

## ESG

# State of the Nonprofit Sector

05 January 2023

### Key takeaways

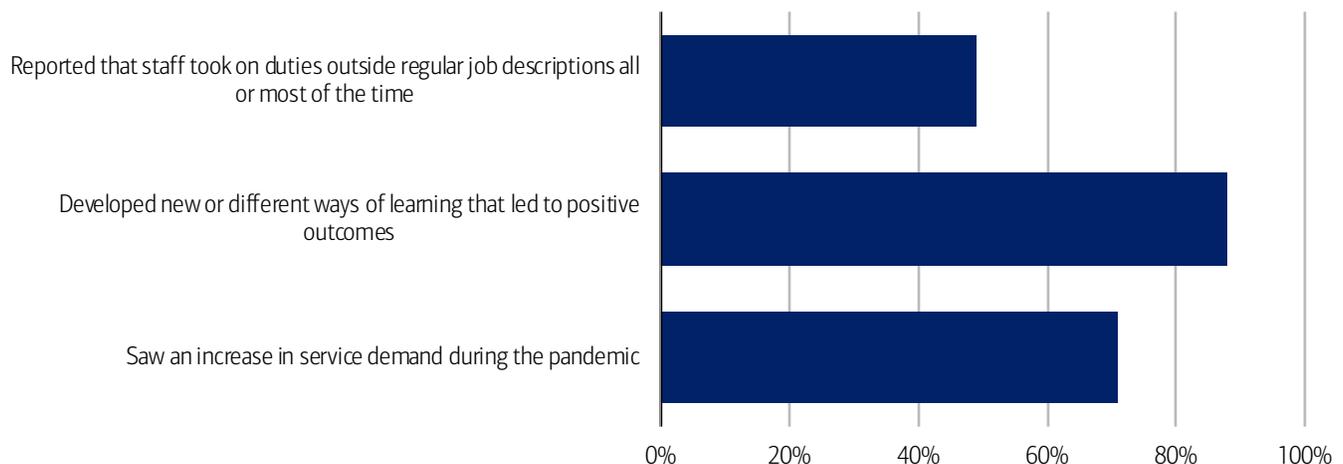
- A recent survey by Nonprofit Finance Fund (NFF) collected insights from nonprofit leaders across the US about the impact of the past two years – from the pandemic to events that sparked calls for racial justice. The resulting [2022 State of the Nonprofit Sector](#) (“the report”) shared what leaders had to say about how their nonprofit organizations have been faring and the investments they need to secure their long-term futures.
- At the time of the survey (between January 19 and March 4, 2022), many nonprofit survey respondents indicated they are in a stronger financial position than pre-pandemic, but the picture isn’t all rosy. Nonprofits face familiar financial challenges: achieving long-term financial sustainability, covering the full costs of their operations, and raising unrestricted funding are foremost among them.
- In addition to responding to COVID-19, nonprofits have also been on the frontlines of the movement for racial justice and equity. The vast majority (95%) have taken actions to address diversity, equity and inclusion (DEI), however, certain funding practices remain inequitable. According to NFF, this can be aided by retaining and accelerating changes instigated by the pandemic, including more flexible or unrestricted funds or streamlined application processes.

### Out of adversity comes change

Over the past two years, government, philanthropy, and community members often turned to nonprofits to help people in their communities who were sick or at risk, or who had lost jobs due to COVID-19. Nearly 3 out of 4 nonprofits (71%) saw an increase in service demand during the pandemic. However, for many, rising to new challenges meant implementing change, with 88% of respondents saying they developed new or different ways of working that led to positive outcomes and over half (51%) believing their changes could be permanent. Responding to the needs of the community also meant going above and beyond – 49% of nonprofits reported that staff took on duties outside their regular job descriptions all or most of the time.

#### Exhibit 1: 2022 State of the Nonprofit Sector respondents who agreed with the below statements (%)

Over the past two years, nonprofits experienced changes in their business activity.



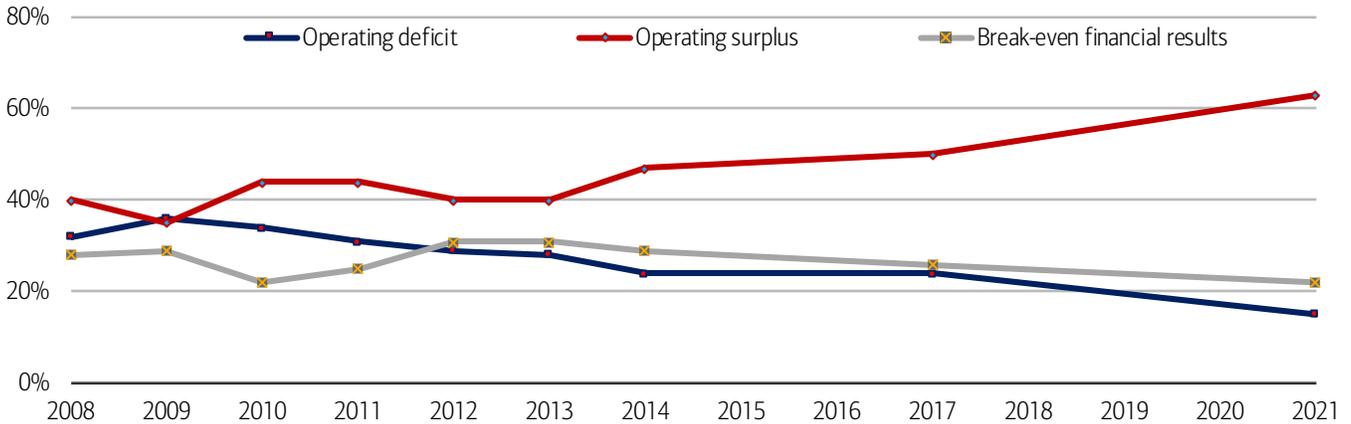
Source: Nonprofit Finance Fund

## Building financial strength as unrestricted funding surged

While COVID-19 brought many challenges to nonprofits, it also upended traditional funding practices in the sector – something that was both welcome and needed according to survey respondents. Funders responded to the needs of nonprofits and their communities, causing operating surpluses to grow to the highest levels in this survey’s history (Exhibit 2). And this growth appears to be sustained short-term, too – more than two-thirds of nonprofits said their current funding was significantly or slightly higher compared to the 2019 fiscal year (FY2019) (Exhibit 3).

### Exhibit 2: Operating results for respondents from each survey year (%)

Operating surpluses grew to the highest levels in this survey’s history.

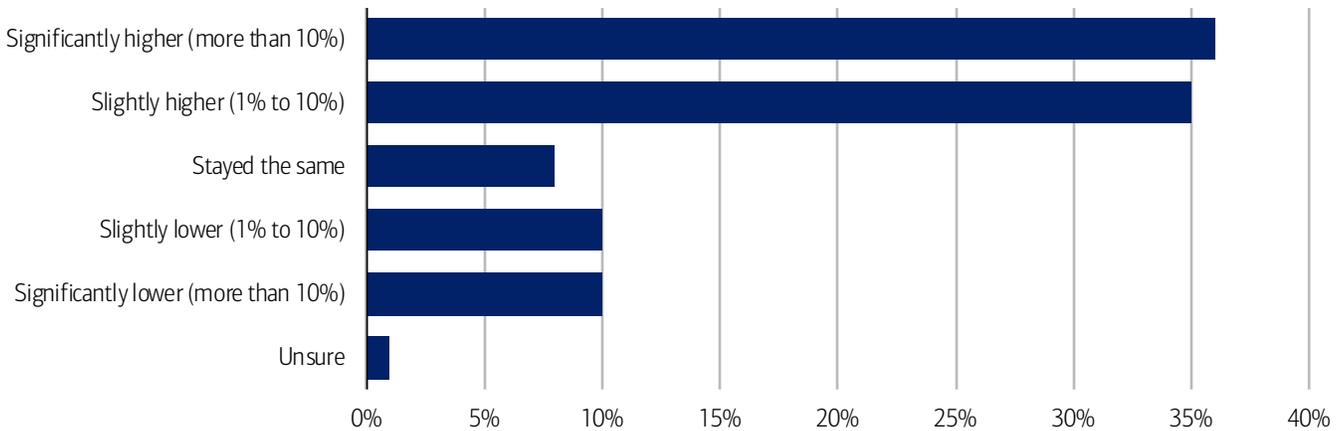


Source: Nonprofit Finance Fund

Note: Survey years are not contiguous, and respondents vary from survey to survey.

### Exhibit 3: Compared to Fiscal Year (FY) 19, survey respondents indicated their 2022 funding aligned with one of the below indicators (%)

A majority of nonprofits had overall higher revenue compared to FY 2019.



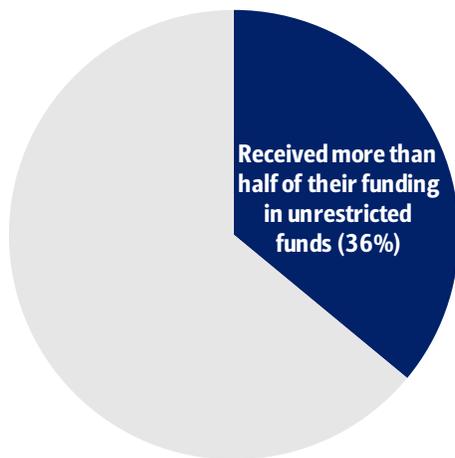
Source: Nonprofit Finance Fund

But how did funding practices change? When government, foundation, and individual supporters recognized that nonprofits were on the frontlines, many quickly made flexible or unrestricted funding available to support the essential community services they were providing. Unrestricted funding, while not new, is critical for most nonprofits as it lets them decide how to spend their funds to best support their work.

In the 2021 fiscal year (FY2021), 36% of nonprofits received more than half of their funding in unrestricted funds, including general operating support (Exhibit 4). (For the purposes of this survey, NFF defined unrestricted funding as grants or donations nonprofits may spend in any way they believe is appropriate to further their mission.)

**Exhibit 4: Percentage of respondents that received more than half of their funding in unrestricted funds (%)**

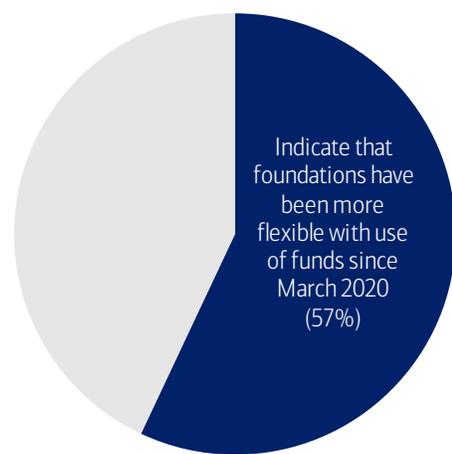
Over one-third of survey respondents received half or more of their 2021 funding as unrestricted funds, including general operating support.



Source: Nonprofit Finance Fund

**Exhibit 5: Percentage of foundations that have been more flexible with use of funds since March 2020 (%)**

Over half of respondents indicated that foundations have been more flexible with use of funds since March 2020.



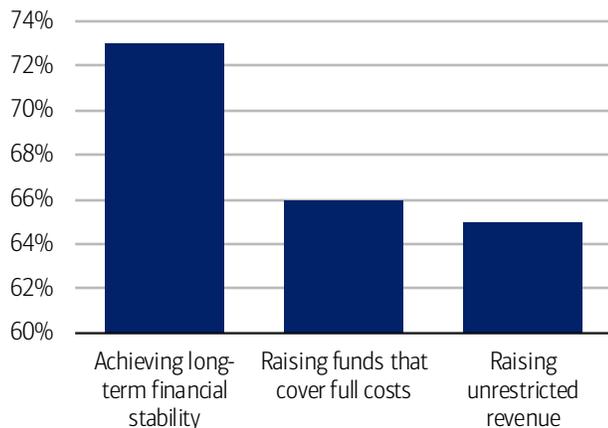
Source: Nonprofit Finance Fund

**Facing familiar challenges**

While nonprofit funding increased dramatically during the pandemic, new dollars did not erase longstanding challenges. The report found that achieving long-term financial sustainability (73%), raising funds that cover full costs (66%) and raising unrestricted revenue (65%) were among the top struggles that nonprofits face. And in regard to staffing, organizations still need to ensure they can employ enough staff (55%), offer competitive pay (51%) and counteract staff burnout (36%).

**Exhibit 6: Top three financial challenges for respondents (%)**

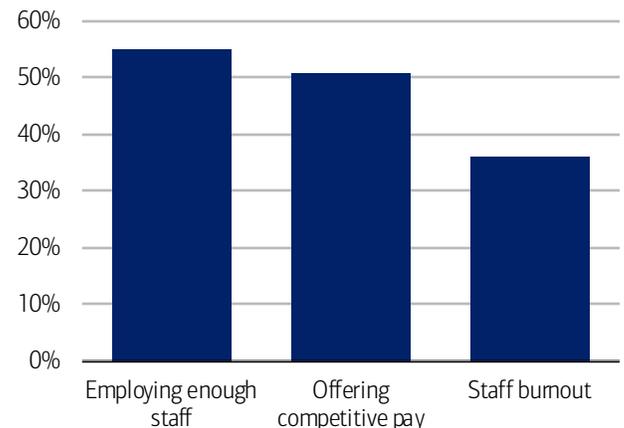
Respondents indicated that achieving long-term financial stability was the top financial challenge.



Source: Nonprofit Finance Fund

**Exhibit 7: Top three staffing challenges for respondents (%)**

The report finds that employing enough staff remains the top staffing concern for nonprofits.



Source: Nonprofit Finance Fund

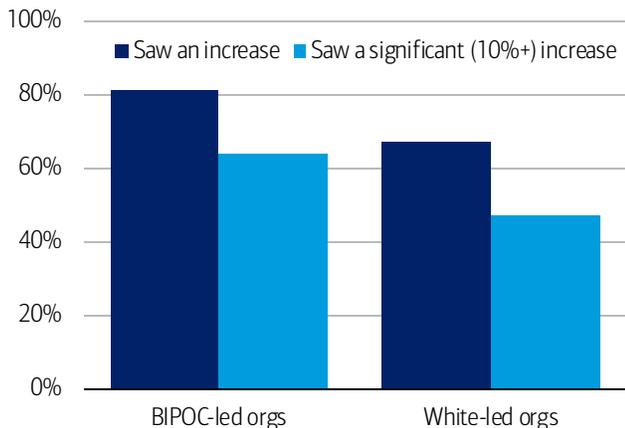
**Racial justice and the experience of BIPOC-led organizations**

While nonprofits across the country were on the frontlines of the recent health crisis, they also played an important role as widespread calls for racial justice arose across the country. As noted above, nearly 3 out of 4 nonprofits (71%) saw an increase in service demand during the pandemic, and BPOC-led (Black, Indigenous, and person of color) organizations saw even greater demand.

The report notes that differences emerge in terms of actions taken based on the nonprofits' leaders' racial identity and that BPOC-led organizations are more likely to have leadership that represents the communities they serve. The establishment of nonprofits with BIPOC leaders continues to grow – of the nonprofit survey respondents whose organizations were established in 2017 or later, 77% are BIPOC-led.

**Exhibit 8: Organizations who saw an increase or significant increase in service demand by race of leadership (%)**

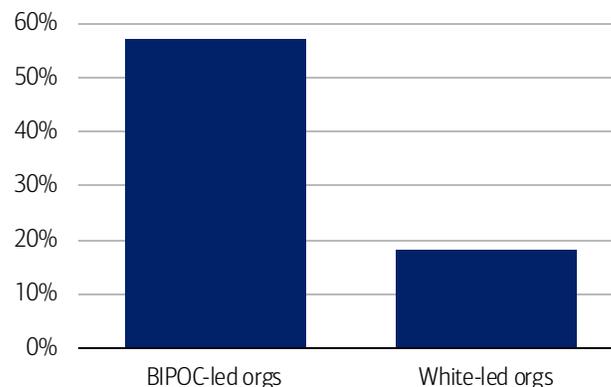
BIPOC-led nonprofits saw a greater increase in demand than white-led organizations.



Source: Nonprofit Finance Fund

**Exhibit 9: Percentage of BIPOC or white executive directors (EDs) and/or chief executive officers (CEOs) who have lived experience representative of one or more communities served (%)**

White EDs/CEOs have largely not lived experience representative of one or more communities they serve.



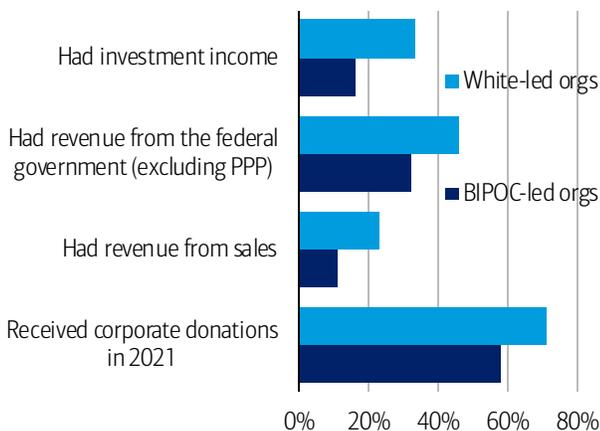
Source: Nonprofit Finance Fund

It's notable that nearly all nonprofit respondents (95%) said they took actions to address diversity, equity and inclusion (DEI) in their work, and over three-quarters have had discussions with their Board (79%) and staff (78%) about DEI. Additionally, over two-thirds (68%) of nonprofits have increased their focus on advancing racial equity over the past two years. Furthermore, 64% of BIPOC-led organizations developed, improved and/or expanded services to Black, Indigenous, or other people of color.

Yet, despite the many commitments to racial equity and DEI, the report confirms that longstanding inequities persist in the nonprofit funding system. Over 70% of white-led nonprofits received corporate funding last year, compared to only 58% of BIPOC-led organizations. And funding from sales revenue for white-led nonprofits was more than twice that of BIPOC-led organizations (23% and 11% respectively). Lastly, unrestricted funding enables nonprofits to better address the needs of their communities. Only one quarter (26%) of BIPOC-led organizations received half or more of their funding as unrestricted funds in 2021, compared to 41% of white-led organizations.

**Exhibit 10: Ways in which organizations received revenue by race of leadership (%)**

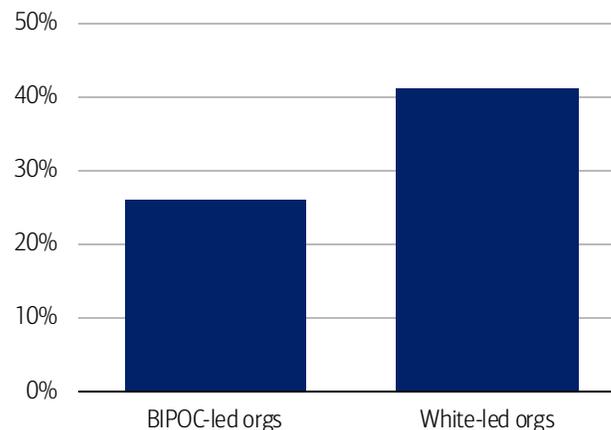
Inequities persist between white-led and BIPOC-led organizations.



Source: Nonprofit Finance Fund

**Exhibit 11: BIPOC-led and white-led organizations which received half or more of their funding as unrestricted funds in 2021 (%)**

Only one quarter of BIPOC-led organizations received half or more of their funding as unrestricted funds in 2021.



Source: Nonprofit Finance Funds

## What can corporate funders do?

Over the past two years nonprofits have maintained their place at the heart of their communities. In turn, funders have responded by increasing funding and recognizing the need for more flexibility. However, the nonprofit sector still faces many of the same challenges – both financially and with its staff. Almost 3 in 4 nonprofits are concerned about long-term financial stability. On top of this, inequitable funding persists – BIPOC-led respondents were less likely to receive revenue from varied sources, with the greatest disparities in federal funding (excluding the Paycheck Protection Program (PPP)), corporate donations, sales and investment income. NFF suggests that funders keep the following best practices in mind to set nonprofits up for long-term success.

### 1. Practice trust-based philanthropy

Nonprofits are looking for multi-year, unrestricted funds – partnerships, not oversight. By practicing trust-based philanthropy, both in actions taken today and in longer-term, structural changes to funding moving forward, funders can enable nonprofits to create a more resilient and equitable sector that can best deliver for the communities they serve. NFF suggests stopping invite-only grants because they create a power imbalance, and keeping RFPs (Request for Proposals) short, concise and transparent. By opening the lines of communication, funders and nonprofits will both experience a more streamlined process in which questions and feedback can be addressed.

### 2. Don't let the foot off the gas

Continue the bold ways of funding that the COVID-19 pandemic instigated and accelerated. Find and start with the actions that are relatively lower lifts and plan for bigger shifts down the line. Giving flexible funding – unrestricted funds that may include operational support (technology, training, infrastructure etc.) – at levels that enable nonprofits to find and retain staff and being upfront with nonprofits about the potential for multi-year funding are all great places to start.

### 3. Change inequitable funding practices

Be aware of disparities in the nonprofit funding system, particularly as regards support for BIPOC-led organizations, and take action to change it. Seek out and fund organizations that are led by people with relevant, direct experience with the communities they serve, paying particular attention to BIPOC-led, community-centered organizations that may have been excluded from traditional funding pathways. Stop practices that can exclude smaller and newer organizations – make funding applications easier and remove the need for costly requirements (e.g., audited tax returns). By honoring the valuable contributions of BIPOC-led organizations and supporting them with funding or even advice or connections, the resources they need to support communities' aspirations will follow.

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## **Sources**

### **Nonprofit Finance Fund, 2022 State of the Nonprofit Sector report**

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## **ABOUT THE 2022 SURVEY**

The State of the Nonprofit Sector Survey – NFF’s ninth (2008-2014, 2017) surveyed 1,168 respondents from 47 states and the District of Columbia. Respondents included leaders from a diverse array of service areas, with human services (including housing, youth services, and other) representing the highest percentage (39%), followed by arts & culture (12%) and community/economic development (11%). Organizations of all sizes participated and 69% primarily or exclusively serve people with lower incomes. Additionally, 33% of responding organizations are BIPOC-led, which, for the purposes of this survey, were define as having an Executive Director or CEO who is Black, Indigenous, or other person of color.

The 2022 survey was conducted in partnership with EVITARUS and Ambit 360.

Prior to fielding the 2022 survey, NFF reached out specifically to nonprofit leaders of color to get input on the issues they wanted to see addressed. Incorporating their feedback, NFF asked US nonprofit leaders a series of questions online between January 19 and March 4, 2022, to capture a “before and since COVID-19” financial snapshot of nonprofits; measure racial equity in nonprofit finance by comparing the experiences of organizations led by people of color to the experiences of white-led organizations.

Since 2010, the Bank of America Charitable Foundation has supported the State of the Nonprofit Sector Survey.

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