



A joint project of the Center for Civil Society Studies at the Johns Hopkins Institute for Policy Studies in cooperation with the Alliance for Children and Families, the Alliance for Nonprofit Management, the American Association of Homes and Services for the Aging, the American Association of Museums, the National Congress for Community Economic Development, the National Council of Nonprofit Associations, and Theatre Communications Group

COMMUNIQUÉ No. 5

Investment Capital: The New Challenge for American Nonprofits

Lester M. Salamon with the assistance of Stephanie L. Geller
Johns Hopkins University

EXECUTIVE SUMMARY

Once considered fundamentally labor-intensive institutions, nonprofit organizations are increasingly confronting expanded needs for “investment capital” to finance the facilities, technology, and innovations required to remain viable in an increasingly competitive environment. Because of their relatively small scale and their non-profit character, which makes it impossible for them to issue stock, however, nonprofits confront special difficulties in accessing investment capital. Regrettably, though, precious little is known about the special challenges nonprofit organizations face in generating such capital or the degree of success they have had in overcoming them.

To help fill this gap, the Johns Hopkins Nonprofit Listening Post Project took a preliminary “Sounding” of its nationwide sample of nonprofit organizations in five broad fields of nonprofit action (children and family services, community and economic development, elderly housing and services, museums, and theaters) to learn about the capital needs of these organizations and the ease or difficulty they face in meeting these needs.

Based on the results of this Sounding, the following major conclusions emerge:

1. Nonprofits in these core human service, community development, and arts fields have significant investment capital needs.
2. These needs extend well beyond the traditional areas of physical capital to embrace program development, staff upgrading, and strategic planning. This likely reflects the growing competition in many of these fields and the substantial infusion of entrepreneurial spirit into the nonprofit sector in recent years.
3. Despite these needs, nonprofits have encountered significant difficulty accessing the major pools of investment capital in our country, such as insurance companies and pension funds. Many nonprofits have limited knowledge of these capital resources, and those that do have knowledge report substantial difficulty in accessing them.
4. Although other sources, such as commercial banks, government, foundations, and individual donors, are more familiar to nonprofits, some (e.g., government) are quite difficult to access for investment capital purposes and others (e.g., commercial banks, foundations, and individual donors) are limited in their areas of interest.
5. Although some variations exist in the applicability of these findings among the different types of nonprofit organizations surveyed and between organizations affiliated with national intermediary organizations and those not so unaffiliated, what is most striking is how uniform they seem to be, at least among the types of organizations examined here.
6. While it is impossible to say for certain whether these results apply equally to other types of nonprofit organizations, they certainly suggest the need for increased attention to the investment capital needs of nonprofit organizations and possible policy actions to level the playing field for nonprofit access to capital.

The full text of this Communiqué is available for downloading at: www.jhu.edu/listeningpost/news



A joint project of the Center for Civil Society Studies at the Johns Hopkins Institute for Policy Studies in cooperation with the Alliance for Children and Families, the Alliance for Nonprofit Management, the American Association of Homes and Services for the Aging, the American Association of Museums, the National Congress for Community Economic Development, the National Council of Nonprofit Associations, and Theatre Communications Group

COMMUNIQUÉ No. 5

Investment Capital: The New Challenge for American Nonprofits

Lester M. Salamon with the assistance of Stephanie L. Geller
Johns Hopkins University

Background

Recent years have witnessed a growing need for “investment capital” on the part of nonprofit organizations to finance new facilities, respond to growing demand, and invest in new technologies and new program strategies. Regrettably, however, nonprofits do not enjoy a level playing field so far as access to investment capital is concerned. Their nonprofit status makes them unable to access the equity markets since they cannot distribute their profits and hence cannot issue stock. Similarly, their generally small scale reduces their attractiveness to commercial lenders, who incur higher transaction costs making a large number of small loans than a small number of large ones.

While these considerations may have made less difference in an earlier era when expansions in demand were gradual and nonprofits were heavily labor intensive, they have become highly important in the current era of rapid expansions in demand for human services, often fueled by new government programs, and growing penetration of technology into the health and human services field. Indeed, they may help explain a troubling loss of market share by nonprofits in a growing number of fields during the past several decades. Between 1982 and 1997, for example, the nonprofit share of employment in the home health field declined by 53 percent, from 60 percent of all jobs to 28 percent. During the same period, the nonprofit share of rehabilitation hospitals declined by 50 percent, of health maintenance organizations by 60 percent, and of child day care jobs by 27 percent.¹

Regrettably, however, while much has been written about the challenges nonprofits face in generating operating revenue,² precious little attention has been paid to

nonprofit access to investment capital.³ To help fill this gap, the Johns Hopkins Listening Post Project took a preliminary “Sounding” of its nationwide sample of nonprofit organizations in five key fields (children and family services, community and economic development, elderly housing and services, museums, and theaters) to learn about the capital needs of nonprofit organizations and the ease or difficulty they face in meeting these needs. More specifically, the survey, or Sounding, focused on three key aspects of nonprofit experience in generating investment capital: (1) the nonprofit need for investment capital; (2) the degree of success organizations experienced in securing such capital; and (3) the perceived reasons for the generally limited success responding organizations reported.

The present Communiqué reports the results of this Sounding. Against this backdrop, it then suggests some possible steps that could usefully be taken to level the playing field for nonprofit access to investment capital.

Defining Investment Capital

Before turning to the results of this Sounding, it is important to clarify what “investment capital” is and how it differs from other forms of revenue that nonprofit organizations might use. For this purpose, it is useful to differentiate two major forms of revenue: (i) operating revenue and (ii) investment capital. *Operating revenue* is basically the income that organizations need to finance their *annual operations*—e.g., their space charges, utilities, wages, supplies, and other items expected to be consumed and used in a given year. *Investment capital*, by contrast, is the revenue they need to finance items intended to last more than a year.

Investment capital is the revenue needed to finance items intended to last more than a year.

Investment capital itself is a varied phenomenon, however. At its core, it consists of the capital needed to purchase tangible assets such as land, buildings, physical facilities, and equipment with a useful life of a year or more. We can think of these as *hard investment capital needs*. But investment capital is increasingly for other purposes as well—to allow organizations to develop their basic programs and strategies, and to improve the skills and capabilities of their staff. We can refer to these as *soft investment capital needs*. The present report focuses on both of these broad types of investment capital.

Hard investment capital is the revenue used to finance buildings, equipment, and other tangible property expected to last more than a year.

Soft investment capital is the revenue used to develop new programs, prepare strategic plans, and improve staff capabilities.

Caveats

While every attempt has been made to provide a fair and unbiased picture of recent nonprofit experience in generating investment capital, certain key features of the data reported here should be borne in mind in interpreting the results.

First, the data focus on only a portion of the entire universe of nonprofit organizations. In particular, we examine nonprofit experience in only the five fields of nonprofit activity indicated above. While we chose these fields because they provide a broad overview of nonprofit activity spanning core human service, community development, and cultural areas, we make no claim that the findings will apply equally to all fields of nonprofit endeavor.

Second, within these fields, the core of our sample consists of organizations affiliated with national intermediary organizations.⁴ We chose this sampling frame because of the known shortcomings of the other available

sampling frames in this field (chiefly the IRS Exempt Organization Master File and the lists of organizations filing the required annual Form 990 with the Internal Revenue Service)⁵ and because of our desire to secure a higher return rate than has generally been possible in the nonprofit field, which we hoped would be achieved by enlisting the aid of the key intermediary organizations in encouraging responses. What is more, an important objective of our project is to identify promising innovations being pursued by nonprofit organizations, and we expected that organizations affiliated with national intermediary organizations might be more likely to exhibit such innovative responses. If anything, therefore, the results reported here may understate the degree of difficulty that nonprofit organizations in these fields may be experiencing in generating investment capital.

Third, to provide some way to check on any possible distortion that this sampling strategy may have introduced, we supplemented our sample of affiliated organizations with a random sample of unaffiliated organizations in the same basic fields selected from IRS listings of agencies or more complete listings provided by the intermediary organizations where they were available.⁶ Although the affiliated organizations comprise the majority of our sample and therefore dominate the overall responses, we report on the unaffiliated random sample separately throughout this discussion to identify any differences that exist between the two groups.

Finally, as with any survey of busy nonprofit managers, we had to make difficult choices about the level of detail to pursue. While we would have liked to examine particular cases of capital generation in detail, we decided to restrict ourselves in this initial inquiry to a broader overview of experience with different funding sources and different types of capital investments in order to provide a more general introduction to the topic. We see this, therefore, as an exploratory inquiry but by no means the last word on the subject.

Despite these limitations, we believe the results reported here shed important new light on an overlooked range of nonprofit experience that is crucial for the nonprofit sector's future development. For further detail on the sampling approach used here, see www.jhu.edu/listeningpost/news

Nonprofit Investment Capital Needs

Historically, nonprofit organizations have been thought of as labor-intensive, instead of capital-intensive, institutions. This is so because many of them are engaged in service activities, which tend to depend on personal contact.

Increasingly, however, technology is penetrating service fields as well. What is more, demographic changes

and shifts in government policy have been increasing the demand for many of the services that nonprofit organizations have traditionally provided,⁷ creating sometimes rapid expansions in the need for equipment and facilities to meet the demand and hence in the need for capital to finance it. This is what happened, for example, when Medicare made home health care eligible for reimbursement in the early 1980s. From the evidence at hand, for-profit firms were better able to generate the capital needed to respond to this surge, with the result that an industry pioneered by the nonprofit sector became, almost overnight, one dominated by for-profit providers.

To what extent is this phenomenon of growing capital needs evident more broadly in the nonprofit field? To answer this question, we asked our Listening Post organizations whether they had needed funds for any of a series of both hard and soft capital investment purposes over the previous three years.

Extensive Capital Needs

The responses, recorded in *Figure 1*, indicate that nonprofit capital needs are quite extensive. In particular, virtually all (98 percent) of the respondents reported some need for investment capital over the previous three years, and the rate was as high among the unaffiliated sample as it was among the affiliated sample (see *Figure 1*). In fact, over half of the surveyed groups noted that they needed capital for at least five separate purposes during this period.

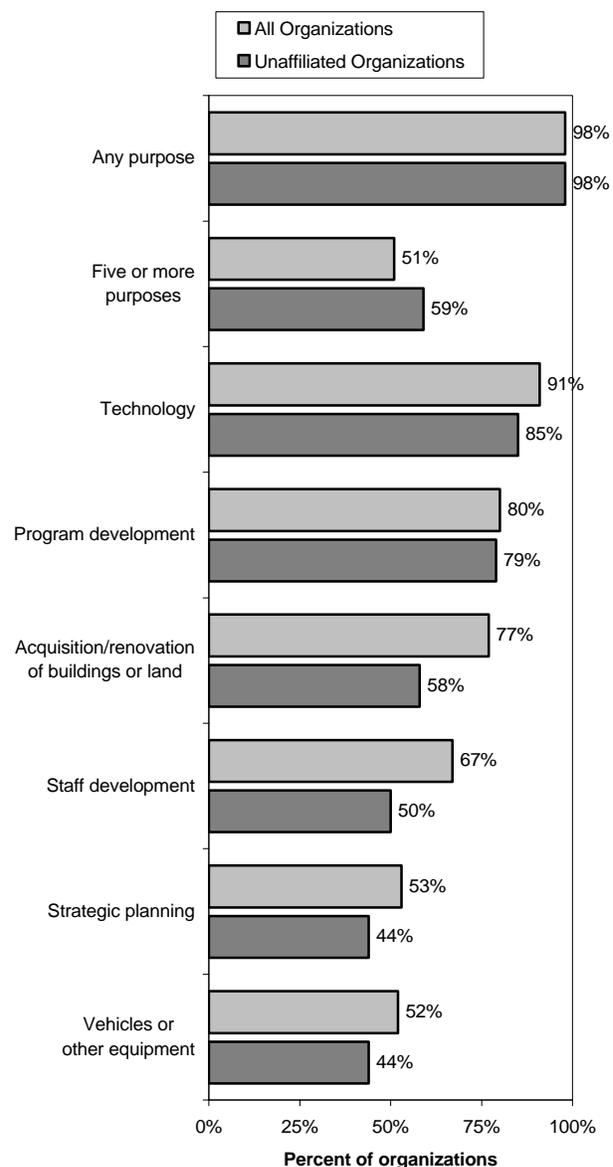
Variations among Types of Purposes

Investment capital was more commonly needed for some purposes than for others. In particular:

- Reflecting the enormous telecommunications revolution of the past decade, technology—including telecommunications, computers, and software—easily led the list of investment capital needs reported by our responding organizations. As shown in *Figure 1*, just over 90 percent of all surveyed organizations reported a need for investment capital for this purpose.
- Interestingly, “program development,” a “soft” form of investment capital, edged out purchase or renovation of buildings or land as the second most common need for investment capital among sampled organizations. This suggests the considerable effort nonprofit organizations are attempting to make to upgrade their program offerings in response to new demands and new opportunities.

- Also interesting was the fact that the two other “soft” forms of investment capital needs also ranked relatively high. Thus, two-thirds of the organizations identified a need for capital to develop staff, and over half identified a need for capital to undertake strategic planning.

Figure 1
Nonprofit Need for Investment Capital,
Past Three Years



n=291
SOURCE: Johns Hopkins Nonprofit Listening Post Project,
Nonprofit Investment Capital Sounding, 2006

Affiliated vs. Unaffiliated Organizations

Although the unaffiliated organizations were as likely as the affiliated organizations to identify a need for investment capital, the composition of this need varied somewhat between the two groups. In particular:

- For both groups, technology and program development ranked first among the capital needs identified, with close to 80 percent or more of the organizations indicating a need for capital for these purposes.
- Far fewer of the unaffiliated organizations identified a need for capital to purchase or renovate land or a building, however. This very likely reflects the fact that they are smaller organizations with fewer options to acquire buildings or land.
- The unaffiliated organizations were also less likely to report a need for capital for staff development. This may reflect the substantial presence of theaters among the unaffiliated group, and theaters generally report less extensive capital needs for staff development. Also at work, however, is very likely the greater tendency of affiliated organizations to engage in capacity building efforts such as staff development.

Variations by Size and Field of Activity

Although the overall picture of capital needs outlined above held fairly consistently across program fields, moreover, some revealing differences were also evident. In particular, as shown in *Appendix Table 2*:

- Except for one notable exception, *technology* headed the list of capital needs for nonprofits in all fields and of all sizes. Even among the small and medium-sized organizations, 84 percent reported a need for capital to finance new technology, and among museums and theaters it reached 95 percent of the responding organizations.
- The one notable exception was community and economic development organizations, which identified *soft capital* in the form of *staff training* as the most common capital need. Nearly 90 percent of the community and economic development organizations cited a need for capital for this purpose, more than the 84 percent that identified technology as a capital need. Community and economic development organizations were also more likely than other types of organiza-

tions to identify other soft capital needs such as strategic planning. Among other types of organizations, the proportion of organizations citing a need for capital for staff training ranged from 56 percent for theaters to 74 percent for children and family services organizations.

- The elderly housing and services and the children and family services organizations tended to identify a need for *hard investment capital* more frequently than other types of groups. Thus, 84 percent of the elderly housing and services organizations and 87 percent of the children and family services organizations reported a need for capital for buildings or land—significantly higher than for other types of organizations. Elderly housing and services groups were also much more likely than other organizations to identify a need for capital for vehicles/equipment (75 percent vs. 52 percent for all organizations).
- Substantial majorities of organizations in all fields identified program development as a capital need. This was particularly marked among museums, 89 percent of which reported a need for capital for program development. This likely reflects the continuing demand for designing special programs to attract museum patrons. But close to 80 percent of organizations in other fields also identified program development as a capital need. This underscores again the entrepreneurial spirit within the nonprofit sector and the significant re-engineering of programs in response to new demands and new competition that nonprofits are attempting to undertake.
- Interestingly, nonprofit elderly housing and services groups reported needing funds for a larger number of purposes than others, with close to half of these organizations (42 percent) needing capital for at least 6 separate purposes. By contrast, just a quarter of all respondents indicated needing capital for at least 6 different purposes.

How Much Success?

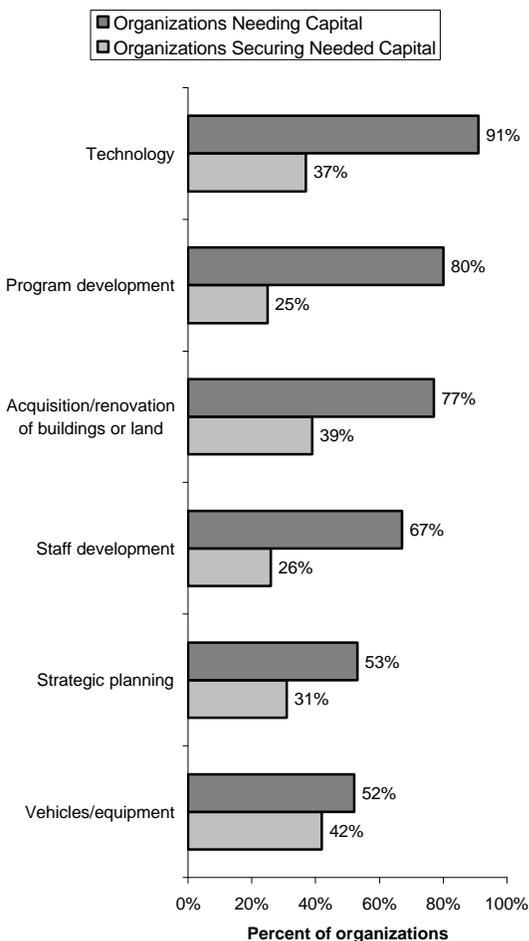
Needing capital is not, of course, the same as receiving it. How successful, then, were the nonprofits we surveyed in securing the capital that they needed?

Overall Limited Success

The answer revealed by our Sounding is: “not very.” Indeed, as shown in *Figure 2*, for the easiest category of

capital needs that responding organizations identified—vehicles and equipment—no more than 42 percent of the organizations reported success in raising the capital they needed. To be sure, another 29 percent reported “partial success,” but it is not possible to determine how partial this was. Interestingly, the unaffiliated organizations actually reported somewhat higher success than the affiliated ones raising capital for this purpose (48 percent vs. 41 percent).

Figure 2
Nonprofit Capital Needs vs. Success Securing Capital, by Purpose, Total Sample



Organizations Securing Needed Capital: n=286
 Organizations Needing Capital: n=291

SOURCE: Johns Hopkins Nonprofit Listening Post Project, Nonprofit Investment Capital Sounding, 2006

Success Varies by Type of Capital Need

The level of success that responding organizations achieved in generating needed capital varied substantially by the purpose for which capital was needed. In no case, however, did more than half of the organizations report success in raising the capital they needed. What is more, the success did not correspond very closely with the pattern of need. To the contrary, the two top ranked needs—technology and program development—ranked third and last in terms of success. Thus, while 91 percent of organizations indicated a need for capital to acquire new technology, only 37 percent reported success in raising such capital. Similarly, while 80 percent indicated a need for capital for “program development,” only 25 percent were able to report success in raising the capital they needed for this purpose.

Generally speaking, success levels were significantly higher for the hard capital needs than the “soft” capital needs related to strategic planning, staff development, and program development. This suggests the important challenge that nonprofit organizations face in trying to innovate and respond to new opportunities and threats.

Affiliated vs. Random Sample

No consistent pattern was found in the relative success of affiliated and unaffiliated organizations in generating the capital they needed. Thus, as already noted, the unaffiliated organizations reported greater success in generating capital for vehicles and equipment but less success in generating capital for strategic planning and staff development. With regard to technology and program development, both affiliated and unaffiliated organizations reported virtually identical, relatively bleak, records of success.

Variations by Field

Some significant variations were apparent in the success rates that organizations in different fields achieved in raising capital. In particular, as *Appendix Table 3* shows in more detail:

- **Elderly housing and services organizations especially successful.** Elderly housing and services organizations were significantly more successful than organizations in all other fields in generating the investment capital they needed, and this was true for all capital needs. Thus:

- 63 percent of these organizations reported success in generating capital for property acquisition or renovation vs. 39 percent of all organizations.
- Similarly, 60 percent of the elderly housing and services organizations reported success in generating capital needed for vehicles and equipment vs. 42 percent of all organizations.
- Even among the “soft” capital needs, the elderly housing and services organizations achieved higher success rates.

One reason for this more successful record may be that elderly housing and services organizations are more likely than the others covered here to own hard assets that can serve as collateral for capital financing. In addition, nursing homes often have access to bond financing that is unavailable to other types of nonprofit organizations.

- **Children and family services organizations especially unsuccessful.** In contrast to the elderly housing and services organizations, the children and family services organizations were especially unsuccessful in filling their investment capital needs. Thus:
 - Only 38 percent of these organizations reported success in filling even their vehicle and equipment investment needs, and only 30 percent their buildings or land investment needs.
 - When it came to the “soft” capital needs—strategic planning, program development, and staff training—these organizations reported even lower levels of success.
- **Community development and culture organizations register mixed success records.** The other types of organizations we examined fell in between these two service-oriented groups of organizations with respect to their success in generating capital, with theaters and museums somewhat closer to the children and family services organizations and community development organizations somewhat closer to the elderly housing and services organizations. The fact that the community development organizations also control important physical structures may play a role in this.

Variations by Size of Organization

Some important variations were also apparent in the levels of success that organizations of different sizes achieved in raising needed capital, though the results here were far from consistent. Thus, as shown in *Appendix Table 3*:

- Large organizations were more successful than small and medium-sized organizations in generating capital for property acquisition and for program development.
- However, small and medium-sized organizations were more successful in raising capital for equipment purchase and technology.
- Elsewhere, both groups of organizations were relatively equally unsuccessful.

Explaining Limited Nonprofit Success in Generating Investment Capital

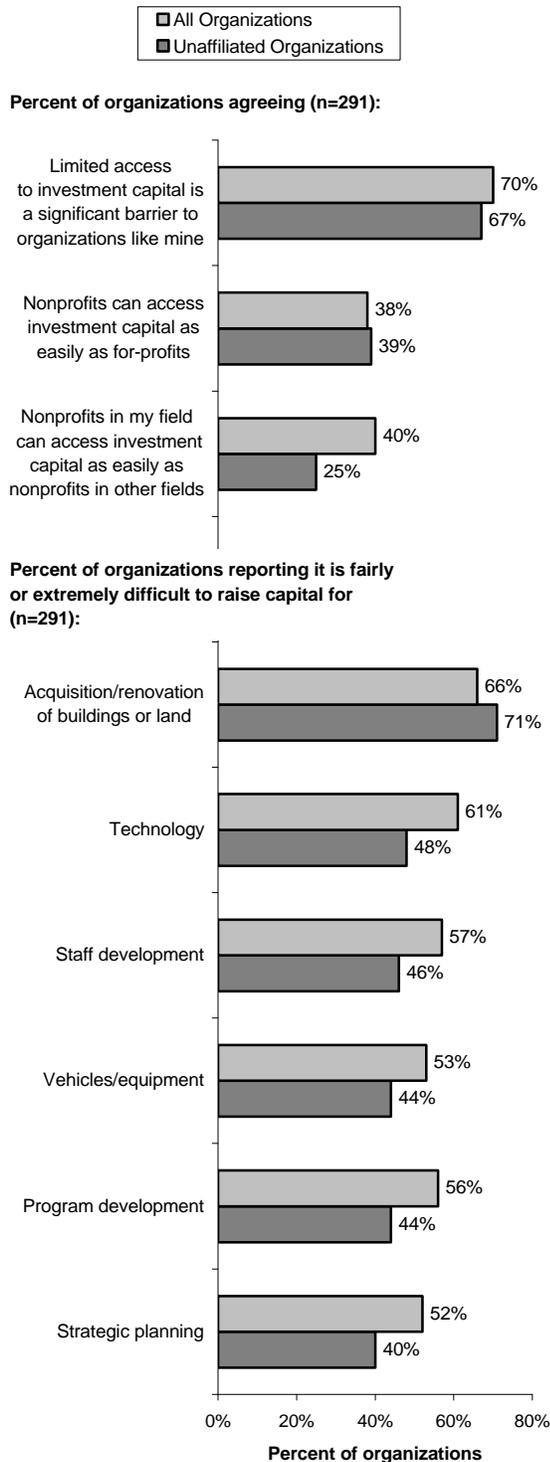
How can we explain this relatively limited success of nonprofit organizations in generating investment capital?

Widespread Obstacles to Investment Capital Access

Based on the results of our Sounding, nonprofit organizations report widespread obstacles to accessing investment capital, and these obstacles do not seem to vary much by the purpose for which capital is sought. In particular, as noted in *Figure 3*:

- An overwhelming majority (70 percent) of responding organizations consider limited access to investment capital to be a “significant barrier” to organizations like theirs.
- Only two out of five of these organizations feel that nonprofits are on a level playing field with for-profits with regard to access to investment capital.
- Similarly, only two out of five organizations feel that their type of organization is on a level playing field with other types of nonprofits in seeking investment capital.
- Concerns about lack of equal access to capital by nonprofits are shared fairly evenly by affiliated and unaffiliated organizations, though the unaffiliated ones

Figure 3
Perceived Nonprofit Difficulty in
Generating Investment Capital,
Overall and by Purpose



SOURCE: Johns Hopkins Nonprofit Listening Post Project, Nonprofit Investment Capital Sounding, 2006

feel more disadvantaged in relation to other nonprofits.

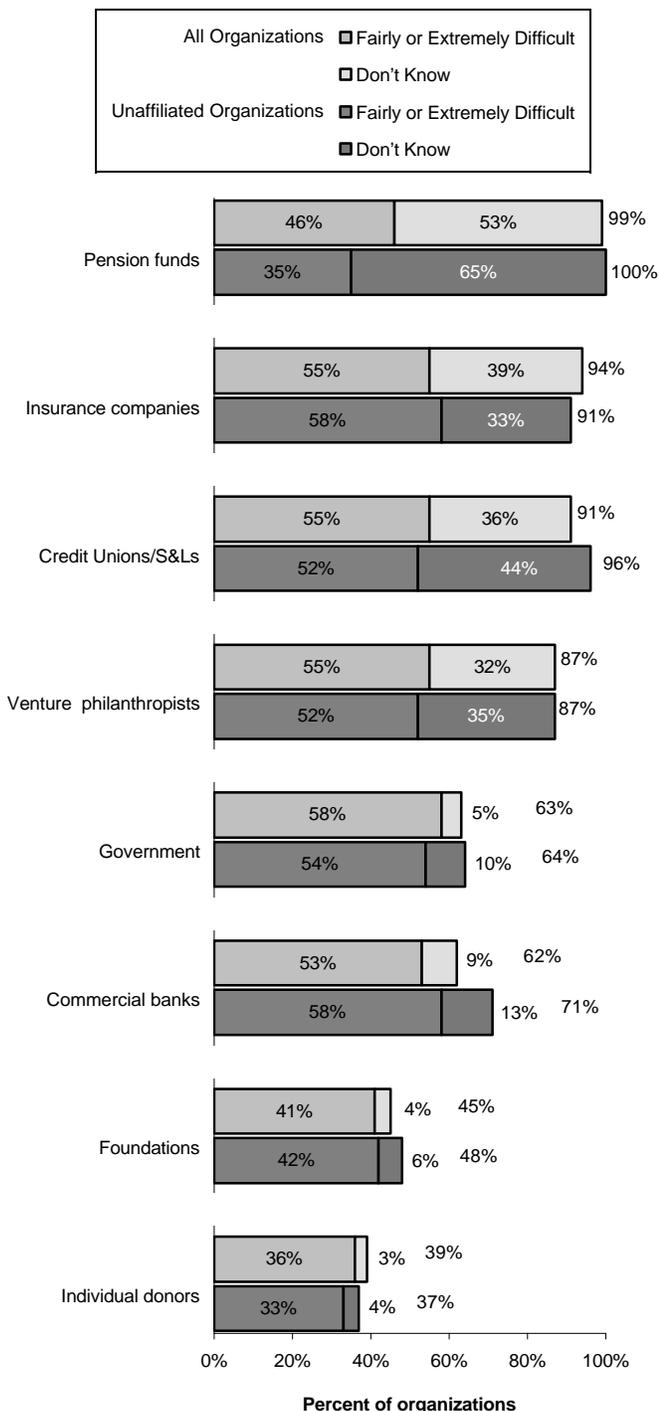
- Reflecting these general opinions, substantial majorities of responding organizations report substantial or extreme difficulty in raising needed capital.
- Somewhat surprisingly, a larger proportion of organizations report extensive difficulty in raising capital for buildings and property (66 percent) than for the soft capital needs such as program development and strategic planning, though the differences are not overwhelming.
- Interestingly, fewer unaffiliated than affiliated organizations reported extensive difficulties in raising investment capital for most investment capital purposes.
- As shown in *Appendix Table 4*, these findings apply fairly consistently among the different types of organizations, except that elderly housing and services organizations are consistently less likely to report substantial difficulties, and museums are less likely to report difficulty in raising capital for program development.

Access to Investment Capital by Source

To understand the basis for these judgments, we asked responding organizations to rate the difficulty they perceived in securing investment capital from a number of likely capital sources. Significantly, substantial numbers of respondents reported a complete lack of knowledge about many of the most significant sources of investment capital, such as pension funds and insurance companies. When combined with the proportions reporting a fair degree or extreme difficulty in generating investment capital from these sources, the result is a fairly narrow window of capital sources perceived to be open to nonprofit organizations. More specifically:

- Overwhelming proportions (94-99 percent) of responding organizations reported either complete lack of knowledge or a fair or extreme degree of difficulty securing investment capital from *pension funds* and *insurance companies*. This is highly significant in view of the fact that these are probably the largest pools of investment capital in the American economy.

Figure 4
Difficulty of Accessing Investment Capital, by Source



n=291
 SOURCE: Johns Hopkins Nonprofit Listening Post Project, Nonprofit Investment Capital Sounding, 2006

- Large proportions of respondents (87-91 percent) reported a similar lack of knowledge or considerable difficulty accessing investment capital from *credit unions* and *venture philanthropists*.
- *Government* and *commercial banks* were better known by responding organizations but were perceived as fairly or extremely difficult sources to access for investment capital by well over half of all respondents.
- Not until we get to *foundations* and *individual donors* does the proportion of responding organizations reporting lack of knowledge or fair or extreme difficulty in accessing capital drop below half.

Types of Capital Needs Funded by Familiar Sources

With most of the largest capital sources essentially “out of bounds” for most nonprofits either because of lack of knowledge or experience suggesting inaccessibility, it becomes important to understand what needs the better-known sources are most willing to finance.

Table 1 reports the results of this analysis, showing the proportions of nonprofits that rate these four sources as “fairly or extremely difficult” to access for various types of investment capital needs. As this table makes clear:

- *Foundations* and *individual donors* are the most accessible sources of investment capital for responding nonprofit organizations. However, neither is

Table 1: Degree of Difficulty Generating Investment Capital from “Familiar Sources,” by Type of Capital Need

Type of Investment Capital Need	% of Organizations Reporting “Fairly or Extremely Difficult” to Raise Capital from:			
	Govt.	Commercial Banks	Foundations	Individual Donors
Any purpose	58%	53%	41%	36%
Buildings/ land	63%	49%	49%	44%
Technology	66%	57%	50%	52%
Staff development	60%	59%	50%	58%
Program development	55%	56%	34%	40%
Strategic planning	59%	55%	41%	54%

n=291
 SOURCE: Johns Hopkins Nonprofit Listening Post Project, Nonprofit Investment Capital Sounding, 2006

available to fund the full range of investment capital needs. Foundations tend to support program development and strategic planning, but to be less accessible for facilities, technology, and even staff development. This is consistent with widespread critiques that fault foundations for supporting new program initiatives but not being available to support core organizational operations. Individual donors follow a similar pattern, though they appear more accessible for property investments and less so for strategic planning.

- **Government**, by contrast, while supporting the operating revenue of nonprofit organizations, is generally not perceived as an accessible source of investment capital. The one area where government is perceived as being moderately accessible for investment purposes is new program development, but 55 percent of respondents considered government to be fairly or extremely difficult to access even for this purpose.
- **Commercial banks** are similarly constrained in their investment capital focus. Majorities of responding organizations found this source to be fairly or extremely difficult to access for anything but traditional property acquisition or renovation purposes, where a tangible asset is available to secure a loan.

Variations by Type and Size of Organization

This general pattern of perceptions of the difficulty of raising investment capital from different sources does not vary much by type or size of organization. At the same time, however, a few notable variations are apparent. In particular, as reflected in *Appendix Table 5*:

- Community and economic development organizations report considerably less difficulty accessing investment capital from government than do the other types of organizations, and considerably more difficulty accessing capital from individual donors.
- Elderly housing and services organizations report less difficulty in accessing capital from commercial banks and slightly more difficulty in accessing it from individual donors. The former may be because these organizations have tangible assets that can secure bank loans, but the latter is more difficult to comprehend since individual donors tend to be advanced in age and therefore potentially more inclined to support elderly housing and services. Evidently, individual donors are more inclined to support children and families and the arts.

Implications and Conclusions

Summary

The data reported here thus suggest a rather challenging picture of access to investment capital for nonprofit organizations. From the evidence presented here, it appears that:

1. Nonprofits have significant investment capital needs.
2. These needs extend well beyond the traditional areas of hard capital to embrace program development, staff upgrading, and strategic planning. This reflects the substantial infusion of entrepreneurial spirit into the nonprofit sector in recent years.
3. Despite these needs, nonprofits have encountered significant difficulty accessing the major pools of investment capital in our country. Many nonprofits have limited knowledge of these capital resources, and those that do have knowledge report substantial difficulty in accessing them.
4. Although other sources, such as commercial banks, government, foundations, and individual donors, are more familiar to nonprofits, some (e.g., government) are quite difficult to access for investment capital purposes and others (e.g., commercial banks, foundations, and individual donors) are limited in their areas of interest.
5. Although some variations exist in the applicability of these findings among types of nonprofit organizations and between affiliated and unaffiliated organizations, what is most striking is how uniform they seem to be, at least among the types of organizations examined here.

Implications

Given the growing importance of investment capital for the nonprofit sector, these findings have significant implications for the ability of nonprofit America to fend off growing for-profit competition and to respond to changing societal needs and opportunities.

What, then, can be done about this?

Clearly, a full answer to this question would take us well beyond the parameters of this report and of this project. Nevertheless, some possible follow-up steps might usefully be identified. Four of these in particular seem especially worth consideration:

1. Assemble additional information. In the first place, basic information about the investment capital experience of nonprofit organizations remains sparse to say the least. Little is known concretely about the actual success rates of nonprofit organizations in generating investment capital or about their experiences with different capital sources. Most of the research attention has focused so far on the operating revenues of nonprofit organizations, leaving a giant gap in our knowledge about how nonprofits cope with the increasingly important investment capital challenges they face.

The data reported here provide a start toward closing this gap, but they could be usefully supplemented with additional information. According to the respondents to our Listening Post Sounding, most critically needed is information on:

- Nonprofit experience with various funding sources (banks, insurance companies, pension funds)—identified as needed by 87 percent of the respondents;
- Experiences with different types of capital—identified as needed by 77 percent of respondents; and
- The costs of accessing capital from various sources—identified as needed by 61 percent of the organizations.

2. Launch educational efforts aimed at nonprofits and investors. Generating additional information is not sufficient, however. Considerable effort also seems needed to get information on the capital needs and access to capital sources of nonprofits out more broadly. What is more, such dissemination work needs to focus on two different groups: first, the nonprofit executives who need the investment capital; and second, the providers of investment capital. Both groups, it seems, are insufficiently informed.

Nonprofit practitioners seem largely unaware of the major pools of investment capital in the American economy, or at least of the ways to access this capital for their endeavors. As a consequence, they remain tied to a very limited, and limiting, range of capital resources, constraining their efforts to implement the entrepreneurial impulses increasingly animating their work.

Aside from commercial banks, the *providers of investment capital*, for their part, seem equally out of touch with the investment capital needs of the country's vast nonprofit sector, or at least that portion of it

composed of the core human service, community development, and cultural institutions that we have examined here. At a minimum, the investment community does not seem to have managed to convey to nonprofit executives an openness to their needs and a willingness to respond.

To close this information gap, better communication between providers and nonprofit users of investment capital seems in order. This could be achieved through special roundtable sessions, through invitations to capital providers to participate in the meetings of nonprofit intermediary organizations, and through special educational programs aimed at both groups.

3. Foster financial intermediaries for the nonprofit sector. In addition to improved information and more active information dissemination, solving the investment capital gap facing nonprofit organizations may also require a broader set of financial intermediaries that can link the larger pools of investment capital with the nonprofit organizations that need it.

This financial intermediation role has proved enormously important in the low-income housing field, where it has helped channel hundreds of millions of dollars of private capital from insurance companies and pension funds to small nonprofit housing agencies that formerly had no access to it.⁸ The Enterprise Foundation and the Local Initiatives Support Corporation (LISC), the two major organizations performing this intermediation role in the low-income housing field, assemble the relatively small investment packages of individual low-income housing producers into sizable blocks that can then be more easily marketed to large-scale investment houses.

What the data reported here strongly suggest is that similar institutions are needed in other segments of the nonprofit sector as well, such as children and family services. This suggests a useful role for foundations to foster in the core human service components of the nonprofit sector the same kind of intermediary organizations they usefully fostered in the low-income housing field.

4. Create a nonprofit investment tax credit. Finally, the low-income housing experience also suggests the possible need for a significant policy innovation to help overcome the structural disadvantages nonprofit organizations confront in generating investment capital: the creation of a tax credit for investments in nonprofit capital.

In the housing field, this function is performed by the Low Income Housing Tax Credit (LIHTC), which

provides incentives for investments in low-income housing and thereby offsets the risks that such investments carry with them. The LIHTC has been an enormously effective vehicle for sustaining the role of nonprofit providers in the housing field and ensuring a flow of substantial amounts of private capital into low-income housing at a time when government funding was being cut. The credits are allocated among states and parceled out to low-income housing groups through an application process. Credits are then assembled by the financial intermediaries and “sold” to investors.

A similar tax credit made available to help finance the capital needs of small and mid-sized nonprofit organizations (e.g., organizations with annual budgets of \$5 million or less) could open important new sources of investment capital for the nation’s nonprofit human service and cultural institutions and thereby help put these organizations on a more level playing field for coping with the challenges, and seizing the opportunities, they face.

Conclusion

Nonprofit organizations are no longer only labor-intensive institutions. Increasingly, they have come to depend on investment capital as well—to finance technology, equip facilities, and underwrite staff and program development.

Regrettably, however, nonprofits’ need for investment capital seems to be far outdistancing their access to it. At least for the types of organizations examined here, which include the core of the human service and arts portions of the sector, access to investment capital is limited to a few rather traditional sources, while the largest pools of such capital appear to be largely off limits or off the radar screen. Over time, the resulting mismatch between capital availability and capital need can spell serious problems for the ability of nonprofit organizations to retain their vibrance and their role in the increasingly competitive environment in which they operate.

To cope with this problem, a variety of steps may be needed, from the generation of better information to the establishment of financial incentives for investments in nonprofit infrastructure. A first step, however, must be to improve understanding of the issue. Hopefully this report will help achieve this result.

Endnotes

1 Lester M. Salamon, “The Resilient Sector: The State of Nonprofit America,” in Lester M. Salamon, ed., *The State of Nonprofit America*, (Washington, D.C.: Brookings Institution Press, 2003), 15.

2 See, for example, Kirsten Gronbjerg, *Understanding Nonprofit Funding: Managing Revenues in Social Services and Community Development Organizations* (San Francisco: Jossey-Bass Publishers, Inc. 1993).

3 A notable exception is Howard P. Tuckman, “How and Why Nonprofit Organizations Obtain Capital,” in David C. Hammack and Dennis Young, editors, *Nonprofit Organizations in a Market Economy: Understanding New Roles, Issues, and Trends*. San Francisco: Jossey-Bass Publishers, 1993): 203-32.

4 For this Sounding, this affiliated sample consisted of 436 organizations self-selected from the membership of five nonprofit national intermediary organizations that are part of the Project’s Steering Committee (the Alliance for Children and Families, American Association of Homes and Services for the Aging, American Association of Museums, National Congress for Community Economic Development, and Theatre Communications Group). A total of 243, or 56 percent of these affiliated organizations, responded, quite high for surveys of this sort.

5 Kirsten A. Grønberg and Richard M. Clerkin, “Examining the Landscape of Indiana’s Nonprofit Sector: Does What You See Depend on Where You Look?” *Nonprofit and Voluntary Sector Quarterly* 34 (No. 2, June): 232-59.

6 A total of 163 unaffiliated organizations were identified in this way, of which 48, or 29 percent, responded. Generally speaking, the unaffiliated organizations are smaller than the affiliated ones (56 percent have revenues of under \$3 million vs. 14 percent of the affiliated organizations). In addition, the unaffiliated respondents were skewed more heavily toward theaters. Altogether, therefore, we achieved a response rate of 49 percent from the two panels of organizations.

7 Lester M. Salamon, “The Changing Context of American Nonprofit Management,” in Robert D. Herman and Associates, *The Jossey-Bass Handbook of Nonprofit Leadership and Management*, Second Edition (San Francisco: John Wiley and Sons, Inc. 2005), 81-101.

8 See, for example, Avis Vidal, “Housing and Community Development,” in Lester M. Salamon, ed., *The State of Nonprofit America* (Washington, D.C.: The Brookings Institution Press, 2003), 228-9.

**Appendix Table 1
Respondents by Field and Size of Organization**

Field	Affiliated Orgs.		Unaffiliated Orgs.		Affiliated & Unaffiliated Orgs.	
	n	%	n	%	n	%
Children and Family Services	54	22.2%	-	-	54	18.6%
Elderly Housing and Services	45	18.5%	12	25.0%	57	19.6%
Community and Economic Development	29	11.9%	3	6.3%	32	11.0%
Museums	46	18.9%	9	18.8%	55	18.9%
Theaters	69	28.4%	24	50.0%	93	32.0%
TOTAL	243	100.0%	48	100.0%	291	100.0%
Size						
Small/Medium (<\$3,000,000)	35	14.4%	27	56.3%	62	21.3%
Large (>\$3,000,000)	186	76.5%	3	6.3%	189	64.9%
Unavailable	22	9.1%	18	37.5%	40	13.7%
TOTAL	243	100.0%	48	100.0%	291	100.0%

SOURCE: Johns Hopkins Nonprofit Listening Post Project, Nonprofit Investment Capital Sounding, 2006

**Appendix Table 2
Percent of Nonprofits Needing Capital Over the Past Three Years, by Purpose, by Type and Size of Organization**

Purposes	All orgs.	Affiliated & Unaffiliated Organizations						
		Field					Size*	
		Family Services	Elderly Services	CED**	Museums	Theaters	Small/Medium	Large
<i>n=</i>	291	54	57	32	55	93	62	189
Technology	91.1%	90.7%	86.0%	84.4%	94.5%	94.6%	83.9%	92.6%
Program/service development	80.4%	79.6%	80.7%	78.1%	89.1%	76.3%	82.3%	78.8%
Purchase or renovation of buildings, land	77.0%	87.0%	84.2%	65.6%	81.8%	67.7%	66.1%	80.4%
Staff training	66.7%	74.1%	71.9%	87.5%	60.0%	55.9%	61.3%	68.8%
Strategic planning	53.3%	48.1%	50.9%	71.9%	65.5%	44.1%	51.6%	54.5%
Vehicles or other equipment	52.2%	53.7%	75.4%	34.4%	32.7%	54.8%	33.9%	56.6%

* Small/Medium= organizations with annual expenditures of <\$3,000,000

Large= organizations with annual expenditures of > \$3,000,000

** Community and Economic Development

SOURCE: Johns Hopkins Nonprofit Listening Post Project, Nonprofit Investment Capital Sounding, 2006

Appendix Table 3

Percent of Nonprofits Securing Needed Capital Over the Past Three Years, by Purpose, by Type and Size of Organization

Purposes	All orgs. <i>n</i> =	Affiliated & Unaffiliated Organizations						
		Field					Size	
		Family Services	Elderly Services	CED	Museums	Theaters	Small/Medium	Large
	286	53	55	31	55	92	61	185
Vehicles or other equipment	42.2%	37.9%	59.5%	21.4%	38.9%	37.9%	54.5%	40.7%
Purchase or renovation of buildings, land	39.3%	29.2%	62.5%	54.2%	38.6%	24.6%	35.0%	44.2%
Technology	36.8%	30.6%	49.0%	38.5%	35.3%	33.7%	43.1%	37.0%
Strategic planning	31.3%	20.7%	45.2%	29.6%	34.3%	27.3%	33.3%	32.7%
Staff training	26.0%	12.2%	46.3%	25.0%	17.6%	26.8%	30.0%	26.7%
Program/service development	25.1%	20.0%	39.5%	14.8%	28.3%	22.1%	19.1%	28.7%

* Small/Medium= organizations with annual expenditures of <\$3,000,000
 Large= organizations with annual expenditures of > \$3,000,000
 SOURCE: Johns Hopkins Nonprofit Listening Post Project, Nonprofit Investment Capital Sounding, 2006

Appendix Table 4

Difficulty of Raising Capital, by Purpose, by Type and Size of Organization

(% of organizations reporting it is fairly or extremely difficult to raise capital)

Purposes	All orgs. <i>n</i> =	Affiliated & Unaffiliated Organizations						
		Field					Size	
		Family Services	Elderly Services	CED	Museums	Theaters	Small/Medium	Large
	291	54	57	32	55	93	62	189
Purchase or renovation of buildings, land	66.3%	66.7%	52.6%	65.6%	69.1%	73.1%	64.5%	65.0%
Technology	61.2%	63.0%	64.9%	62.5%	63.6%	55.9%	50.0%	62.9%
Staff training	57.4%	68.5%	47.4%	46.9%	61.8%	58.1%	58.0%	55.0%
Vehicles or other equipment	55.7%	53.7%	42.1%	53.1%	63.6%	61.3%	51.0%	59.2%
Program/service development	52.6%	63.0%	52.6%	71.9%	41.8%	46.2%	43.5%	54.5%
Strategic planning	51.5%	63.0%	42.1%	53.1%	54.5%	48.4%	48.4%	55.5%

* Small/Medium= organizations with annual expenditures of <\$3,000,000
 Large= organizations with annual expenditures of > \$3,000,000
 SOURCE: Johns Hopkins Nonprofit Listening Post Project, Nonprofit Investment Capital Sounding, 2006

Appendix Table 5

Difficulty of Raising Capital, by Source, by Type and Size of Organization

(% of organizations reporting it is fairly or extremely difficult to raise capital or they have no knowledge of the source)

Sources	n=	All orgs.	Affiliated & Unaffiliated Organizations						
		291	Field					Size	
			Family Services	Elderly Services	CED	Museums	Theaters	Small/Medium	Large
		291	54	57	32	55	93	62	189
Pension funds		99.0%	100.0%	98.2%	100.0%	100.0%	97.8%	100.0%	98.4%
Insurance companies		93.1%	98.1%	94.7%	90.6%	89.1%	92.5%	93.5%	92.6%
Credit unions or Savings and Loans		90.7%	90.7%	87.7%	90.6%	89.1%	93.5%	95.2%	88.9%
Venture philanthropists		86.9%	88.9%	87.7%	96.9%	87.3%	81.7%	88.7%	86.2%
Government		62.9%	61.1%	75.4%	34.4%	69.1%	62.4%	58.1%	64.0%
Commerical banks		61.9%	63.0%	42.1%	53.1%	76.4%	67.7%	71.0%	58.2%
Foundations		45.0%	40.7%	68.4%	50.0%	41.8%	33.3%	40.3%	45.0%
Individual donors		38.8%	38.9%	47.4%	71.9%	34.5%	24.7%	41.9%	36.0%

* Small/Medium= organizations with annual expenditures of <\$3,000,000

Large= organizations with annual expenditures of > \$3,000,000

SOURCE: Johns Hopkins Nonprofit Listening Post Project, Nonprofit Investment Capital Sounding, 2006

Appendix Table 6

Information Needed on Investment Capital, by Type and Size of Organization

(% of organizations reporting it would be "most useful" to gain information)

Information	n=	All orgs.	Affiliated & Unaffiliated Organizations						
		281	Field					Size	
			Family Services	Elderly Services	CED	Museums	Theaters	Small/Medium	Large
		281	51	54	31	55	90	61	181
Experiences accessing capital from various sources		86.5%	86.3%	85.2%	80.6%	90.9%	86.7%	83.6%	86.2%
Experiences accessing different types of capital		76.9%	82.4%	83.3%	87.1%	58.2%	77.8%	73.8%	79.0%
Consequences of limited access to capital for the ability of nonprofits to remain competitive/fulfill missions		63.0%	74.5%	46.3%	80.6%	65.5%	58.9%	70.5%	60.8%
Costs of accessing capital		61.2%	72.5%	59.3%	64.5%	50.9%	61.1%	55.7%	63.5%
Types of collateral needed to raise capital		53.4%	58.8%	61.1%	64.5%	34.5%	53.3%	49.2%	56.4%
Types of capital needs		47.7%	52.9%	44.4%	51.6%	49.1%	44.4%	44.3%	46.4%

* Small/Medium= organizations with annual expenditures of <\$3,000,000

Large= organizations with annual expenditures of > \$3,000,000

SOURCE: Johns Hopkins Nonprofit Listening Post Project, Nonprofit Investment Capital Sounding, 2006