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Listening Post Project

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, Lutheran Services in America, the National Council of Nonprofit Associations, Theatre Communications Group, and United Neighborhood Centers of America

Communiqué No. 7

Report on the Nonprofit Investment Capital Roundtable

Stephanie Lessans Geller and Lester M. Salamon with the assistance of Nancy Hall
Johns Hopkins University

BACKGROUND

The Nonprofit Listening Post Project's Investment Capital Roundtable followed up on the project's 2006 groundbreaking survey of nonprofit access to investment capital, which provided the first-ever empirical data on this important topic. This Sounding revealed that while overwhelming majorities of nonprofit human service, arts, and community development organizations experienced significant capital needs over the previous two years, well under half of these organizations were able to meet these needs. Particularly striking was the fact that these capital needs extended well beyond the typical areas of buildings and equipment to embrace "soft capital" necessities such as program development and strategic planning. Overall, this Sounding demonstrated that the mismatch between capital needs and access to investment capital resources is one of the more serious challenges facing U.S. nonprofits. The full text of a report on the Sounding is available at www.jhu.edu/listeningpost/news.

> ***Investment capital*** *is the revenue needed to finance items intended to last more than a year.*
>
> ***Hard capital*** *is the revenue used to finance buildings, equipment and other tangible property expected to last more than a year.*
>
> ***Soft capital*** *is the revenue used to develop new programs, prepare strategic plans, and improve staff capabilities.*

To explore this problem in greater depth, gain insights from nonprofit practitioners, investment capital providers and other experts, and determine what changes, if any, might be needed, the Listening Post Project held a Roundtable session on nonprofit investment capital on February 28, 2007 (see Attachment A in the Appendix for a complete list of Roundtable participants). This Communiqué summarizes the major findings that emerged from this provocative session.

MAJOR FINDINGS

Accessing Investment Capital is a Major Challenge for Nonprofits

The Roundtable reinforced one of the major lessons that emerged from the project's Sounding—nonprofits are experiencing major difficulties accessing critical investment capital. Participants representing diverse fields and organizations of wide-ranging sizes universally agreed that accessing investment capital is an extremely time-consuming, challenging process. Participants expressed particular concerns about the enormous challenges they have experienced attempting to access investment capital for "soft" purposes such as staff training and program development. For example:

- ***Family Lifeline,*** *a family service agency based in Richmond, VA, with annual revenues of about $4,000,000*: "We have not had money to invest in program development… That is an area in which we have really suffered…We have not been successful in identifying resources within the community that will consistently and predictably supply support." (Reed Henderson, President & CEO).

- ***Lampion Center,*** *a counseling agency based in Evansville, IN, with annual revenues of about $940,000*: "We don't have the capital investment to be able to support planning and upgrades which would enable us to reinvent ourselves for the future; resources to grow to meet the needs of our community. Our mission is to serve our community and really serve them well. We have to find a way to obtain investment in our infrastructure in order to maintain our role as a premier service provider." (Lynn D. Kyle, Executive Director).

A Small Set of Nonprofits Have Managed to Obtain Some Needed Capital

While most nonprofits have been unable to find much-needed investment capital, some organizations have managed to do so, though generally for "hard" purposes. Still, their experiences suggest some interesting avenues of escape from the nonprofit capital trap. For example:

- ***Pressley Ridge***, *a children and family services agency based in Pittsburgh, PA, with annual revenues of about $60,000,000*: "Over the past 15 years, we went from almost zero debt to $15 million worth of debt. Our working capital debt is anywhere between $5 million and $9 million on any given day. We obtain it through commercial banks, and we usually get the best market rates possible." (Scott Finnell, President & CEO).

- ***Anacostia Economic Development Corporation***, *a community and economic development group based in* Washington, *DC, with annual revenues of about $1,131,000*: "One of the things we have done to access investment capital is to get into many joint ventures with for-profit companies. What helps is that we've been around for a while. The private sector gets used to you if you network with them…We've found certain for-profit partners that will put the money upfront." (Butch Hopkins, President & CEO).

- ***Grand Rapids Children's Museum***, *based in Grand Rapids, MI, with annual revenues of about $900,000*: "It is getting more difficult to get the money needed for nonprofits to expand. We have opted to go with a new endeavor and we have started a for-profit business…A television show called Come on Over, and it's about inspiring creativity and imagination in young children. Eventually our goal is to have the proceeds going into our endowment. Our ultimate goal is to grow our organization." (Teresa L. Thome, Executive Director).

Capital Providers are Crafting Important Innovations

While most of the nonprofit participants stressed that investment capital is not available to them on a consistent, reliable basis, the participating capital providers painted a very different picture. In fact, they shared a variety of interesting innovations they have underway to help meet nonprofit capital needs. For example:

- ***The Calvert Social Investment Foundation*** currently offers below-market interest rate loans to more than 200 community organizations in the U.S. and abroad, including loan funds, micro-finance institutions, affordable housing developers, and social enterprises.

- ***Good Capital*** is a relatively new group that aims to provide equity and equity-like risk-taking and growth capital to social enterprises in a range of fields including workforce development, healthcare, education, fair trade, organic food, and non-profit services.

- ***Prudential Financial's Social Investment Program*** makes socially responsible investments in the areas of economic development and education. The program will only consider proposals that do not qualify under mainstream investment guidelines. Each year, the program originates approximately $65 million of below-market-rate social purpose investments.

- ***M&T Bank*** has a division focused exclusively on nonprofit organizations and views the nonprofit sector as a significant client segment. Services offered to its range of nonprofit clients include term loans, tax-exempt bank financing, and tax exempt bond placement and remarketing, as well as a full range of Treasury Management and Investment services.

Significant Work Remains

Clearly, with nonprofits emphasizing that they cannot access sufficient investment capital, and providers indicating that capital is available and financial instruments exist that can meet nonprofit needs, a major disconnect exists between these groups. As such, at the end of the session, the nonprofit and capital provider participants together brainstormed ways to help bridge this gap. Their often creative ideas included:

Education

Additional education is vital, for both nonprofit organizations and capital providers. In particular:

- Nonprofits need to better understand the language of capital and investing, the value of acquiring debt, how to develop a good business plan, and the range of capital resources currently available.

- Capital providers often need to better understand the business model of nonprofits and develop more appropriate risk assessment tools.

- Foundations, in particular, need to be better educated about nonprofits' capital needs. As foundations generally expect more than what they fund and fail to help nonprofits understand their economic models, they inadvertently set up their grantees for failure.

Ideas to help address this knowledge gap included:

- Strengthening standards and best practices for nonprofits to ensure they have the financial information necessary for success.
- Encouraging nonprofit umbrella organizations to develop and provide sample business plans and other important financial resources.
- Creating a comprehensive list of investment capital sources that nonprofits could access to identify the full spectrum of investment capital options.

Participants suggested entities that could carry out this important work, which included graduate students, field-specific intermediary organizations, Independent Sector, and consulting firms, and emphasized that local providers would need to disseminate this information to small, grassroots organizations.

Greater Creativity from Foundations

Foundations should also develop a repertoire of financial instruments that extend beyond grants to include products such as loans and loan guarantees. Their assets could clearly have greater impact if they are used more creatively—for example, unlike a grant, which is expended by its recipient, the amount loaned to a nonprofit organization could be loaned to another group once it is repaid. Imagine if foundations would offer below-market-rate loans through groundbreaking "foundation banks." Even if foundations devoted only 1 percent of their total assets to such an endeavor, this would result in close to $5 billion of new investment capital for the sector, and even more if the federal government would match such investments.[1] Foundations could also partner with conventional financial institutions and offer their resources as collateral for loans to nonprofits.

Tax Credits

The government could help boost nonprofit access to investment capital by developing new tax credits that would spur capital providers to invest in nonprofits. Ideally, credits would be counter-cyclical to encourage investments during more difficult periods. Credits could also be used to encourage donors to be passive investors in nonprofit facilities.

One model for this is the New Market Tax Credit Program, which offers a federal tax credit to taxpayers who make an equity investment in certified Community Development Entities. Another significant model is the Low Income Housing Tax Credit (LIHTC), which provides tax credits for the acquisition, rehabilitation, or new construction of rental housing targeted to lower-income households. These credits are then assembled by financial intermediaries and "sold" to investors. LIHTC has been so successful that it is considered one of the most important resources for creating affordable housing in the United States today.

A tax credit similar to these, yet made 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.

Financial Intermediaries

Intermediaries play an important role in connecting potential sources of investment capital to nonprofit organizations seeking capital. To date, however, such intermediaries have clustered in specific fields and regions. To enhance nonprofit access to investment capital, additional intermediaries are critically needed. These intermediaries could help extend the instruments for-profits routinely use to obtain capital to nonprofits and ensure that the instruments meet both investor and nonprofit needs. To extend their impact, intermediaries should also explore collaborating more on deals, as is done in the microfinance sector. Events such as this Roundtable, which bring together nonprofits and intermediaries, are vital to ensure that intermediaries, capital providers, and nonprofits get to know each other and become as responsive as possible to each other's legitimate needs.

Next Steps

The Listening Post Project will be working on these critical issues over the next several months. The Project is also planning to hold additional Roundtables later this year in other parts of the country. For more information about the project and our work on this important topic, visit our website at www.jhu.edu/listeningpost.

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We are especially grateful to the Case Foundation for hosting the Roundtable session and to the active participants who attended the event.

[1] In 2003, the latest year for which data are available, assets of all active U.S. foundations totaled $476.7 billion.

APPENDIX: ATTACHMENT A
Nonprofit Investment Capital Roundtable Participant List

Gary Anderson
Plowshares Theatre Company, Detroit, MI

Joy Anderson
Good Capital Fund, Haddam, CT

Ben Binswanger
The Case Foundation, Washington, DC

Fred Bollerer
Venture Philanthropy Partners, Washington, DC

William Dietel
Consultant & Advisor, Flint Hill, VA

Gina Elliott
The Walden Theatre, Louisville, KY

Janet Farrell
M&T Bank, Washington, DC

Scott Finnell
Pressley Ridge, Pittsburgh, PA

Peter Goldberg
The Alliance for Children and Families, Milwaukee, WI

Lisa Hall
The Calvert Foundation, Washington, DC

Marc Hand
Public Capital Radio, Centennial, CO

Chuck Harris
Harris Capital Partners, South Norwalk, CT

Reed Henderson
Family Lifeline, Richmond, VA

Nan Hildebrandt
The Geva Theatre, Rochester, NY

Butch Hopkins
Anacostia Economic Development Corporation, Washington, DC

John Kinghorn
Prudential Financial, Newark, NJ

Lynn D. Kyle
The Lampion Center, Evansville, IN

Thomas Lengyel
The Alliance for Children and Families, Milwaukee, WI

Trinita Logue
Illinois Facilities Fund, Chicago, IL

Beth Merritt
American Association of Museums, Washington, DC

Clara Miller
The Nonprofit Finance Fund, New York, NY

Mario Morino
Venture Philanthropy Partners, Washington, DC

Elizabeth Nicholson
The Nonprofit Finance Fund, Washington, DC

Gita Rao
Calvert Social Investment Foundation, Bethesda, MD

Brigette Rouson
Alliance for Nonprofit Management, Washington, DC

Ben Shute
Rockefeller Brothers Fund, New York, NY

Bill Slater
Via Christi Senior Services, Wichita, KS

Katie Sloan
American Association of Homes and Services for the Aging, Washington, DC

Kristin Sosnowsky
Swine Palace, Baton Rouge, LA

Vincent Stehle
The Surdna Foundation, New York, NY

Elizabeth Sullivan
The Kresge Foundation, Troy, MI

Teresa L. Thome
Grand Rapids Children's Museum, Grand Rapids, MI

Brian Williams
The Children's Museum of Indianapolis, Indianapolis, IN