the "less fortunate." This frame has largely been rejected by progressive nonprofits, which seek to work "with" people rather than "for" them.

Many have argued that the term *nonprofit*, too, is an unfortunate one, as it describes an entire sector by what it is not; they have suggested using the term *community benefit organization* (CBO) instead. Another term, "NGO" or "non-governmental organization," was created in Article 71 of the Charter of the United Nations when it was formed in 1945 to describe any kind of organization that is independent from government influence and is not-for-profit. In most countries other than the United States, nonprofits are referred to as NGOs to distinguish them from the work of government. Sometimes the term *civil society organization* (CSO) is used; this designation can include informal associations of people or temporary coalitions and movements. In this book, we use the term *nonprofit* most of the time; despite its limitations, it is the most commonly used and commonly understood word to describe the sector in the United States. To describe an individual nonprofit entity, we mostly use the word *organization*. We sometimes use the word *NGO* to remind ourselves that we do not take the place of government, and we sometimes use the term *CBO* to keep us focused on the fact that we work on behalf of our communities.

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 money, volunteer time, or property to causes that are important to the person doing the giving. (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: expressing a love of people through good work. Often philanthropists are imagined as rich older white people who give away a lot of money. This image perpetuates a stereotype that is both untrue and racist. In fact, anyone who gives anything away out of the goodness of their heart could accurately be called a philanthropist.

Philanthropy is also often used as a way to describe foundations and foundation funding. "They work in philanthropy" will most often mean that the person has a job at a grantmaking foundation. More recently, the word *philanthropy* has sometimes been used in place of *fundraising*, particularly in articles about how to create a "culture of philanthropy" in an organization. (Type "Culture of Philanthropy" into a search engine and dozens of articles will appear.) These are all legitimate uses of the word, but we need to keep in mind that it has a much broader and more inclusive meaning at its root.

THE SIZE AND SCOPE OF THE SECTOR

Arguably, the biggest change in philanthropy over the last half century has been the growth in the number and range of nonprofits. If the nonprofit sector in the United States were a single industry, it would be among the three largest, accounting for about 10% of the workforce and, with more than $1 trillion in revenue, about 5.6% of the gross domestic product. As of 2020, more than 1.8 million organizations were designated nonprofits by the Internal Revenue Service. Several million more small organizations are not registered with the government, including 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 the attention of government, as well as that of researchers, academics, and many members of the general public. Although government-recognized nonprofits are regulated by federal, state, and local laws and regulations, an added layer of self-regulation is imposed by public awareness coupled with the role of individuals in funding nonprofits, which encourages voluntary compliance with accepted ethical standards of accounting, personnel, and fundraising practices. Nonprofit status is a public trust, and tax exemption is, in effect, a public expense. Even organizations that have no formal tax status that seek to raise money from the public recognize that they have the same moral duty as registered nonprofits to operate ethically, be truthful with donors, and provide the highest quality of services to constituents.

WHERE MONEY FOR NONPROFITS COMES FROM

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 fundraising.

Surprising to many people is the fact that nonprofits earn money through a number of avenues, not just straight-out monetary donations. These avenues include fees for services, products for sale, earnings from investments, and even earnings from businesses that a nonprofit may operate. Examples of these fundraising methods abound: Girl Scout cookies; Goodwill stores; Sierra Club calendars, cards, and books; and the like. For hospitals and universities, earned income is often the lion's share of their income. In fact, 54% of all the income of all nonprofits is earned income, including 6% derived from investment income largely generated by endowments. This money is not evenly divided, of course. About two-thirds of all nonprofits have incomes of less than $500,000, and most of their income comes from the private sector (that is, from individuals, foundations, and corporations, discussed later in this section). For larger organizations, including hospitals and universities, most of their income is earned income, and they, along with large social service agencies, also receive the bulk of government funding.

Another one-third of nonprofit income is derived from government funding programs (collectively known as "the public sector"). Extensive cutbacks in government funding beginning with the Reagan administration in 1981 as well as more onerous applications for and reporting on use of government funds have reduced both the scope and the effectiveness of government funding a great deal, but these funds nonetheless remain a significant source of income for many organizations.

It is beyond the scope of this book to comment fully on the impact that changes in government funding have made in the sector, but, beyond their financial implications, these changes reflect a change in political philosophy about the roles of government and of private funding in paying for the common good. (See Chapter Two, "Creating a Fundraising Philosophy.")

The final 13% of nonprofit income comes from the private sector: individuals, foundations, and corporations. Although the private sector provides the smallest portion of all the income available overall, for most of the organizations using this book, the private sector will provide the largest portion of their funding, and this book focuses almost entirely on how to raise money from the enormous market of individual donors.

It is also important to recognize that the work of the nonprofit sector is "funded" by the contributed time of volunteers. In the United States, more than 25% of the population volunteers regularly, the equivalent of nearly eight million full-time jobs with a value of more than $300 billion (Independent Sector, 2020). During the COVID lockdown, many volunteer jobs were no longer available and many other people stopped volunteering in order to quarantine. But as the pandemic has eased, volunteers began returning in droves. It is not an exaggeration to say that without volunteers, the sector would not exist.

Private Sector Giving

The *private sector* refers, broadly, to money given by individuals, foundations, and corporations. This book primarily describes how to raise money from individuals. The most widely used report on giving by the private sector is *Giving USA,* compiled yearly as a project of the Giving Institute and the University of Indiana. Every year since 1935, *Giving USA* researchers have calculated just how much money was given away to nonprofits and where that money came from. Their research over the years shows that the proportion of giving from each of the sources of private-sector giving—living individuals, bequests (a cash or other donation people arrange to be given to a nonprofit on their death), foundations, and corporations—remains constant, varying from year to year by only a few percentage points. The most critical fact is that nine times as many gifts to nonprofits come from individuals (living and deceased) as from foundations and corporations.

A look at the numbers, as in the following chart showing private-sector giving for the year 2020, brings this reality out starkly.

TOTAL PRIVATE SECTOR GIVING 2020: $471.44 billion

GIVEN BY	AMOUNT	% of TOTAL
Individuals	$324.10	69%
Bequests	41.91	9%
Foundations	88.55	19%
Corporations	16.88	4%
GIVEN TO		
Religion	$131	28%
Education	71	15%
Human Services	65	14%
Foundations	58	12%
Public/Society Benefit	48	10%
Health	42	9%
International Affairs	26	5%
Arts & Culture	19	4%
Environment/Animals	16	3%

All organizations are encouraged to examine whether their work should or could be funded by local, state, or federal grants, and what options they may have for receiving grants from foundations and corporations or from earned income. But because this book is focused on social change, we must also focus on helping organizations build power to make change. Power comes from people. A broad base of individual donors provides the best insurance that you will be able to do the work you want to do in the way you want to do it year in and year out.

Who Are the People Who Give?

The logical follow-up question—Who are the people who give to nonprofits?—is more difficult to answer. There are many complex variables that make it difficult to draw a single profile of givers, ranging from where people live to whether they keep track of their donations. How and what data are collected on giving also influence the answer.

Data on giving are collected in three main ways:

- Analyzing tax returns of people who itemize and extrapolating from the results
- Surveying a random sample of the population (either one time or at several points in time) and extrapolating from their responses

- Comparing either or both of the results from these methods with what nonprofits report to the IRS about their income (on their IRS Form 990) or what they report in polls and surveys

Further analysis of results can be done by looking at various demographic variables, such as age or income of those responding.

To understand tax reporting a little more deeply, you need to understand tax deductions. Tax deductions allow individuals and companies to subtract certain expenses from their taxable income, which reduces their overall tax bill and reduces the amount of money available in taxes. Every taxpayer is "given" what is called a "standard deduction": a flat amount that the tax system lets you deduct on your income tax form, no questions asked. It you don't have more expenses to deduct than equal the amount of the standard deduction, you file what is known as a "short form" of tax return to the IRS. Those who exceed the standard deduction itemize their taxes and file a "long form," which includes naming the specific expenses that are being deducted. Before the Trump Administration put its tax plan in place in 2018, the standard deduction was $6,500; only 30% of Americans had enough specific expenses to itemize deductions on their tax returns. Under the new plan, the standard deduction was raised to $12,000 per person in 2018, with increases to that amount each year since then; as a result, only 15% of tax filers have enough expenses to itemize and thus only 15% of Americans receive any tax benefit for their giving. As a consequence, it is much more difficult to learn about giving to nonprofits by examining tax returns. Nonetheless, we can assume that, because the standard deduction is so high, most Americans actually have more after-tax income, which will help increase charitable giving overall.

Another reason that it's difficult to estimate how much money people give away is that reporting may be skewed. Do people who itemize on their taxes exaggerate their giving? Possibly, although some studies have shown that people underreport giving on their taxes. By how much in either direction? 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 who donate to a number of nonprofits may forget how much they have given to any one of them.

Although the majority of people give money from their annual income, the wealthy minority give from their assets, such as stocks. When looking at who is generous relative to their ability to give, some studies only take into consideration the donor's level of annual income; other studies look at total 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, stocks and bonds, businesses, art, and the like), or it could have no assets. One might expect those with assets to have greater ability to give than those without, although for many people, those assets are not liquid.

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 each have a median income of $40,000 per family, but in one state the median cost of housing per year may be $10,000 and in the other state twice as much. The people living in the second state might well give less money away than those in the first state, but 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 houseless people on the street or sent as remittances to family members in other countries, or help given to a friend to attend college or to a poor family to pay rent for a few months—our studies not only would show much more giving but might also yield even more demographic differences among givers.

Another unknown is the amount given through crowdsource funding, a mechanism that has risen in popularity in the last few decades, with many people giving to causes that are not established nonprofits. More than $17 billion was raised in crowdfunding in 2019. No one knows how much of that went to individuals raising money for needs of their own, but suffice it to say that much crowdfunding is philanthropic—that is, people helping people, whether it is to get needed health care or a reliable car to get to work or rent assistance.

Looking at the question of who gives by studying what nonprofits declare as income would seem to give the most accurate data. However, in accordance with the doctrine of separation of church and state, religious organizations, which constitute about one-third of the nonprofit sector and take in just over one-fourth of all giving, are not required to report their income to the government. (Even so, about half of all religious organizations do report to the IRS voluntarily, which still leaves a big gap in our knowledge.)

So you can see the problem of trying to know who gives away money and how much: the majority of people are not declaring their giving on their taxes, and a large number of nonprofits are not reporting their income sources.

Nonetheless, the research we do have about who gives shows that changes in the US economy since 1998 are affecting giving patterns. For most of the decades for which we have records, more than 80% of all money given away was given by the largest economic group—middle-class and working-class people. (Or as we said then, "Most money comes from most people.") However, an alarming trend started in 1998 and has only gotten worse: an increasing percentage of money is given from a smaller and smaller cross section of high-net-worth individuals. Rising income inequality, which is eroding the middle class, is behind this shift in giving. Here's what the statistics tell us: in 1998, Independent Sector's research revealed that about 82% of all giving came from households with annual incomes of $65,000 or less—that is, the largest percentage of money was given by people in the dominant income range. By 2009, *Giving USA* reported that much less of all giving—now only about 52%—came from households with a gross income of $100,000 or less—again, the dominant income range at that time (encompassing 92% of all households, according to the IRS). By 2018, that same 52% of all charitable giving now came from households with incomes of $200,000 or more, and 30% of all giving came from households with incomes of $1 million or more. Only 48% of the total amount donated is now coming from the traditional bastions of giving: middle-class and working-class people.

Wealth inequality is one of the issues most threatening to our individual and national well-being. Nonetheless, even though the pool of those giving to nonprofits has shifted, from the point of view of small-budget organizations needing to raise money, there are still millions of people giving billions of dollars. Our job is to invite these people to give to us.

Givers Give

In both recessions and boom times, most people all over the world give away money. One of the first and most important lessons in fundraising is that what a person has and what that person will give are largely unrelated. Most people give something. Although it may be interesting to think about what makes one person generous and another not, you will find it far more productive to focus your fundraising efforts on people who give and try to interest them in giving to your organization.

Despite the difficulties inherent in research about who gives, some facts 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 65% of adults in the United States give away money.
- Most people who give to nonprofits give to at least five groups; some give to as many as fifteen groups.
- In every year, about 20% of people on welfare give away money, and about 97% of millionaires give away money.
- Volunteers are more likely to be donors than are people who don't volunteer.
- Generally, 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 we will return to a thousand times: people give when they are asked.

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 constantly increasing the amount of money given each year. Fundraisers of all sorts need to remind ourselves every morning, "GIVERS GIVE." People who give away money are going to give it away. For those of us asking for money, our job is basically to say to givers: "Please consider my organization." The money will be given away, and it will go either to our organization or to another.

For organizations, a broad base of individual donors provides a reliable source of funding, and the growth of individual donations is critical to the organization's growth and self-sufficiency. Most important, 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.

Donor Advised Funds

Donor Advised Funds (DAFs) are accounts that donors can establish at a public charity allowing them to make large contributions to the fund and receive an immediate tax deduction. Then, over time, they can make grants from the fund to organizations they want to support. Often people open DAFs when they come into a significant amount of money that they know they want to give away but aren't sure to what and in what increments. Inheritances, stock splits, or sale of a large asset are often the source of the money put into DAFs. Along with the immediate tax deduction, there's a significant administrative advantage to the donor: all they need do is make a list of organizations they wish to support through the DAF and the amount to be given to each and the charity that hosts their DAF does the rest. These are called "advised" funds because technically the fund belongs to the public charity where it is housed and the holder of the fund must approve the distribution. In reality, if an organization being recommended for a grant has 501(c)3 standing, it is unlikely the advice would not be taken.

Donors can contribute to the fund as frequently as they like; they can recommend that grants be made to their favorite charitable organizations whenever it makes sense for them.

DAFs cannot be used to make pledges (the money must be given at the time the charity is designated by the donor), sponsor events, or support political campaigns. A donor giving from a DAF should be thanked if their identity is known; however, their gift is not tax deductible at the time it is received, as that deduction was taken at the establishment of the DAF. In your accounting, identify grants from DAFs as you would grants from family foundations, under "foundations," but keep in mind that the relationship building you do with the holder of a DAF is far more similar to what you would do with any major donor.

It is not unusual for a nonprofit to receive a grant from a DAF and have no idea of the identity of the donor. A program officer at the foundation where the DAF is housed may have recommended your organization, or the donor may wish to remain anonymous. Because DAFs are one of the fastest-growing forms of philanthropy, you will need to add two items to your to-do list: (1) include language in all fundraising and marketing materials that encourages donors to give through their donor-advised funds, and (2) make sure your website has the organization's legal name, address, and federal tax ID number so donors can easily recommend that a check be mailed through their DAF account. You may also want to try to get to know the DAF managers at your local community foundation. In some communities, where there are a lot of older wealthy people, this will be a good use of time. Keep in mind that there are no payout regulations for DAFs and very little requirement for transparency, so money may sit in a DAF for a very long time with no obligation for the donor or the holder of the DAF to distribute it. It is the exception, but some organizations that hold DAFs do require the donor to distribute it within a certain time period.

WHAT TYPES OF ORGANIZATIONS RECEIVE DONATIONS?

To really understand private-sector giving, it is important to look not only at who gives this money but also at where it is given. Please return to the chart shown on page 7 for the most recent numbers.

Giving to Religion

Religion as a category receives more than one-fourth of every charitable dollar (down from one-half in 1976), and most of it comes from individuals. Only a small percentage of money given to religious organizations comes from foundations, and virtually none comes from corporations. 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 reward or a fear of punishment.

So why do religious organizations receive more than one-fourth 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; in fact, 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. Churches also accept credit card donations, with some churches providing envelopes on which to write your credit card number, and others with the ability to swipe your card. Some churches have an ATM in their building. 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 have an established ritual for raising the money. 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, 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 their asking benefits you as much as your giving does them. In other words, they recognize that fundraising allows an exchange between a person who wants to see a certain kind of work get done and an institution that can do that work. If your values and beliefs include 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, we will show you how.

ONLINE CONTENT

- "Unintended Consequences: How Income Inequality Affects Fundraising"
- Free newsletter: Inequality.org

Spotlight—Steve Lew

I was a trainer in the Fundraising Academy for Communities of Color in which we discussed our "money stories." Almost everyone had a memory of sharing food, money, housing, and labor within the communities of their youths. Offering help and receiving help were common. Yet mobilizing resources for a family, a school, or a community project was not called "fundraising" or "philanthropy" because, for the most part, nonprofit and electoral fundraising separates asking for and giving money from other forms of mobilizing and generating resources.

When we focus *solely* on the technical aspects of asking for money, many of us move further away from how our families and communities generated resources to survive and thrive. I grew as a leader raising funds for AIDS prevention, care, and research. It was a time in the United States when many people who gave were also activists and volunteers. There was very little distinction between being a donor and being part of a movement.

I am sensing that the emerging generation will expand the role of "fundraiser" in ways that meet this moment. There might be less separation between those who fundraise and those who give, and more valuing of nonmonetary resources and wealth. I am grateful that I learned grassroots fundraising from people who knew that raising money is not just a profession, but a body of knowledge, practices, and experience that most of us can use to resource collective work and dreams.

Steve Lew (he, him) is a Gen Jones baby boomer who realized he didn't have to raise most funds from making hundreds of mu shu pork burritos at food booths. He read a few articles in the Grassroots Fundraising Journal *and raised much more money to fight HIV/AIDS. Steve has worked as a development staff and fundraising trainer with a wide range of nonprofits through CompassPoint for the past 23 years. He has volunteered as a resource mobilizer for the Grassroots Institute for Fundraising Training, the Chinese Progressive Association, APIENC, and many HIV organizations*.