



**WHERE THE MONEY IS:
TAPPING OVERLOOKED SOURCES OF SUPPORT FOR NONPROFITS**
by Lee Draper
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Most people assume that foundations provide the majority of money contributed to nonprofit organizations each year. However, individuals give over 83% of the dollars received by nonprofits. In addition, individual donations are by far the most flexible and renewable source of support, and they hold the greatest potential for significant growth in the next decade.

This article explores key patterns of individual giving, including differences in giving by age and income level, and how people's behavior changes in times of financial crisis, war, and other upheavals. It outlines the steps in creating a successful individual fundraising program and offers suggestions to grantmakers who want to leverage their funding by strengthening nonprofits' ability to raise more funding from individuals.

By increasing individual giving, we can stimulate the expansion of overall resources to address growing societal needs and challenges.

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WHERE THE MONEY IS:

# Tapping Overlooked Sources of Support for Nonprofits

Increasingly, the nonprofit sector is taking up the slack for governmental cutbacks and serving as the safety net and core provider addressing central community needs. To make matters even more challenging, nonprofits are being asked to do more with fewer resources. Where will the funding come from to enable nonprofits to serve more people? How can nonprofits find the capital to reorganize for greater efficiency and economies of scale or to invest in new ways to address growing social needs?

This article explores individual giving as a support sector that has enormous potential to increase rapidly. Grantmakers can stimulate increased funding from individuals and build nonprofit organizations' capacity to continue to raise such funds for years to come. In this way, we can use foundation and corporate grants to attract significant new financial resources for nonprofits.

## **The Limits of Traditional Funding**

Traditionally, the nonprofit sector has received support from three distinct revenue streams:

- 50 percent from earned income, such as fees for service, admissions, enrollments or sales
- 30 percent from government, from local municipalities to federal agencies
- 20 percent from contributed income, including foundations, corporate giving and individuals (*The New Nonprofit Almanac & Desk Reference, 2002*, [www.independentsector.org](http://www.independentsector.org)).

However, there is enormous variation from nonprofit to nonprofit. Many organizations depend on a single sector of support. For example, many community clinics and human service agencies receive more than 90 percent of their funding from government grants and contracts. Other nonprofits obtain most of their operating income from foundations. Organizations with primarily single-sector support are especially vulnerable to changes in funding availability, policies or priorities.

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| Household income<br>(figures are for 2000) | Percentage of households<br>reporting donations of<br>\$25 or more | Average gift total<br>(for households that give) |
|--------------------------------------------|--------------------------------------------------------------------|--------------------------------------------------|
| \$0 to \$40,000                            | 46.2 percent                                                       | \$1,164                                          |
| \$40,000 to \$100,000                      | 74.6 percent                                                       | \$1,799                                          |
| More than \$100,000                        | 90.8 percent                                                       | \$3,630                                          |

Source: *Giving USA Update on Giving and Wealth, 2004*, www.aafc.org/gusa

| Age Group   | Percentage who give | Average annual contributions |
|-------------|---------------------|------------------------------|
| 18-24 years | 58.4 percent        | \$233                        |
| 25-34 years | 67.4                | \$629                        |
| 35-44 years | 77.1                | \$1,135                      |
| 45-54 years | 77.2                | \$1,243                      |
| 55-64 years | 79.0                | \$1,228                      |
| 65-74       | 76.3                | \$891                        |
| over 75     | 70.3                | \$710                        |

Source: *Giving USA 2002*

**Government.** The scope and character of government support is changing profoundly. In addition to reduced federal spending in some arenas, many state and local governments are facing unparalleled deficits and are slashing budgets in response. The government's role as the provider of safety net services and core community benefits has diminished during the last few decades. Government funding priorities have shifted away from social spending, yet community needs for healthcare, education, job training and social welfare have increased.

As government's role has shrunk, the nonprofit sector has been asked to fulfill increased demand for public services. Yet, nonprofits have less access to governmental support for these functions. Funding programs have been reshaped by new priorities, altered values and philosophies, changing constituencies and increased requirements (especially documentation and evaluation). A nonprofit's eligibility for support can shift within one year—often without warning—jeopardizing its core support for vital programs.

**Corporations.** Corporate giving has also been hard hit by economic conditions. Whereas corporate giving had remained constant for 40 years, it fell 2 percent during 2003 (*Giving USA 2004*, www.aafc.org/gusa). There is little indication of a recovery or expansion in this sector. In addition, many corporations are closely aligning their contributions with marketing and business goals, which has led to changes in funding priorities, allocation budgets and application guidelines and procedures.

**Foundations.** Once touted as offering stability and insulation from changing economic conditions, many foundations have suffered from several years of significant reductions in their assets. Total dollars awarded by the nearly 65,000 U.S. foundations decreased 2.5 percent in 2003. In addition, foundation assets have dropped an average of 10 percent since 2000 (*Foundation Growth and Giving Estimates, 2004*, www.fdncenter.org). However, recent asset growth among U.S. foundations has been encouraging, and estimates suggest that foundation assets will increase by 9 to 11 percent during 2004 (*Foundation Growth and Giving Estimates, 2004*).

The growth of new foundations has also slowed dramatically. After record increases in the number of grantmaking foundations in 2000 and 2001, the number of active foundations increased by only 4.9 percent during 2002. Much of this gain actually can be attributed to existing foundations that began paying out in 2002 (*Foundation Growth and Giving Estimates, 2004*).

**Increased competition for finite funding.** To make matters worse,

competition for limited government, corporate and foundation support is intensifying. Many nonprofits are attempting to diversify or expand their revenue streams and are tapping into new types of fundraising. The overall number of 501(c)(3) organizations recognized by the IRS has grown by 5.3 percent each year since 1993 and increased by 6 percent between 2002 and 2003, to a total of 964,418 nonprofits in the United States (*Giving USA 2004*). According to Charity Navigator (www.charitynavigator.org), new charities are being created at a rate of 50,000 per year.

## The Untapped Sector

Individual giving represents a vast resource for nonprofit organizations. In 2003, individuals accounted for more than 83 percent of the \$240.7 billion contributed to the nonprofit sector. Whereas 5.6 percent of donations originated from corporations and 10.9 percent from foundations in 2003, 74.5 percent of all contributed income came directly from individuals and an additional 9 percent came from bequests (*Giving USA 2004*).

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More than 70 percent of all U.S. households contribute to charities each year (*Giving USA Update on Giving and Wealth, 2004*). For all American households, 2.4 percent of annual income is donated to charity. Charitable giving spans all income levels, age groups, backgrounds and ethnicities.

Individuals give in many ways: annual appeals; major gifts (given usually as a result of personalized, face-to-face solicitation); special events; capital campaign pledges; direct mail and telemarketing; web-based giving and workplace drives. The one thing these contributions have in common is this: The individual responded when asked to give. Contributions from individuals tend to be unrestricted and therefore can be applied to core programs and operations. They also tend to be renewable, because most individuals like to give to the same organizations year after year. Such gifts often increase annually, tied to individuals' rising incomes and growing loyalty and involvement with the organizations they support.

## **Americans' Abiding Generosity**

The United States is facing many challenges, including economic insecurity, war and record unemployment in some parts of the country. How do those challenges affect individual giving? Should nonprofits continue to seek contributions from individuals if many individuals are not able to give? Recent research reveals powerful testimony about Americans' abiding generosity even in the most difficult of times.

*Consistent levels of giving.* During the past 40 years, individual giving has

increased every year except 1987 (which researchers believe was an anomaly because the financial panic happened so late in the year that charitable giving did not have sufficient time to rebound). The average annual increase over this 40-year period is 7.6 percent. During economic recessions, the average increase has been 5 percent. In late 2001, at the request of the AAFRC Trust for Philanthropy, the Center on Philanthropy at Indiana University studied the effects of 18 historical events on individual giving, including war, economic turmoil and natural disasters—Pearl Harbor (1941), the Cuban Missile Crisis (1962), the resignation of President Nixon (1974), Hurricane Hugo and the San Francisco earthquake (both in 1989) and the Oklahoma City bombing (1995).

The findings are compelling. Even during periods of enormous upheaval and insecurity, individual giving stays strong and rebounds more quickly than other sources of support. The researchers found:

- Individual giving fluctuates greatly (up or down) in the immediate months following a traumatic episode, as the public comes to terms with the event and its ramifications

- The rate of giving within 12 months after an event was higher or the same in almost three-fourths of the cases (70.5 percent, or 12 of the 17 years examined)

- By the second year after the crisis year (i.e., the immediate 12-month period after the crisis), giving had increased at a higher rate than during the year of the event in more than half of the cases (9 years examined) and at the same rate

of growth in four more cases.

This impressive pattern of generosity demonstrates Americans' ability to respond to crisis and community need and to rebound in their generosity regardless of the impact of the crisis on their own circumstances.

*Predictions of extraordinary growth potential.* A number of key studies offer compelling evidence of the potential of individual giving to grow exponentially in the future. John Havens and Paul Schervish at Boston College have estimated that \$41 trillion (and as much as \$136 trillion) will be transferred as estates when the World War II generation passes its assets to the Baby Boom generation (Schervish and Havens, "Recent Trends and Projections in Wealth and Philanthropy," 2000, [www.charityamerica.com/pi.cfm](http://www.charityamerica.com/pi.cfm)). The researchers estimate that bequests to nonprofit organizations during the 20-year period from 1998 to 2017 will total between \$1.7 and \$2.7 trillion. Significant growth in annual giving is also projected. The actual totals will depend on factors including the economy, the percentage of the population that gives to nonprofits and the overall growth rate of individual giving.

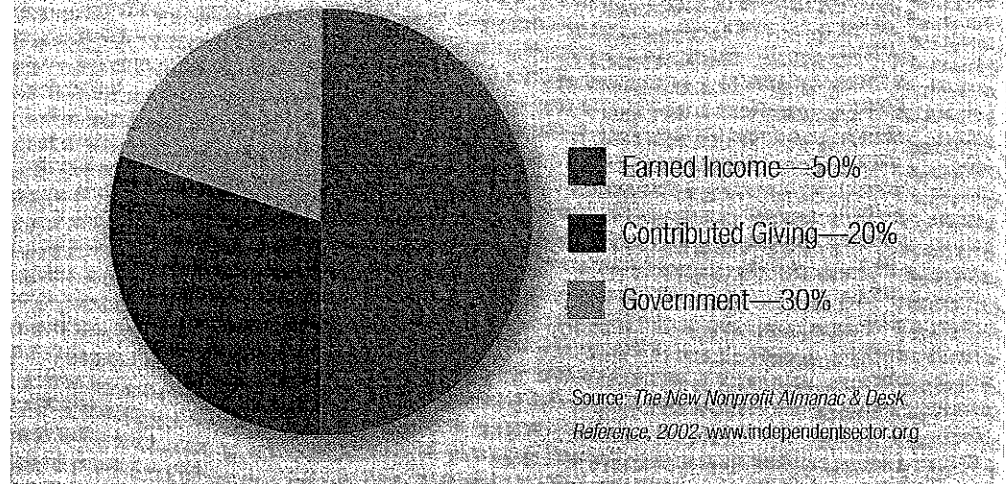
Whether this potential is realized will also depend on how well nonprofit organizations cultivate relationships with individuals today through:

- involving the public
- encouraging individuals to contribute to their programs
- building public trust and confidence in the quality and impact of their work

The public's level of engagement with the nonprofit sector and with

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## Overall Support for Nonprofits



individual organizations will determine whether individuals make significant contributions (directly or in the form of bequests) in the coming years. All of us in the nonprofit sector must nurture contributions from a diverse public and encourage the creation of long-term relationships between nonprofits and the many people who can support their good work. Nonprofits must build their skill and capacity to engage individual donors.

### Encouraging Individual Giving

Many nonprofits have never raised funds from individuals. Others might send out a letter of appeal to their general mailing list from time to time, but have no formal plan. Some might hold an occasional fundraiser or ask their board members to pitch in during a crisis. What is necessary to start systematically raising funds from individuals? How can a foundation help? Let us focus on both questions.

**Realistic expectations.** Raising money from individuals is not a quick fix, nor is it as easy as hiring a development director and seeing a return on this investment within a year. Making such an assumption, whether on the part of the grantmaker or the nonprofit organization, is a recipe for failure. Launching an individual fundraising program involves new ways of thinking, behaviors and systems in many areas of the organization. It is a team effort, involving the board, the executive director, development professionals, program and administrative staff, volunteers and even the recipients of services. Responsibilities and expectations must change at every level:

- Board members must take on new roles and increase their involvement. They will be asked to solicit donations, as well as personally give, to demonstrate their dedication to the cause.

- Executive directors must assume new responsibilities in relation to their boards, volunteers and communities.

- Nonprofit leaders must identify priorities for the future, develop strategic plans and budget projections, and draft materials that convey their vision to the public.

- Organizations must become more community focused and develop methods of regularly introducing people to their work, providing opportunities for becoming involved and acknowledging and nurturing relationships with donors and supporters.

Essentially, we are talking about a culture shift within nonprofits.

#### **Toward a new style of grantmaking.**

Helping nonprofits raise core funding from individuals requires creating an expanded vision of grantmaking that emphasizes building the organization's internal capabilities. As a first step, foundation boards and staff should identify capacity building as a type of support they offer to grantees seeking to reach individual donors. Second, grantmakers should let their constituents know this funding is available. Such outreach will involve more than

revising application guidelines and websites because nonprofits often do not know to ask foundations for help in setting up programs to reach individual donors. Many nonprofits assume that foundations and corporations give the majority of contributed income. They may be unaware of the extent of individual giving in the United States. Grantmakers can raise nonprofit leaders' awareness of and interest in this untapped resource.

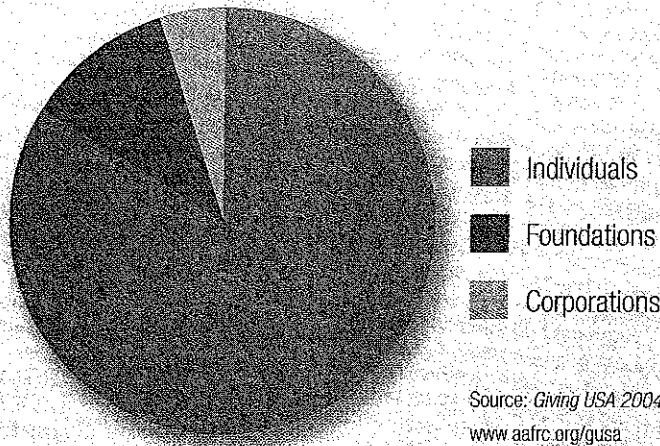
Some nonprofit leaders may realize the potential of individual giving but think that foundations and corporations are primarily interested in providing grants for programs and services. In fact, very few funders provide grants for planning, infrastructure or management, let alone support nonprofits in building the framework for major donor fundraising.

Grantmakers should be very direct in letting nonprofit leaders know that this type of funding is available. For example, a funder might identify a local nonprofit that depends too heavily on a single sector of support. The grantmaker might then initiate a conversation with the agency's executive director and actively encourage him or her to apply for support to expand individual giving, rather than submit a proposal aimed at expanding programming. Such discussions can be pivotal to an organization's



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## Contributed Giving



long-term strength and help ensure that a vital organization remains sustainable.

**Types of grants.** There are many ways that grantmakers can support building nonprofits' capacity to effectively engage in individual fundraising.

■ **Planning**—Developing a compelling vision of what funding from individuals can do for an agency is vital. Strategic planning builds consensus among the board and staff and clarifies that the effort is an institutional priority, not just the responsibility of the executive director and the development staff. The strategic plan provides the roadmap for the future and the backbone for the change process. This plan can galvanize those involved and increase their resolve so that they can weather the hard work of organizational transformation and not be diverted by challenges or tangents.

■ **Board Development**—Many boards begin this process with expectations about their role and their contributions that don't match what they will need to do to successfully raise money from individuals. They previously may have played an advisory or oversight role or been hands-on volunteers. Now, they will need to provide personal financial contributions, as well as introduce friends, family and work associates to the nonprofit.

Board transformation is not an easy or quick process. Current board

members may need to move to new positions in the organization (e.g., onto committees or onto honorary or advisory boards), and new board members with different skills and experiences may join the organization. This transition often requires an outside facilitator, a series of working sessions or retreats, board training and other input. All of these can be supported by grants.

■ **Tools of the Trade**—Individual fundraising requires new materials, systems and resources. Promotional materials (e.g., brochures, campaign prospectuses, contribution envelopes, donor packets and newsletters) involve writing, design and production costs. Donor tracking software is essential and can be expensive. Memberships in professional fundraising associations, conferences and workshops, and coaching or mentoring can help staff and volunteers learn about new fundraising techniques and build their skills and support systems.

■ **Professional Counsel**—Many organizations in transition have benefited from outside guidance on how to reorganize. Some have found such expertise pivotal to helping boards and staff transform their vision, roles, behavior and systems. They may also need help organizing themselves, identifying donors and most important, building skills in asking for contributions.

■ **Staffing**—Nonprofits often need

to hire a development professional to implement the fundraising effort. Increased administrative support for the executive director might allow him or her to allocate more time to fundraising and relationship building. In other cases, a development office can add a part-time grantwriter to continue traditional fundraising while the development director focuses on individual fundraising and supports the board in its solicitation efforts.

■ **Challenge Grants**—Grants that require nonprofits to match every dollar granted with a dollar from individual donors can be an extraordinary motivational force in fundraising. Challenge grants create energy and excitement and stimulate potential donors to give higher amounts because they know that their gifts will immediately double in value. (As a caveat, challenge grants are best awarded after fundraising planning and board development have occurred. Without enough people managing the program, such grants can be daunting.)

■ **In-Kind Support**—Grantmakers can support nonprofits by providing in-kind contributions of services, supplies, facilities and networks. For example, grantmaking staff can join boards or committees and become actively involved in friend-raising and fundraising, using their contacts. A corporate grantmaker can print promotional materials in-house or offer marketing expertise. Grantmakers can offer their facilities for planning retreats or donor cultivation events. And grantmakers often know seasoned consultants to refer as professional counsel.

Another important consideration is

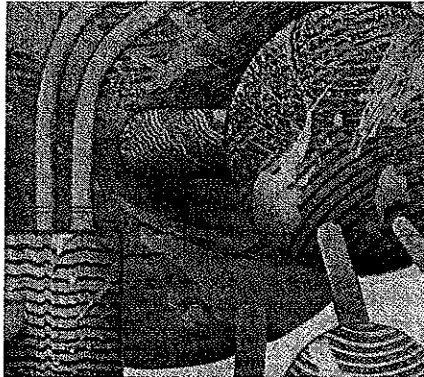
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the appropriate length of a grantmaker's involvement in this type of grantmaking. Reorganizing usually involves a number of phases. A nonprofit may need several years to develop new methods of fundraising and achieve its goals. It can be enormously beneficial if the grantmaker is receptive to multiyear grants or follow-up grants (i.e., a second or even third grant aimed at the same goal of expanding individual giving). For example, a nonprofit might receive a grant to begin strategic planning and board expansion and then return to the foundation for another grant to hire a development director to help the board implement its fundraising plan.

## Profound, Long-Term Impact

Grantmakers that support nonprofits' ability to raise money from individuals achieve significant value in four major ways. First, they help nonprofit organizations increase their revenue bases. They can stimulate exponential expansion of the resources that nonprofits mobilize to pursue their mission. Because it takes money to raise money, grantmaker support provides the seed funding for nonprofits to develop the programs and to train staff needed to reach out to individual donors. The investment will be recaptured many times over, but without that infusion, the effort would not get off the ground.

Second, small grants that stimulate growth in individual giving help diversify nonprofits' support base and thus reduce their dependency on any one sector and their vulnerability to changes in funders' interests. This greatly contributes to the long-term stability and



## 7 Ways that Grantmakers Can Stimulate Increased Individual Giving

Types of support that grantmakers can offer to help nonprofit organizations reorganize to successfully raise money from individuals:

- planning grants
- board development grants
- grants for new tools of the trade
- grants for professional counsel
- staffing grants
- challenge grants
- in-kind support

sustainability of nonprofit organizations.

Third, individual fundraising offers a tremendous opportunity to educate and mobilize the public. Each time a staff member or volunteer asks an individual for a donation, he or she must describe pressing societal issues and raise aware-

ness of unmet community needs. Even if the fundraising activity does not result in an immediate donation, it brings attention to the needs of the population served by the nonprofit and builds momentum for social change and public policy reform. Also, it deepens the relationships between the nonprofit and the community.

Fourth, stimulating the growth of nonprofits' fundraising from individuals expands and sustains American habits of giving. Potential donors are asked to invest in solutions and express their values through their contributions. They are encouraged to establish vital, multi-faceted and long-term relationships with nonprofits and their constituencies, which is empowering for the donor and adds meaning and joy to his or her life.

Relatively small grants that support nonprofits' efforts to build programs to raise money from individuals profoundly influence the nonprofit sector's ability to address important societal needs and meet increasing demands. They enable grantmakers to play a pivotal role in expanding American philanthropy for many years to come. They are one of the most profoundly important methods of making the most of finite foundation and corporate dollars to create enormous, lasting value and impact. **FN&C**

*Lee Draper, president of Draper Consulting Group ([www.drapergroup.com](http://www.drapergroup.com)), has more than 20 years of experience in working with all types of grantmakers on issues of effective grantmaking, board governance, strategic planning, staff training and producing long-term impact.*

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## Resources for Raising Funds from Individuals

■ Join a local chapter of the Association of Fundraising Professionals, the national professional membership association of individuals in the fundraising profession. AFP offers monthly gatherings, training programs, annual conferences, publications and a network of colleagues.

[www.afpnet.org](http://www.afpnet.org)

■ Subscribe to *Grassroots Fundraising Journal*, which provides practical methods, inspiration and resources to community-based nonprofit organizations wanting to raise money from individuals.

[www.grassrootsfundraising.org](http://www.grassrootsfundraising.org)

■ Purchase *Giving USA* and its Updates each year to keep up to date with the latest statistics and trends in individual giving (as well as contributions from foundations and corporations).

[www.aafrc.org](http://www.aafrc.org)

■ Learn more at The Fund-Raising School at The Center on Philanthropy at the University of Indiana, where 83 percent of alumni reported an increase in funds raised after taking courses.

[www.philanthropy.iupui.edu](http://www.philanthropy.iupui.edu)

## Recommended Reading

■ *The Board Member's Guide to Fund Raising: What Every Trustee Needs to Know About Raising Money*. Howe, Fisher, Jossey Bass Publishers, 1991.

[www.josseybass.com](http://www.josseybass.com)

■ *Fundraising for Social Change*, 4th Edition. Klein, Kim. Chardon Press, 2001.

[www.chardonpress.com](http://www.chardonpress.com)

■ *High Impact Philanthropy: How Donors, Boards and Nonprofit Organizations Can Transform Communities*. Grace, Kay Sprinkel and Alan L. Wendroff. John Wiley & Sons, 2001.

[www.wiley.com](http://www.wiley.com)

■ *How To Ask For Money Without Fainting: A Guide to Help Nonprofit Staff and Volunteers Raise More Money!*. Scribner, Susan M. Scribner & Associates, 1990.

[www.susanscribner.com](http://www.susanscribner.com)