Revisiting the State of the Mid-South Nonprofit Sector: Understanding the Impact of COVID-19 on Nonprofits

by Momentum Nonprofit Partners
Introduction

In January of 2020, we launched a survey to nonprofit organizations in Memphis and the Mid-South region, the results of which formed the 2020 State of the Mid-South Nonprofit Sector Report. Just a few weeks after the survey was complete, the COVID-19 pandemic arrived on our doorstep, drastically changing the way nonprofits operate, deliver programs, and fundraise.

We initiated a follow-up survey in November of 2020 to explore how the pandemic and its subsequent economic recession has impacted nonprofits — including any changes in demand for their services, funding challenges, and strategies for coping. In summary, we found that:

- As is expected in times of economic downturn, nonprofits are seeing an increase in demand for their services, as well as a qualitative difference in the type of demand - including more severe needs of their existing clients and a difference in the types of people seeking services.
- While the demand for services is higher, nonprofits are also experiencing a decrease in revenues since the pandemic began. Additionally, a disproportionate number of nonprofits led by Black CEOs are facing even greater challenges, as they are much less likely to have cash reserves or investments to cope with financial shortfalls.
- A significant number of nonprofits have been able to access funding through the government and foundations, but there is still a need for long-term and flexible funding.
- Nonprofits are finding creative ways to fundraise during the recession and while layoffs and furloughs are a reality, a relatively low number of nonprofits have been forced to make these difficult decisions.

In preparing this report, our intention is to amplify the collective voices of our sector and highlight the key challenges facing nonprofits during this time. We hope that funders and other nonprofit stakeholders will use this information to inform their support for nonprofits, and we have listed a set of practical recommendations at the end of this report.

Thank you to the many nonprofit leaders who took time out of their ‘fire-fighting’ mode to participate in this study and thank you for the vital work that you do.

Kevin Dean
Chief Executive Officer
Momentum Nonprofit Partners


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Nonprofits & COVID-19

According to a 2019 report by the National Council of Nonprofits, *Nonprofit Impact Matters*\(^2\), there are 1.3 million charitable nonprofit organizations nationwide. The vast majority of these organizations are small nonprofits, with 88% of organizations having annual budgets of less than $500,000. Collectively, these nonprofits provide essential services to keep our communities healthy and lead the way in advocating for a more equitable society for all of us.

The nonprofit sector is a key driver of our economic engine, collectively employing 12.3 million individuals and spending more than $826 billion on salaries, benefits, and payroll taxes each year, making it the third largest employer in the US economy. However, as with most other sectors, nonprofits have been hit hard by COVID-19 and according to the 2020 Nonprofit Employment Report\(^3\), an estimated 1.6 million nonprofit jobs were lost between March and May 2020.

A national nonprofit survey initiated by Charity Navigator and Reuters News\(^4\) found that since the pandemic began, 50.2% of nonprofits have seen an increase in demand for programs and services, and at the same time, 64% of respondents have had to cut back from programs. Additionally, 83% reported that they are suffering financially.

Data from a Building Movement Project report, *On the Frontlines: Nonprofits Led by People of Color Confront COVID-19 and Structural Racism*\(^5\), show that nonprofits led by people of color, which tend to be smaller and more grassroots, are on the frontlines of responding to the pandemic and reforming the systems that make communities of color the most vulnerable to the impacts of COVID-19. In spite of the critical role that these organizations play, nonprofits led by people of color also face the greatest challenges in obtaining critical funding for their missions.

Why is all of this important? Nonprofits are critical to the response and recovery efforts related to the pandemic and its subsequent economic downturn, and to challenging the systemic inequities that have been laid bare this year. How we respond in this moment to support and invest in the nonprofit sector will have a direct impact on the health of our community in the years to come.

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Key Findings: Demand for Services

Nonprofits exist to ensure that all of us can reach our full potential and contribute fully to our communities. They are on the frontlines of ensuring our communities are physically, mentally, and financially healthy, have access to basic services, and receive the support they need to get through challenging times. It’s unsurprising, then, that during a year wracked by a global pandemic, that nonprofit services and programs are more critical than ever before.

62.71% of respondents noted an increase in demand for services this year. As unemployment has risen, more families have struggled to meet basic needs such as housing, food, and healthcare, and are turning to nonprofits for support. In addition to an increase in the volume of demand, 56.03% of respondents also noted a qualitative difference in the type of demand — including more severe needs of their existing clients and a difference in the types of people seeking services.

Changes in Demand for Services

- Increased: 62.71%
- Decreased: 22.88%
- No change: 14.41%

It’s important to note that although 22.88% of respondents indicated a decrease in demand for services, this doesn’t necessarily represent decreased need. For example, many art and performance organizations may have a decrease in demand as there have been major restrictions on events and people are spending less money, but this doesn’t necessarily point to a decreased want or need.
Key Findings: Financial Impact

While nonprofits are in greater demand than ever, survey respondents also indicated that their budgets have been more stretched than ever.

68.12% of respondents indicated a decrease in revenues since the pandemic began. Additionally, 84.70% reported that they would expect to make cuts in their current fiscal year budget, with 25.88% of respondents expressing that more than half of their budget was at risk of reduction or elimination. The majority of these reductions were attributed to a decrease in individual donations (58.75%), special events (50%), and corporate grants or sponsorship (42.50%).

64.89% of respondents have some type of cash reserves or investments to fund unexpected needs (i.e. a ‘rainy day fund’), and 26.08% of those participants have started spending down on those reserves or cashing in on investments during this time. Additionally, 22.58% of respondents have an endowment (a fund subject to the requirement that the principal be maintained and invested to create a source of organizational income).

Maintaining cash reserves is a key practice for ensuring the ability of an organization to weather storms such as the economic impact of the COVID-19 pandemic, and many organizations also utilize investments or endowments as long-term approaches to maintaining viability. However, the data show that only 44.74% of Black-led organizations have any type of cash reserves or investments, compared to 81.63% of White-led organizations, and only 2.70% of Black-led organizations have an endowment, compared to 34.69% of White-led organizations. These numbers are unsurprising, given the racial inequities that exist in philanthropic funding. A recent report by Bridgespan and Echoing Green indicated that not only did Black-led organizations have budgets that were 24% smaller than White-led organizations, the unrestricted net assets of the Black-led organizations are 76 percent smaller than White-led organizations.6

While 36.96% of respondents expect to end the fiscal year with a cash surplus, 52.17% of respondents expect to end the year with a deficit, compared to 17.39% of organizations who had a deficit in the previous year.

Reserves/Investments and Race

| Reserves or Investments | 44.74% of Black-led orgs | 81.63% of White-led orgs |
| Endowments | 2.70% of Black-led orgs | 34.69% of White-led orgs |

Year-End Deficit

52.17% expect to end the year with a deficit
17.39% had a deficit in the previous year

Key Findings: Funding & Support

During this time of crisis, additional sources of funding have been created to support nonprofits this year, including support from government and foundations.

66.67% of respondents received a Paycheck Protection Program (PPP) loan to help keep their staff employed during the pandemic and 31.82% of respondents received a grant from the Tennessee Community Cares Fund to support activities and programs specifically created in response to the COVID-19 pandemic. While many of our respondents were able to benefit from a PPP loan, the program has been implemented by our existing banking infrastructure, which has historically failed small grassroots organizations, especially those led by people of color. This pattern was clear in our data, indicating that 47.06% of Black-led organizations received a loan compared with 78.26% of White-led organizations.

29.55% of respondents received a grant from the Mid-South Regional Response Fund (administered by the Community Foundation of Greater Memphis), which was created to provide flexible funding to nonprofit organizations in the Mid-South region who are serving those significantly impacted by the pandemic. Additionally, 82.26% of respondents say that foundations have generally been more lenient in reporting and application requirements during the pandemic, and 61.18% say that foundations have overall been more helpful during this time.

When asked about funders, respondents resoundingly spoke of a need for more accessible, flexible, longer-term funding that would allow nonprofit leaders to direct the funds where they saw fit. While respondents pointed to the urgency of funding to meet immediate needs, they also emphasized that funders need to make long-term investments in order to facilitate real change in the community.

Nonprofit Leaders’ Message to Funders

“This moment and our collective efforts is what this work is all about. Markets bounce back, for people it’s much harder and the negative impacts are more detrimental. It’s time to go all in for local families.”

“The time for restricted funding is over. Give generously and with flexibility, and let us show you what is possible. This situation is fluid, and we need to be able to turn on a dime.”

“Invest in work designed to have long-term sustainable outcomes, understanding that it will take time given the severity of the poverty perpetuated by and through racist systemic structures and institutions. Long term commitment is necessary if we truly want to get to root causes and shift public resources to the right places to address and support the efforts.”

Key Findings: Response to the Crisis

During this time, nonprofits have had to make difficult decisions to help them cope with the increase in demand for services, while facing significant financial challenges.

65.12% of respondents have done some scenario planning to identify factors that may have an impact on the organization’s work and explore potential responses. Additionally, 43.18% of respondents say that their boards have been more involved in the organization since the beginning of the pandemic.

The top strategies that respondents employed to cope with the challenges of this year include:
- Pursuing new types of funding (69.31%)
- Working remotely (65.91%)
- Intensifying their current fundraising strategy (54.55%)
- Partnering with other organizations to deliver their programs or services (47.73%)

The data also suggest that nonprofit leaders are prioritizing creative ways to fundraise or deliver programs rather than making cuts in human resources such as:
- Reducing staff hours (17.05%)
- Laying off staff (15.91%)
- Temporarily furloughing staff (14.77%).

Strategies Employed in Response to the Crisis

- Pursue new types of funding: 69.32%
- Work remotely: 65.91%
- Intensify current fundraising strategy: 54.55%
- Partner with other organizations to deliver programs/services: 47.73%
- Reduce travel: 44.32%
- Cut programs/services: 34.09%
- Reduce training & professional development: 29.55%
- Postpone a fund drive or annual campaign: 22.73%
- Reduce numbers served: 17.05%
- Reduce staff hours: 17.05%
- Lay off staff: 15.91%
- Temporarily furlough staff: 14.77%
- Take out a loan to pay for budget shortfalls: 12.50%
- Reduce staff salaries: 10.23%
- Take out a line of credit to bridge budget shortfalls: 10.23%
- Liquidate assets: 7.95%
- Reduce fringe benefits: 7.95%
- Outsource services previously staffed: 6.82%
- Use restricted funds to cover operating expenses w/ the intention to pay it back: 6.82%
- Close down/sunset: 4.55%
- Merge w/another organization: 0.00%
- Take out a second mortgage or an equity line to bridge budget shortfalls: 0.00%
This year, Momentum Nonprofit Partners has also taken a proactive stance in supporting nonprofits to cope with the challenges of the pandemic and **80.90% of respondents have noted that services provided by Momentum are extremely or very valuable.**

The most valuable forms of support include provision of personal protective equipment (PPE) such as masks and hand sanitizer (60.00%), free professional development training (56.25%), and guidance in navigating the Paycheck Protection Program loan process (45%).

- **1,565** unique nonprofit professionals received free trainings and workshops from Momentum in March-October 2020
- **154** organizations received free PPE from Momentum
- **2 million+** face masks distributed by Momentum
- With guidance from Momentum, nonprofits received PPP loans totaling **$36 million+**
Looking Forward

2020 has been an unprecedented year for all us, and its impact on our community will continue well into the next year and beyond. The COVID-19 pandemic is also a reminder of the critical role that nonprofits play in ensuring that each of us can reach our full potential and contribute meaningfully to the community. Looking forward, here are some key opportunities for nonprofits and funders to take action to ensure the long-term wellbeing of our sector and community:

For Nonprofits

1. **Prioritize scenario planning and risk management planning.** It can seem counterintuitive to make plans when everything is in a constant state of flux, but planning is all the more important during times of uncertainty. In particular, including scenario planning and risk management planning into strategic plans can help nonprofits to navigate uncertainty and give clarity around key decisions. Bridgespan, a national nonprofit consulting firm, has created a free and easy-to-use resource, *Making Sense of Uncertainty*, to guide nonprofit leaders through the process of scenario planning.

2. **Commit to being a learning organization.** Continuous improvement requires continuous learning and is critical to an organization’s ability to fulfill its mission. Peter Senge’s book, *The Fifth Discipline: The Art and Practice of the Learning Organization*, outlines the importance of continuous improvement. In particular, he highlights taking a systems thinking approach (seeing patterns, relationships, and structures from a holistic perspective) as a key way for moving from short-term fixes to long-term impact.

3. **Consider mergers, hibernations, or sunsetting.** Our data show that these were the least popular strategies for responding to our current reality, but these options should be given serious consideration. Ultimately, the goal of every nonprofit is to resolve an issue or fill a need so that it no longer needs to exist — in other words, to put itself out of business. While these issues are often complex, without easy fixes, nonprofit leaders have an ethical obligation to continuously evaluate why they exist and the work that they do. In some cases, choosing to join forces, take a pause, or even wind down, can be the most responsible choice an organization can make.

4. **Build effective cash management processes.** As nonprofits continue to be impacted by the pandemic in multiple ways, effective cash management is more critical than ever. Nonprofits must have systems in place to reliably assess their current cash position and their ability to meet upcoming obligations. The consistent practice of forecasting and adjusting cash flow projections over multiple months and regularly monitoring the liquid portion of their unrestricted net assets can help nonprofits to be able to anticipate and plan for potential cash flow contingencies or adapt programs and take advantage of new opportunities.

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Looking Forward: For Funders

1. **Give multi-year general operating funds.** This type of funding not only empowers nonprofit leaders to think strategically about the future, it also allows them to be agile, diverting funds to where it is most needed and quickly responding to challenges. Many of the nonprofits we surveyed talked about the importance of trust, encouraging funders to trust that nonprofit leaders have deep knowledge of the community and its needs, and to trust them to effectively steward their gifts.

2. **Provide mental health resources for nonprofit staff.** Many nonprofit leaders talked about the increased workload, risk of burnout, and low morale of their teams. Nonprofits are on the frontlines of responding to any crisis, and nonprofit professionals must balance taking care of themselves and their loved ones, as well as supporting the most vulnerable in our community. Survey respondents expressed an urgent need for funding to hire additional staff to meet the increased needs, as well as more mental health resources to support their teams.

3. **Invest in new platforms for the future.** In this ‘new normal’, nonprofits are already adapting to continue pursuing their missions. However, the changes that we’ve seen this year are here to stay, and nonprofits will need significant support to invest in the appropriate technology to enhance their capacity to pivot their programs and outreach, transform their operations, and boost fundraising efforts.

4. **Fund leaders of color.** While the gap in funding for nonprofit leaders of color is not new, a recent study on equitable grantmaking in Memphis⁹ found that the total number of dollars granted to nonprofits led by people of color dropped from 37% to 31% over a three-year period. This is reinforced by the results of this survey, showing that organizations led by Black executives are less likely to have cash reserves and an endowment. Funders must take the lead in developing equitable grantmaking processes that ensure that organizations led by people of color have access to the funds needed for them to thrive in the long term.

While COVID-19 has had a devastating impact on our community, it has also offered us an opportunity to disrupt the way we have traditionally done things. It has made clear the systemic issues that we can no longer ignore, forced us to think creatively about the way we work, and given us the impetus to make change now.

This survey demonstrates the resilience and creativity of nonprofits, who have had to make courageous decisions in uncertain times to stay true to their missions. It also points to the critical challenges facing the sector and ways we can respond. Together, we can ensure that the nonprofit sector is well-placed to serve our community in the long journey of recovery.

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Appendices

Appendix I: Methodology
The report was compiled from data gathered through a 37-question electronic survey, which included multiple choice and open-ended questions. The survey was sent to nonprofit members of Momentum Nonprofit Partners throughout Memphis and the Mid-South in November 2020. A total of 124 organizations participated in the survey and all participants were guaranteed anonymity.

Appendix II: Participant Profiles
In addition to questions related to the economic impact of the pandemic, we asked participants to indicate basic information about their organizations, including their primary field of work, annual budget size, and race and gender demographics of the organization’s Executive Director or CEO.

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<tr>
<th>Primary Field of Work</th>
<th>% of Respondents</th>
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<tbody>
<tr>
<td>Education/Literacy</td>
<td>19.23%</td>
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<td>Human services</td>
<td>18.27%</td>
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<tr>
<td>Arts</td>
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<td>Children &amp; Youth</td>
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<td>Housing</td>
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<td>Health</td>
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<td>Mental Health</td>
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<td>Animal Services</td>
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<tr>
<td>Early Childhood</td>
<td>2.88%</td>
</tr>
<tr>
<td>Intermediary/ Capacity Building</td>
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<tr>
<td>HIV/AIDS</td>
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<td>Senior Services</td>
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<tr>
<th>Executive Director/CEO Demographics</th>
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<tr>
<td>Race of Executive Director/CEO</td>
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<td>Black or African American</td>
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<td>American Indian or Alaska Native</td>
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<tr>
<td>Asian or Asian American</td>
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<td>Hispanic or Latino</td>
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<tr>
<td>Native Hawaiian or other Pacific Islander</td>
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<tr>
<td>White</td>
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<td>Gender of Executive Director/CEO</td>
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<td>Female</td>
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<td>Male</td>
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<td>Non-Binary</td>
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<th>Annual Budget Size</th>
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<td>&lt; $100,000</td>
<td>18.18%</td>
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<td>$101,000 - $500,000</td>
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<td>2.48%</td>
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<tr>
<td>&gt; $50,000,001</td>
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About Momentum Nonprofit Partners
Momentum Nonprofit Partners serves the Mid-South nonprofit community through comprehensive learning opportunities that enable nonprofits to better accomplish their missions, by convening nonprofits for peer support, learning, and impactful conversations and by connecting nonprofits to resources and to decision-making forums alongside business and government.

This report was researched and written by:

Kevin Dean  
Chief Executive Officer, Momentum Nonprofit Partners

John Bazzanella  
Chief Operating Officer, Momentum Nonprofit Partners

Serrie Fung  
Consultant, Zest

Designed by Christopher Myers

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