

SOCIAL ENTREPRENEURSHIP: FUNDING AND SOURCES

John R. Whitman, PhD
Southern Development Center
Huntsville, Alabama
26 June 2015
johnrwhitman@mac.com

SDC

johnrwhitman@mac.com

2

What you will learn:

1. How nonprofits are undervalued
2. The challenge of working in a difficult environment
3. How to grow your nonprofit to achieve sustainability
4. Choices of funding models
5. Sources of funding

SDC

Overview

1. Starting Point: Development Logic Model
2. Three Key Models
 - Supply and Demand Models
 - Organizational Models
 - Funding Models
3. Funding Sources
 - United Way
 - Government Agencies
 - Foundation Types
 - Loan Funds
4. Model of Social Change
5. Mobilizing Strategies
6. Collective Impact
7. Needshare

SDC

Preliminary Observations: Nonprofits

- Nonprofits are way **undervalued**, compared to for-profits
- The nonprofit sector employs 10.7 million people, 10.1% of total private employment, the **third largest workforce** behind only retail trade and manufacturing.
- Most nonprofit jobs are in **health care** (57%), next in **education** (15%), and **social assistance** (13%)
- From 2000-2010 **nonprofit employment rose 2.1%**, while for-profit employment fell -0.6%, even during recession
- Alabama's nonprofit workforce is 5.2% of private employment, **second lowest in the nation** (NV)
- Nonprofits are **getting squeezed** by for-profits, which have easier access to growth capital

SDC

Preliminary Observations: Market Size

- 2013 data:
- United States GDP: \$16,770,000,000,000 (trillion)
- Federal Budget: \$3,800,000,000,000 (trillion)
 - Discretionary: \$1.1 (trillion) in 2015
 - Defense: \$500 billion
 - **Social: \$155 billion**
 - Mandatory: \$2.45 (trillion) in 2015
 - Debt: \$2.29 (trillion) in 2015
 - Tax breaks: \$1.22 (trillion) in 2015, > discretionary
- Individual Giving: \$241,320,000,000 (billion)
- Foundation Grants: **\$50,280,000,000** (billion – 1.32% of Fed Budget)

SDC

Largest Nonprofit Organizations

- Ten Largest NPOs (2014, in billions):
 1. The Y (\$6.61)
 2. Goodwill Industries (\$5.18)
 3. Catholic Charities (\$4.34)
 4. United Way (\$4.27)
 5. Salvation Army (\$3.8)
 6. American Red Cross (\$3.41)
 7. Easter Seals (\$1.93)
 8. Feeding America (\$1.89)
 9. Boys & Girls Clubs (\$1.69)
 10. Habitat for Humanity (\$1.66)
- Which one receives zero Federal money?

SDC

Preliminary Observations: Environment

- Alabama is **hostile** to needs of the poor: anti-government, anti-tax, anti-immigration, anti-union, anti-minimum wage, anti-gay; legacy of racism
- One of 22 states not expanding Medicaid (139,000 people in AL without coverage)
- Alabama is church-rich (12,833), third most religious state; and nonprofit-poor (6,489), second lowest nonprofit workforce
- Lowest per capital recipient of foundation grants, one-quarter of the amount received by Rhode Island
- The pain shows: Alabama has the 4th highest daily drug/med use (24.2%)
- Unmet needs: poverty; hunger; malnutrition; obesity; diabetes; housing; unemployment/underemployment; disconnected youth; upward mobility
- Preference for market solutions: Committee of 100; Alabama Launchpad \$250,000 for business startups

SDC

Preliminary Observations: How do nonprofits get big?

- They do not diversify their funding sources
- They concentrate on the largest funding source that fits their mission
- They get professional

SDC

Preliminary Observations: NPO Imperatives

- You must develop a deep bench of expertise and credibility in your field (publish, speak at conferences)
- You must cultivate a relationship with your funder(s)
- You must secure an overhead rate to sustain the org:
 - New business development (proposal writing)
 - Competitive salaries
 - Excellent benefits
- Use guidestar.org to study other nonprofits and foundations
- Use grants.gov to find federal grant opportunities

SDC

1. Starting Point: Development Logic Model



Extended Logic Model

SDC

2. Three Key Types of Models

- Supply and Demand Models
- Organizational Models
- Funding Models

SDC

Supply and Demand Models

- For-profit competitive market:
 - Customer pays supplier directly
 - Equilibrium emerges between supply and demand
- Nonprofit subsidized market:
 - Client receives service
 - Client may pay for service (in whole or part) or not
 - Payment may be made by government or foundation to client or service provider
 - Supply, demand, and prices usually determined by policy, not the market
 - Policy often determined by ideology and power preference, not evidence and actual need

SDC

Organizational Models

- Sole proprietorship
- Partnership
- For-profit corporation (C corp; LLC; Subchapter S)
- Nonprofit organization:
 - **501(c)(3) public charity, private foundation**
 - 501(c)(4) civic leagues, social welfare organizations
 - 501(c)(6) business leagues, chambers of commerce
- Cooperative
- Benefit corporation
- Low-profit, limited liability company (L3C)

SDC

Funding Models

- 10 funding models based on 144 nonprofits \$50 million or more:
 1. Heartfelt connector (Save the Children)
 2. Beneficiary builder (Cleveland Clinic)
 3. Member motivator (National Public Radio)
 4. Big bettor (Accelerated Cure)
 5. Public provider (Education Development Center)
 6. Policy innovator (Communities in Schools)
 7. Beneficiary broker (Peckham Vocational Industries)
 8. Resource recycler (Food Bank of North Alabama)
 9. Market maker (The Trust for Public Land)
 10. Local nationalizer (Teach for America)
- Other models are possible
- See <http://www.policyinnovationlab.org/>

SDC

3. Funding Sources

- Membership Subscriptions
- Fundraising Events and Drives
- Municipal Government
- Fee for Service
- Social Impact Bonds (<http://payforsuccess.org/>)
- Social Impact Funds (<http://avivarcapital.com/>)
- United Way
- Federal Government Agencies (<http://www.grants.gov>)
- Foundations: Private, Community
- Loan Funds
- CDFI (<http://www.cdfifund.gov/>)

SDC

United Way

- Formerly a clubby, charity “old boys network”
- Transitioned in 2000s to social change impact
- Focuses on: Education, Income, Health
- Requires a Logic Model
- United Way of Madison County
<http://www.madisoncountycares.org/>

SDC

Government Agencies

- Federal Budget: \$3,800,000,000,000 (trillion)
 - Discretionary: \$1.1 (trillion) in 2015
 - Defense: \$500 billion
 - **Social: \$155 billion**
 - Mandatory: \$2.45 (trillion) in 2015
 - Debt: \$2.29 (billion) in 2015
 - Tax breaks: \$1.22 (trillion) in 2015, > discretionary
- Federal entitlements (mandatory: e.g., Social Security, SNAP), \$2.47 trillion, 65%
- Federal spending (discretionary), \$1.1 trillion, 29%
- Find the mid-level Civil Servant responsible for funding your area and develop a relationship

SDC

Key Agencies

- Department of Commerce
- Department of Health and Human Services
- Department of Housing and Urban Development
- Department of Labor
- Department of Agriculture
- National Institutes of Health
- Centers for Disease Control
- General Services Administration
- Small Business Administration
- Treasury Department
- Funding opportunities: <http://www.grants.gov>

SDC

Foundation Types

- Private foundation, has a principal fund or endowment (Form 990-PF):
 - Family foundations
 - Corporate foundations
 - Operating foundations
- Public foundation, must raise funds from diverse sources (Form 990):
 - Community foundations (<http://communityfoundationhsv.org/>)
 - Other foundations
- Note: Corporations and individuals can give directly (no need for a foundation)

SDC

The Foundation Center

- Comprehensive database on private foundations
- Essential fee: \$399 per year
- Professional fee: \$1,499 per year
- Library member: \$1,995 per year
- Nearest libraries: Birmingham and Chattanooga (Huntsville cancelled their subscription due to nonuse)
- <http://foundationcenter.org/>

SDC

Loan Funds

- Banks: typically require collateral and personal guaranty
- Credit Unions: community concern
- CDFI: Treasury-backed, support community development
- Loan Funds, including revolving loan funds
 - Neighborhood Concepts, Inc.
<http://www.neighborhoodconcepts.org/>
 - North Alabama Council of Governments <http://www.narcog.org/>

SDC

4. Model of Social Change

TRANSFORMATIVE Systemic	3. Normative <i>Large-scale normative change in informal, behavioral rules (e.g., social values, norms), i.e., through Education</i>		4. Codified <i>Large-scale change mandated by formal, written rules (e.g., laws, regulations), i.e., through Policy</i>
TYPE OF CHANGE		Mobilizing strategies (Grassroots, Movement, Advocacy, Capacity Building, Funding, Innovation)	
TRANSACTIONAL Incremental	1. Compensatory <i>Incremental social change to restore or improve the status quo for a few for a short time, i.e., through Charity</i>		2. Exchange <i>Transactions of economic value usually within stable, ongoing arrangements, i.e., through the Market</i>
	SOCIAL CULTURAL	DOMAIN OF CHANGE	POLITICAL ECONOMY

SDC

5. Mobilizing Strategies for Social Change

1. Funding
2. Grassroots
3. Movements
4. Advocacy
5. Capacity-building
6. Innovation

SDC

6. Collective Impact

- Orthodox approach: A philanthropic foundation funds a single nonprofit to undertake a program to solve a problem
- Collective Impact: One or more foundations fund a collective effort among selected nonprofits that (Kania & Kramer 2011):
 1. Share a common agenda;
 2. Share a method to monitor and measure progress;
 3. Undertake mutually reinforcing activities;
 4. Engage in continuous communications; and
 5. Coordinate their work through a “backbone organization.”
- What problems are you addressing that you cannot solve alone?
- Who are potential partners?
- What additional capacity is required?

SDC

7. Needshare

- Needshare = Number of people served by the program / Total number of people in need
- Needshare = $7,254 / 53,986$
- Needshare = 13.4%
- If it cost \$2,000,000 to serve 7,254 people, what would it cost to achieve 100% needshare? (Assume a straight line.)
- $(\$2,000,000 / 7,254) * 53,986 = \$14,884,478$
- \$276 per person
- Key question: Is the budget for 100% needshare feasible?

SDC

Questions and Discussion

SDC

References

- Bobo, K., Kendall, J., & Max, S. (2010/1991). *Organizing for social change: Midwest Academy manual for activists*. Santa Ana, CA: The Forum Press, Inc.
- Foster, W., & Fine, G. (2007). How nonprofits get really big. *Stanford Social Innovation Review*(Spring 2007), 46-55.
- Foster, W. L., Kim, P., & Christiansen, B. (2009). Ten nonprofit funding models. *Stanford Social Innovation Review, Spring 2009*, 32-39.
- Mook, L., Whitman, J. R., Quarter, J., & Armstrong, A. (2015). *Understanding the Social Economy of the United States*. Toronto: University of Toronto Press.
- Roeger, K. L., Blackwood, A., & Pettijohn, S. L. (2011). The nonprofit sector in brief: Public charities, giving, and volunteering, 2011 (pp. 7). Washington, DC: Urban Institute.
- Salamon, L. M., Sokolowski, S. W., & Geller, S. L. (2012). Holding the fort: Nonprofit employment during a decade of turmoil *Nonprofit Employment Bulletin No. 39* (pp. 16). Baltimore: Johns Hopkins University Center for Civil Society Studies.
- Temali, M. (2002). *The community economic development handbook: Strategies and tools to revitalize your neighborhood*. St. Paul, MN: Amherst H. Wilder Foundation.
- Whitman, J. R. (2014/2008). *Tools for social entrepreneurship*.