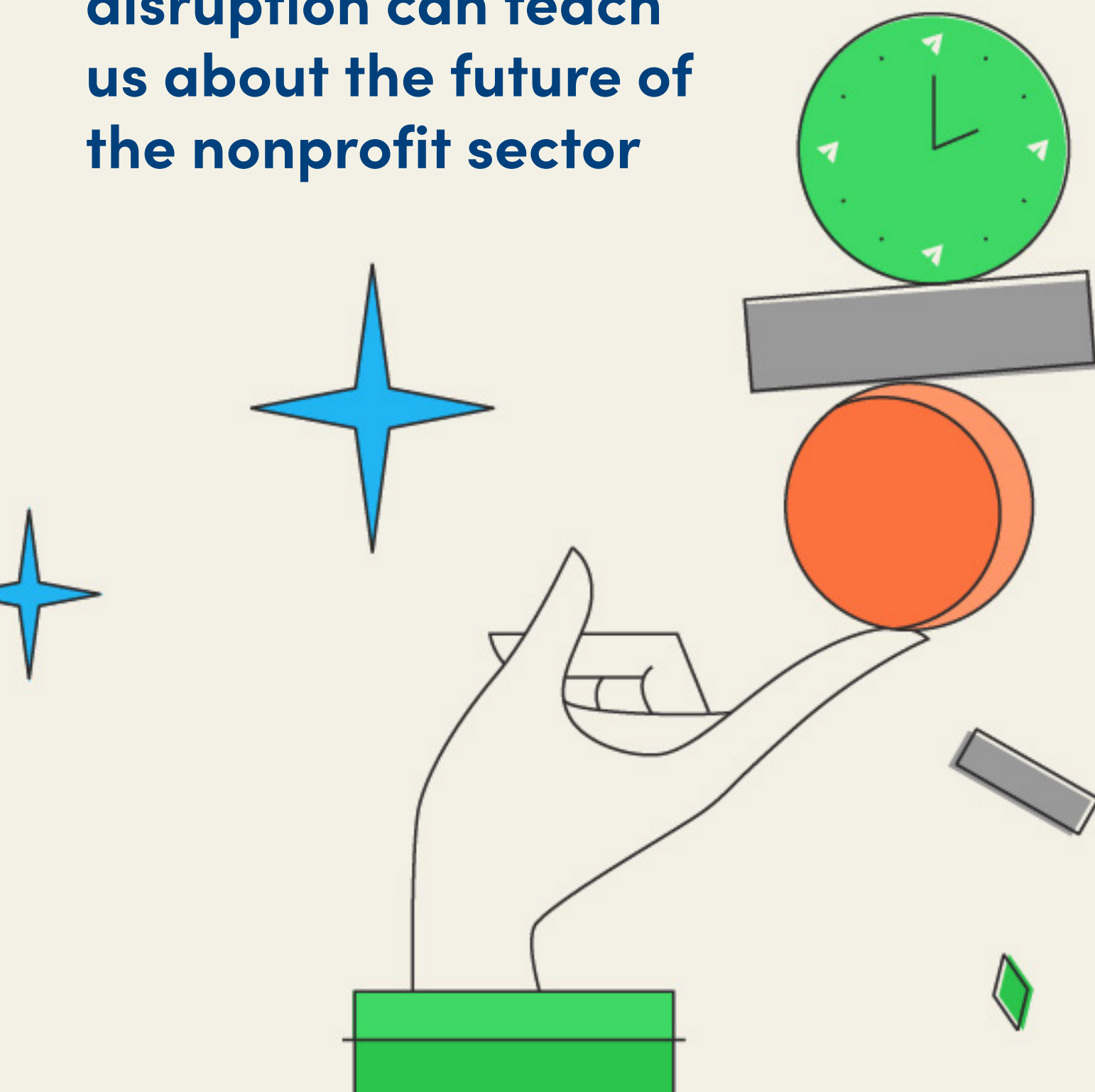


RESILIA PHILANTHROPY REPORT 2021

## What a year of disruption can teach us about the future of the nonprofit sector





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It isn't often that we live through a year like 2020, in which a global health pandemic caused a massive economic contraction, left communities and families reeling in a way nobody could have anticipated a year ago, and simultaneously upended the way we work, interact, and live. Then, another type of wave hit, and Americans took to the streets in protest of police brutality and racial inequality after George Floyd was killed under the knee of a Minneapolis police officer. It was the largest such public outcry in decades, certainly the first ever seen in real time for many of us.

While 2020 was in many ways unprecedented, it's important to consider the ways in which the underlying causes of the upheaval we've witnessed aren't new at all. The protests this summer were just the latest chapter in a fight for racial justice that



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## Grantors need to focus on how they can help organizations build the capacity necessary to be more financially resilient, operate more efficiently and transparently, and ultimately scale impact.

has been waged for centuries. Many communities suffered inordinately amid COVID-19 because they don't have access to the critical services they need to keep people healthy and soften the economic blow of a sudden surge in joblessness and illness. And as the nonprofit sector – which is often the frontline provider of these services – attempted to navigate the cascade of crises, many of its perennial problems were clearer than ever.

The past year was also a reminder that nonprofits provide the infrastructure of support that communities rely upon to deliver essential services. At a time when many nonprofits are under immense financial pressure (as demand for their programs continues to [increase](#)), grantors need to focus on how they can help organizations build the capacity necessary to be more financially resilient, operate

more efficiently and transparently, and ultimately scale impact. Meanwhile, nonprofits have to implement these changes and forge relationships with other organizations to make collective impact a top priority.

Coming into 2020, the nonprofit sector was already in a state of transition. Grantors were increasingly demanding accountability by insisting that nonprofits demonstrate concrete outcomes; the sector was moving toward greater collaboration; and capacity-building was becoming a major focus for nonprofits and grantors alike. The past year has accelerated these trends, and we expect them to define 2021 (and beyond) for the nonprofit sector.



# Grantors should prioritize collaboration and capacity-building in 2021

The role of grantors is undergoing a fundamental shift. Instead of merely funding programs, grantors are taking a more active role as capacity builders and facilitators, helping to make organizations more effective and bringing them together around shared goals.

Beyond funding programs, grantors are helping nonprofits manage resources more efficiently, improve internal operations, engage in strategic planning, and track their performance. These are all forms of capacity-building, which are intended to make programs more sustainable and effective while making organizations viable over the long term. By ensuring that nonprofits are in a sound financial position, breaking down silos that prevent employees and stakeholders from communicating with one another, and addressing other issues that limit an

organization's capabilities, grantors are helping them scale impact.

Foundations and other grantors have been increasing their investments in capacity-building. A [survey](#) conducted by Grantmakers for Effective Organizations (GEO) found that the proportion of grantors that offer capacity-building support increased from 65 percent in 2011 to 86 percent in 2017. COVID-19 has demonstrated why this proportion will only continue to rise: nonprofits need to be capable of maintaining operations when cash flow gets tight and adapting to rapidly changing circumstances, and this requires a well-trained workforce, strategic planning, and a solid fundraising platform.

Tavan Pechet is the president of Pechet Advisors, and he points out that capacity-building is integral to what many grantors do:



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Grantors often know a lot about financial management and have other forms of operational expertise that can help organizations build capacity. For example, a grantor could provide financial support to help a nonprofit hire the right third-party CFO, develop an effective fundraising training strategy, or bring in people for strategic planning.





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Issues like due diligence on financial management are vital. There's a huge difference between nonprofits that have prioritized good financial planning pre-COVID and those that only had a few weeks of cash in the bank at the beginning of the pandemic. Grantors may favor sustainable organizations over organizations that can't raise funds or manage cash flow effectively.

There's a corollary to the emphasis on capacity-building – nonprofits' internal operations are under more scrutiny than ever. Pechet explains that COVID-19 demonstrated that “issues like due diligence on financial management are vital. There's a huge difference between nonprofits that have prioritized good financial planning pre-COVID and those that only had a few weeks of cash in the bank at the beginning of the pandemic. Grantors may favor sustainable organizations over organizations that can't raise funds or manage cash flow effectively.”

According to a [study](#) from Nonprofit and Voluntary Sector Quarterly, there's “clear evidence that capacity-building efforts increase capacity in each of five critical areas”: **(1)** nonprofit leadership, **(2)** programs, **(3)** organization, **(4)** revenue, and **(5)** community engagement. For example, organizations that focus on building their capacity for volunteer engagement

are able to drastically increase the success of their recruiting efforts – as a [2019 article](#) in Nonprofit Quarterly observes:

Research on hundreds of such organizations found they produced a **23 percent average increase** in the number of volunteers annually.

The article goes on to explain that capacity-building “paves the way for systematic, coordinated action across multiple levels (individual, organizational, network, community).”

This point captures another major trend in the nonprofit sector – the move toward greater collaboration across grantors, organizations, and



the communities they serve. Many nonprofits have already realized the power of collaboration – as a [report](#) by the Bridgespan Group and the Lodestar Foundation notes, 58 percent of nonprofits have established associations with other organizations, while 78 percent operate joint programs. Meanwhile, according to [research](#) by La Piana Consulting, the prevalence of mergers in the sector is around 1 percent every year, but 23 percent of nonprofits are now considering merging with another organization. While some of these organizations are considering a merger to increase their capacities and lower costs, others are doing so out of necessity amid COVID-19.

Marta Ferro is the president of [Starfish Impact, Inc.](#) and managing director at [Angeles Investments](#), and she points out that collaboration is essential to make sustainable progress on the most pressing issues communities face: “Grantors and nonprofits are increasingly recognizing that they have to approach big issues like education, healthcare, and racial inequality holistically, as there are many overlapping

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Ferro cites organizations such as [Liberty Hill](#), the [California Community Foundation](#), and [The California Endowment](#)

causes and consequences.” Ferro cites organizations such as [Liberty Hill](#), the [California Community Foundation](#), and [The California Endowment](#), which act as conveners and help organizations pool resources and coordinate efforts. “There are many foundations and organizations partnering with one another,” Ferro observes, “particularly when it comes to issues like racial justice. Even if on the surface



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There are many foundations and organizations partnering up with one another,” Ferro observes, “particularly when it comes to issues like racial justice. Even if on the surface organizations aren’t explicitly focused on social justice, that’s what they’re doing. Communication and collaboration have always been important, but they’ve moved to the forefront this year. Collective action leads to collective impact.

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Grantors should serve as facilitators that bring stakeholders together around common goals and shared resources, which often means strengthening networks that connect nonprofits and those stakeholders. A [2018 report](#) published by the Center for Effective Philanthropy (CEP) found that almost three-quarters of foundations that offer capacity-building grants provide them to “groups or networks

of grantee organizations.” Meanwhile, 70 percent of foundation leaders say they provide “support to strengthen networks (of organizations or leaders), movements, or fields.”

These are reminders that capacity-building and collaboration are often [one in the same](#) – by pooling resources and expertise, nonprofits, grantors, and other stakeholders can build up the infrastructure of support that communities need to get through the crisis they face today and address systemic problems in the future.

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# What COVID-19 can teach us about the state (and future) of the nonprofit sector

Although COVID-19 has been devastating for many sectors and industries, nonprofits have been hit especially hard. According to an [October report](#) by Independent Sector, an estimated 7 percent of nonprofits will close due to the pandemic, while almost 1 million nonprofit jobs have been lost. Not only has COVID-19 revealed the tenuous financial position of many nonprofits, but it has also been a reminder of how integral nonprofits are to the [economy](#) and the health of communities around the country.

Although nonprofits are under greater financial strain than they have been in years, the demand for their services is only increasing. Independent Sector [found](#) that 57 percent of nonprofits say they can't meet demand for their services – a proportion that rises

to 65 percent for nonprofits that serve low-income communities. In light of these findings, consider an observation from a Commonwealth Fund [report](#) about how essential services are suffering during the pandemic: “The government typically outsources social services, like homeless shelters, workforce development programs, and community centers, to CBOs” (community-based organizations).

Bob Swaney is the founder and CEO of [Robert Swaney Consulting, Inc.](#), and he explains that the health of the nonprofit sector is intimately tied to the health of communities – especially in a crisis like COVID-19: “Here’s what we tell our clients: You should align your recovery with that of your community. Across the country, communities are at different points in the recovery process, which



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This is where too many grantors have been falling short. From inadequate [reimbursement rates](#) for the real costs incurred by nonprofits (particularly from governments) to the inequitable [provision](#) of funding, there are fundamental problems with grantor-nonprofit relationships that need to be addressed. These problems aren’t just restricting nonprofits’ ability to provide core services – they’re also slowing the progress toward increased capacity-building and collaboration in the sector.

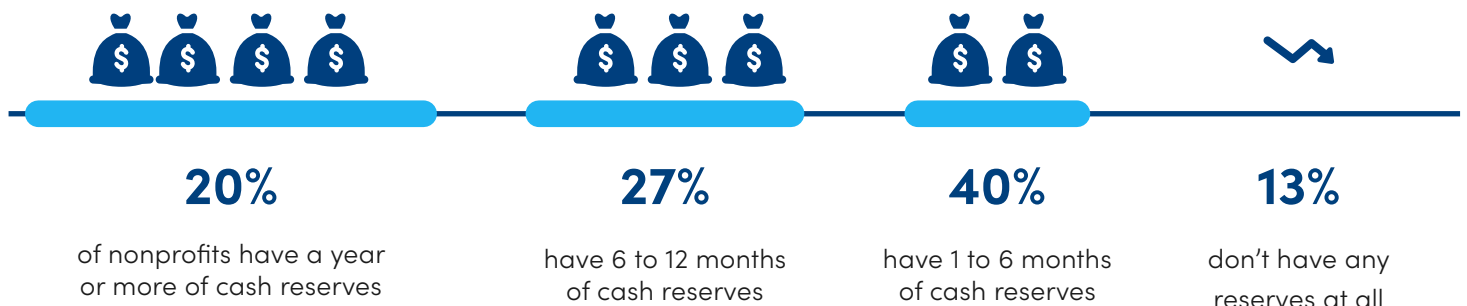
It's clear from the CEP report that financial stress is the biggest contributor to the negative impact suffered by nonprofits – a significant majority of respondents said they had to reduce hours, wages, and benefits; draw upon already-thin reserves; and reduce programs or services.

According to a [report](#) by the National Council of Nonprofits, 88 percent of organizations have operating budgets of \$500,000 or less. This means nonprofits often have little to no financial cushion in the event of an unforeseen drop in revenue, which is exactly what happened across the sector when COVID-19 struck. BDO [reports](#) that just 20 percent of nonprofits have a year or more of cash reserves, while 27 percent have 6 to 12 months; 40 percent have 1 to 6 months; and 13 percent don't have any reserves at all.

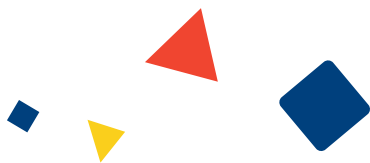
COVID-19 has been a serious pressure test for organizations that were already in a difficult financial position. A recent CEP [survey](#) found that 84 percent of nonprofits say COVID-19 has had a moderate

or significant negative impact on them (38 percent and 46 percent, respectively). It's clear from the CEP report that financial stress is the biggest contributor to the negative impact suffered by nonprofits – a significant majority of respondents said they had to reduce hours, wages, and benefits; draw upon already-thin reserves; and reduce programs or services. Meanwhile, 55 percent of organizations say demand for those programs and services has increased “as a result of the pandemic,” a proportion that jumps to 61 percent for organizations that serve historically disadvantaged communities.

The largest share of nonprofit funding [comes from](#) earned revenue and fees for services, and 77 percent of nonprofits [say](#) this source of income decreased







amid COVID-19. At the same time, 43 percent of organizations say contributions from major donors have fallen, while 51 percent say the same for gifts below \$7,500 per year. However, more organizations said funding from foundations increased rather than decreased during COVID-19 (31 percent versus 30 percent), a reminder that some grantors recognize the importance of helping nonprofits maintain cash flow at a time when revenue has collapsed in other areas.

While it's necessary for grantors to maintain their support for nonprofits (to the extent possible) during a crisis, there's a more basic lesson to be learned from COVID-19: grantors have to put organizations in a healthier long-term position, which will ensure that they're better able to absorb future economic

## Grantors have to put organizations in a healthier long-term position, which will ensure that they're better able to absorb future economic shocks.

shocks. This means making sure nonprofits are fully reimbursed for the services they provide and costs they accrue; increasing equity in nonprofit procurement and funding; providing more capacity-building grants and working directly with nonprofits to help them improve their operations; and bringing organizations and stakeholders together to provide mutual support and drive collective impact.



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# How grantors can make the nonprofit sector more effective in 2021

After 2020, the nonprofit sector will never be the same. According to a recent [report](#) by Foundation Source, 39 percent of foundations say they have shifted their mission since the beginning of the year, and the top three reasons they cite are: COVID-19, the increased need for nonprofits, and social justice. Although 2020 has been a painful year, it has prompted many grantors (from foundations to large individual donors to companies) to realign their focus on the biggest social, economic, and political issues we face. As Swaney puts it:

## Grantors set the tone for community recovery.

Ferro points out that the push for racial justice has galvanized grantors on a broad scale: “A lot of new grantors are awakening to these issues and coming

into this work. While it’s crucial to be cognizant of the fact that racial inequality in today’s United States has been centuries in the making, it’s great to see organizations that are focused on the systemic causes of racial injustice receiving more support.” The influx of financial support for organizations focused on racial equity has been extraordinary in 2020 – according to [data](#) from Candid, pledges totaling \$2 billion were made between May and June alone, compared to \$166.4 million in total pledges in the same category for all of 2019.

Like Ferro, Pechet highlights the ways systemic causes of racial inequity intersect: “Consider an issue like the lack of access to broadband, which has serious implications for students who don’t have the same digital tools for education as their peers, families who can’t take advantage of telemedicine in the middle of a pandemic, and so on. In the past, many



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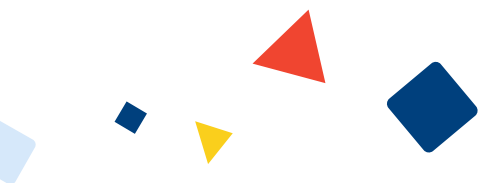
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donors didn't understand the extent of this interconnectivity, but hopefully we're seeing growing awareness of it." Pechet continued: "The move toward more investment in organizations that address racial inequity is only going to continue because philanthropic trends are tied to social trends."

One of the key themes that emerged from our conversations with Ferro, Pechet, and Swaney is the importance of collective action – particularly how cooperation between grantors and nonprofits can build capacities and scale impact. That's why we decided to outline several strategies – heavily informed by insights from our experts – to make the most of this trend:

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## 1

## Recognize the difference between capacity-building and micromanaging

It's one thing for grantors to help nonprofits improve their balance sheets and operate more efficiently, but it's something entirely different to impose onerous requirements on them that don't conform to their organizational cultures or take account of what they're realistically capable of accomplishing.

Pechet observes that these requirements "don't empower management teams. It has to be the nonprofits ultimately taking the initiative, not the grantors." According to Ferro, "Funders are becoming more sensitive to the perception of how they're intervening – it's important to remember that, when it comes to programs, organizations on the ground are the experts. Grantors like Liberty Hill are great at respecting and honoring the organizations that are actually doing the work.

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**Grantors should pursue robust due diligence, but when the trust is there, don't overstep.**

Swaney points out that one of the positive outcomes of COVID-19 has been increased engagement from nonprofit boards, which are "turning more into working boards than just governance boards." However, he observes that boards need to be circumspect about meddling: "There's a risk of micromanagement, but the balance between working boards and governance boards will likely emerge naturally in 2021."



## 2 Take advantage of networks.

Networks don't just bring grantors and nonprofits together around shared goals and mobilize stakeholders – they also give effective organizations a more prominent voice than they would have on their own. As Pechet explains, “Coalitions of nonprofits are not only working together on programs, but also collaborating

on fundraising. This allows smaller organizations to leverage their partners' relationships with big donors.” Networks help nonprofits of all sizes take part in large-scale initiatives that attract more significant donor support.



According to Ferro

**To address foundational issues like inequality and equity, it's often necessary for communities to receive multiple services through multiple partners. When several grantors take part in a project, it's easier to get their peers to come along behind them. This is how a number of small but mighty organizations are getting huge legislative and advocacy-related wins – everyone is in the work together.**

## 3 Don't overlook the private sector.

Over the next several years, we're going to see the rise of for-profit/for-purpose giving as an increasingly important paradigm in philanthropy. From the rise of corporate social responsibility (CSR) to the emergence of [belief-driven buyers](#) (consumers who choose to do business with companies on the basis of their positions and actions on social issues) to rising interest in impact investing, the connections between the private and nonprofit sectors are only becoming stronger.

According to Ferro, “For-profit companies are figuring out ways through CSR programs to become more engaged in their communities

– some develop stand-alone programs, but they're typically partnering with entities and organizations that are serving those causes in the community. It's important for nonprofits to develop processes for soliciting and making use of private sector support.” Corporate giving [accounted](#) for more than \$21 billion in 2019, and its growth between 2018 and 2019 (13.4 percent) outpaced the rise in individual donations (5.1 percent) and foundation giving (2.5 percent). Meanwhile, grantmaking from donor-advised funds [reached](#) record levels in 2020 – a reminder that organizations should be looking at all sources of income as they plan for 2021.



## Technology is indispensable for transparency and accountability in the nonprofit sector.

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### 4 Prioritize transparency and accountability.

More than two-thirds of nonprofits [say](#) the “demand for transparency regarding funding has increased.” However, 42 percent of nonprofits [report](#) that they have “no consistent framework for measurement and recording,” while more than a third say they don’t have “enough human resources to gather data” or the ability to “gather statistics on [the] impact of programs.”

Ferro emphasizes the importance of building a narrative around concrete measures of impact:

**Nonprofits should ask themselves: what’s the story through outcomes and data?**

In the last ten years, grantors have become more and more sophisticated in tracking and

defining impact. This is why it’s important to have a clear-cut plan that you can tell a story around and use data to support existing growth and successes.” Swaney echoes this point: “**Measurable, value-based work will be rewarded through support.**” Like Ferro, he explains that organizations should be capable of telling a story about their impact: “What does your organization do so uniquely and with such importance that it warrants support? How does that align with community recovery? How does it serve some specific sector of the community? And why is it important right now?”

Technology is indispensable for transparency and accountability in the nonprofit sector. When it comes to basic forms of capacity-building, digital tools are better and more affordable than ever before. Nonprofits are able to tell grantors, they have reduced the costs to track impact and improved their ability to measure impact thanks to technology platforms. With the ongoing [decline](#) of small and medium-sized donors, nonprofits will need to be



capable of attracting support from foundations and other large grantors, which means they have to demonstrate measurable impact in a more rigorous and systematic way.

When asked what role technology plays in attracting and maintaining grantor support,

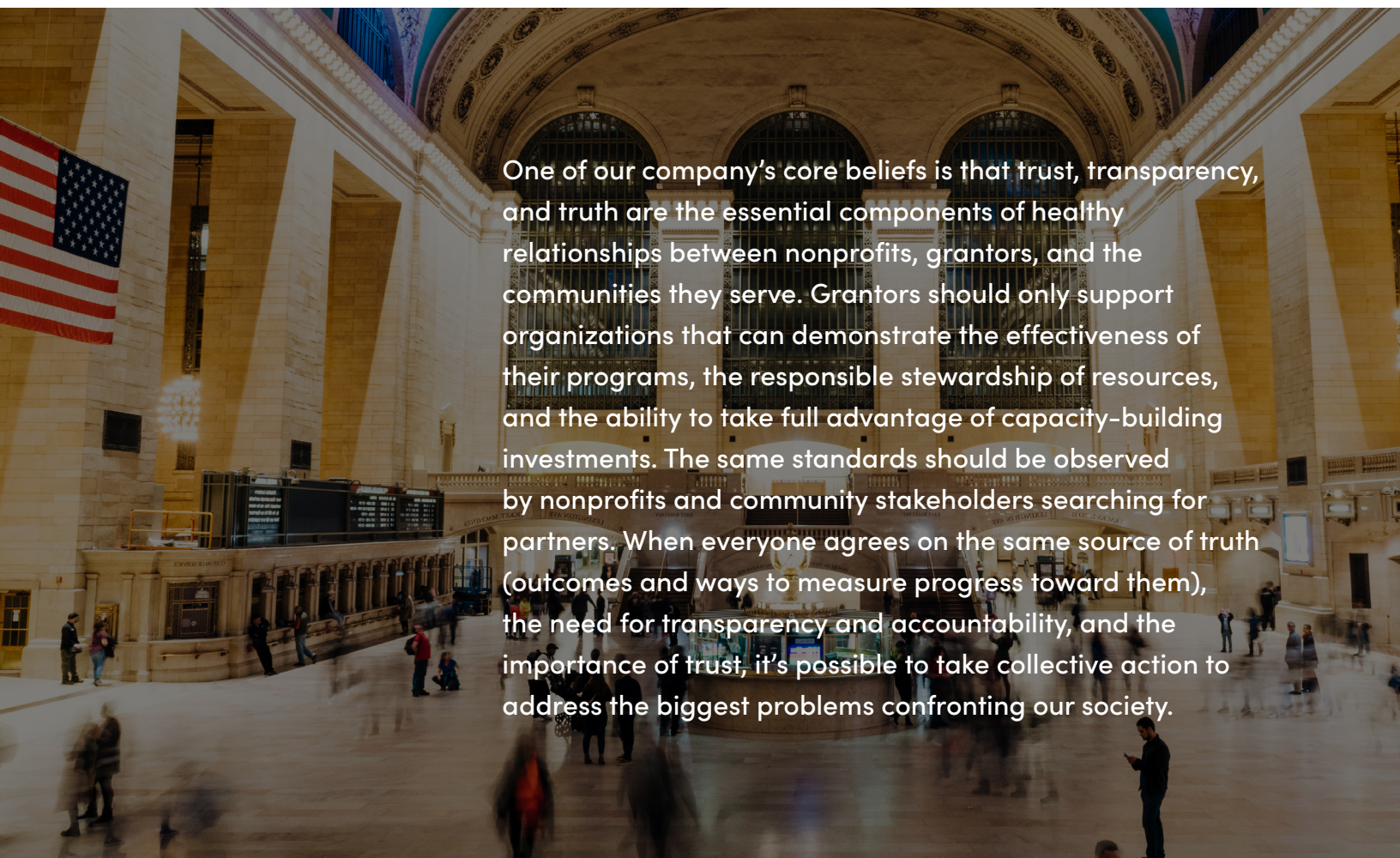
Ferro says

**It's instrumental because it's how we communicate and stay on top of the work for efficiency's sake. Technology is necessary to be transparent, to collect and analyze data, and to create reports and storytelling – every aspect of collaboration.**

## 5 Focus on the big picture.

Ferro, Pechet, and Swaney all stress the importance of explaining to grantors and stakeholders how an organization's mission impacts the local community, but also how that mission addresses the most urgent problems in our society – from the socioeconomic shock (and

aftermath) of a pandemic to racial inequality. One of the greatest engines of collective action is a sense of shared purpose, and we're living in a time when this purpose is clearer than ever for many communities and organizations across the country.



One of our company's core beliefs is that trust, transparency, and truth are the essential components of healthy relationships between nonprofits, grantors, and the communities they serve. Grantors should only support organizations that can demonstrate the effectiveness of their programs, the responsible stewardship of resources, and the ability to take full advantage of capacity-building investments. The same standards should be observed by nonprofits and community stakeholders searching for partners. When everyone agrees on the same source of truth (outcomes and ways to measure progress toward them), the need for transparency and accountability, and the importance of trust, it's possible to take collective action to address the biggest problems confronting our society.





**Nonprofits have to do everything possible to demonstrate the effectiveness of their programs (as well as the efficiency of their operations) if they want to secure contracts with foundations, governments, and all other grantors.**

## About Resilia

### **Resilia powers the people changing the world.**

We are passionate about building technology solutions for mission-driven organizations and funders; enabling collective impact and capacity building with our tools; and turning our customers into high performing, transformative change agents—all with our signature human touch.



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