

The Role of Nonprofit Organizations in Sustainable Development - COVID-19 & the Gap-Filling Theory

Eunice V Akoto
Henderson State University
akotov@hsu.edu

Abstract

Nonprofit organizations (NPOs) are crucial to the Sustainable Development Goals (SDGs) and to building better communities. While many theories explain the existence and contributions of NPOs in the USA, this paper highlights that NPOs exist to fill the gap left by government and market failures. The nonprofit sector continues to grow in response to the increasing demand to meet societal needs, but many factors impact their ability to fulfill these gap-filling roles. Like most organizations, NPO challenges increased dramatically during the COVID-19 pandemic. Using data from a cross-section of NPOs in the southern part of the USA, the paper explored the gap-filling roles consistent with social safety nets and sustainable development programs and how COVID-19 impacted NPOs' resources and operations. The analysis revealed that the COVID-19 pandemic exacerbated the gap while negatively impacting the operations of NPOs. Implications for the nonprofit sector sustainability are provided.

Keywords: Nonprofit organizations, gap-fillers, safety net programs, sustainable development goals, partnerships.

Introduction and Background

The nonprofit sector is one of the most diverse sectors of the economy. Some refer to them as the third sector or community sector (Berman, 2010), falling between the private and

public (government) sectors. Based on the Internal Revenue Service (IRS) classification, those nonprofit organizations (NPOs) that benefit the general public are typically called public charities with 501(C) 3 tax-exempt and tax-deductible designations. Public charities have multiple funding sources, including gifts, donations, grants and contracts, and federated campaigns from intermediary organizations. Many NPOs have charity and philanthropic goals to improve the quality of life for the community and beyond.

Over centuries, NPOs have continued stimulating economic development through community impact activities. Researchers have used many theories to explain why NPOs exist, ranging from those developed by historians, sociologists, economists, anthropologists, and political scientists, among others. However, this paper touches on a concept that combines several other theories, including failure and gap-filling theories. For example, Berman(2010) indicated that the nonprofit sector is "society's solution for filling the gap between the needs of various communities and the aggregate of what the public sector is enabled to do plus what the private sector is willing to do" (Pg191). In Berman's perspective, nonprofit enterprises are society's safety net ensuring its health, education, and welfare and protecting and advancing arts, culture, and human values. Thus, NPOs create and enhance the quality of life consistent with the United Nation's Sustainable Development Goals (SDGs). These attributes of the nonprofit sector imply that the sector is permitted to accomplish what the private and public (government) sectors permit it to do.

Over the last century, the nonprofit sector has expanded, partly because of increased societal needs, which may be attributed to the private sector's inability to distribute resources efficiently and the government's inability to meet those needs. The COVID-19 pandemic and the worsening environmental degradation have increased societal needs. Thus, partnerships with the private sector, government, and multinational agencies are essential to enhancing the quality of life and society. These ideas are consistent with the United Nations (UN) Sustainable Development Goals (SDG #17). The UN indicates that achieving the SDGs depends on strengthening the implementation of local and global partnerships and engaging multi-stakeholder partnerships to mobilize and share resources in all countries(UN SDGs), making the nonprofit sector a critical partner in this process.

This paper aims to highlight the critical roles NPOs play in the SDGs and in building better societies based on data from a cross-section of NPOs in the southern part of the USA. It assesses how the COVID-19 pandemic impacted these roles and provides implications for NPO sustainability, given their critical roles in helping achieve the SDGs

through partnerships with governments and the private sector. The article will accomplish the following objectives:

1. Explain the theoretical underpinnings of the nonprofit sector, emphasizing the gap-filling theory to explain the role of NPOs.
2. Assess and compare NPO gap-filling roles to the SDGs.
3. Assess the impact of COVID-19 NPOs operations
4. Provide implications for NPO sustainability post-COVID-19.

Theoretical underpinnings of the nonprofit sector-The gap-filling theory

Different disciplines have developed macro theories to explain why America's NPOs exist. History attributes the existence of America's nonprofit sector to historical forces, the Industrial Revolution, population diversity, income tax, and legislative action – the tax structures with deductions (see Arnsberger, Ludlum, Riley, & Stanton, 2011) and events, and policies that reinforced the sector's development and growth (Worth, 2020). To sociologists, nonprofits exist to help socialize individuals, reinforce norms and values, and develop "social capital," creating "interpersonal bonds of trust and cooperation and counteracting loneliness and isolation" (O'Neill, 2002, p. 42). Political Science models emphasize nonprofit sector and government partnerships to accommodate diversity, fulfill minority needs and undertake experimentations with greater freedom from bureaucracy and tend to be more efficient in responding to social needs than the government. The theory assumes that nonprofits provide a voice and services in areas government may not address (Douglas 1987 & 1983). In this lens, nonprofits are filling gaps left by government but may be better suited to undertake experimentation on new programs than the government can, using public funds (see Worth, 2020).

Economists, using demand and supply to explain the existence of NPOs, tend to lean towards the failure theories, which leads to the gap-filling concept. From the supply side, social entrepreneurs and donors may create NPOs out of their motivation to solve a problem or promote a cause (see Child, Witesman, Braudt, 2014, July 17). While complementing market and government failure theories, the demand side connects to the gap-filling theories because NPOs must fulfill the increasing demands by picking up many pieces left behind by the market and government failure.

The market can be an efficient mechanism using prices to allocate private resources efficiently and for regulating the production and distribution of private goods such as

clothing and food that people pay for and enjoy the full benefits. However, with private goods come issues of externalities/free rider problems. Private goods have negative externalities that affect others negatively. Other goods may create many positive externalities that it will be impossible to confine the benefits to single ownership. So government must come in. Free Rider Problems lead society to hand over private property to the government, which becomes public good that everyone must pay for through taxes. Thus, a free market may work well if the purchaser can capture all the externalities – or the Government must produce it. For various reasons, market failure- contract failure, information asymmetry, discrimination, or some other groups cannot access the private good. Also, when markets are left unregulated or is over-regulated, they result in high levels of inefficiencies- deadweight loss, which are losses to society.

The failure theories address the gap-filling theory and place NPOs as a different entity from private business and government—organizations driven by vision and values (Worth, 2020) that exist to fill the necessary and unavoidable societal gaps, primarily social safety net programs. Since the government must prioritize the needs of the majority of voters, nonprofits tend to take care of the minority needs- thus filling the gaps left by the government (Douglas, 1983). These gaps allow NPOs to partner with the government to fulfill social needs. For example, several nonprofits and foundations work with the government to provide public transportation (Title 5311, 5310, Job access and reverse commute -JARC, tribal transportation), food pantries, and nonprofit clinics that work with Medicaid. Also, in a capitalist environment, the government and private sector inefficiencies increase the demand for the nonprofit sector. Consequently, social entrepreneurs may exist because of the demand side in that organizations are driven by vision and values to address the needs of society.

Consistent with Berman(2010) the nonprofit sector is "society's solution for filling the gap between the needs of various communities and the aggregate of what the public sector is enabled to do plus what the private sector is willing to do" (Pg191). NPOs fill gaps left by market failure and government failure. (There also is a voluntary failure, often attributed to the inability of nonprofits to secure adequate resources. Because clients or consumers may not have complete information about the products or services offered (information asymmetry), they may prefer nonprofit providers because of greater trust. (Worth, 2020)

The gap-filling theory connects with the failure theories to emphasize that when the private sector fails to meet its obligation or distribute resources based on price mechanism;

then government must pick up the pieces. However, the government may not fulfill all needs due to the political climate and the bureaucratic nature of government decisions. It is generally accepted that the government must implement policies for the majority that voted them into power, leaving minority needs unmet. Thus, NPO exists to fill gaps left by market and government failure.

The above argument shows that in a capitalist economy like the USA, the private sector (the markets) and government will continue to leave gaps that must be filled. Therefore, the third sector, NPOs, will always be required to help fill the gap and meet society's needs.

NPO Assessment and Results

The study employed a qualitative exploratory approach to assess NPO gap-filling roles relating to the SDGs to get an in-depth analysis of the NPOs' operations based on data collected with the help of students in nonprofit management class. As part of their class assessments, students were asked to randomly select two NPOs using measures set for their project assessments. The criteria for selecting NPOs included those with IRS exempt status that report the complete form 990 to the IRS. Form 990 provides extensive organizational data on NPO's mission, reach, financial information, and transfers to partner agencies. Depending on size, 501(C) 3 NPOs with annual gross receipts above \$50,000 file the Full form 990 or 990-EZ. However, NPOs filing 990-EZ or 990-N were excluded to ensure adequate comparability of data. Form 990 is a public document accessible via GuideStar and Charity navigator. In addition to the information on Form 990, follow-up interviews used a questionnaire validated by the researcher (the professor) to get details on the operational activities and COVID-19 impact on the NPO's operations.

The professor reviewed all nonprofits selected to ensure they met the requirements. Data collected include information about services the NPO delivers, mission, partnerships /collaborations, how COVID-19 affected the NPOs' employees and volunteers and operations, collaborations, and fundraising and earned income. The data on the services rendered by the nonprofit (especially those considered as social safety net roles) matched those outlined in the seventeen SDGs to determine the consistency in these roles. Sixty out of the sixty-six organizations sampled from the southern USA provided social safety net programs consistent with some SDGs and were used for this study.

NPO gap-filling roles vs the SDGs.

The NPOs sampled were involved in various activities geared toward meeting societal needs. Services provided by NPOs covered social equity, disability, education/literacy, health, homeless shelters, social justice, gender advocacy, alleviating poverty/ community economic development, feeding (hunger relief), human rights advocates, inequality reduction/equality advocates, poverty reduction- enrichment centers, and after-school programs. Figure 1 lists all the 17 SDGs, while table 1 shows the NPO roles matched with five SDGs. The majority of NPOs sampled engaged in programs related to advocacy for equality, gender, and minority needs, followed by Food distribution/hunger relief and health-related programs(See table 1). The SDGs matched include SDG 1: End Poverty in all forms, SDG 2: Zero Hunger, SDG 3- Health, SDG 4- Education, and SDG 5 and 10: Equality/Reducing Inequity.

Figure 1. The United Nations’ Sustainable Development Goals



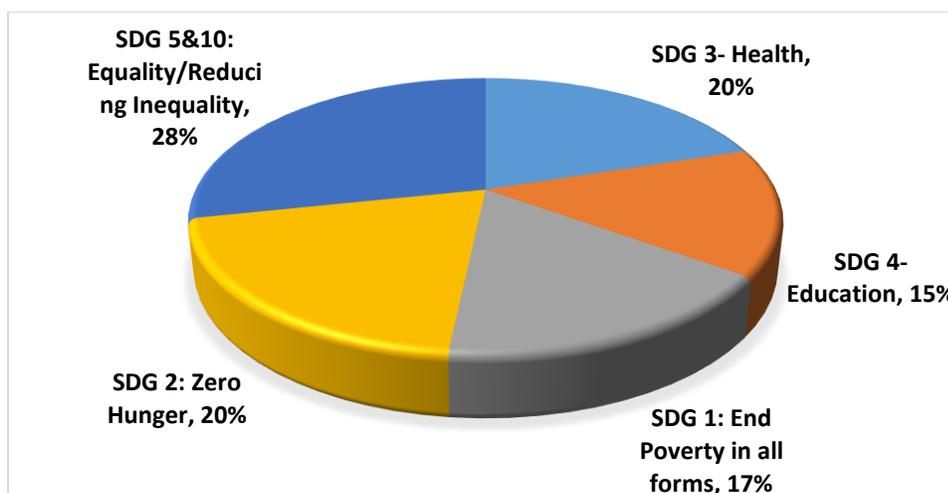
Source: UN’s SDG Knowledge Platform

Table 1: Gap-filling Roles of Selected Nonprofit Organizations

Sampled NPO Roles	SDGs	No. of NPOs
Health-related activities	SDG 3- Health	12
Education related activities	SDG 4- Education	9
Enrichment centers/support-Assisting the poor/housing support	SDG 1: End Poverty in all forms	10
Food distribution/hunger relief	SDG 2: Zero Hunger	12
Advocacy for equality, gender, minority needs, etc	SDG 5&10: Equality/Reducing Inequity	17
Total		60

Figure 2 below shows the representation of SDGs related programs provided by the sixty NPOs sampled. Majority of programs sampled(28%) matched SDGs 5 and 10, which focus on achieving gender equality, empowering all women and girls, and reducing inequality within and among countries. SDGs 2 and 3 comprised 20% each, focusing on ensuring zero hunger and promoting healthy lives and well-being for all. Programs that focused on ending poverty constituted 17%. Thus, many NPOs were involved in activities that enhanced living standards, ensured food security, reduced inequality, and provided human rights advocacy assistance.

Figure 2: Representation of SDGs Roles Among 60 Randomly Selected NPOs



Some of the NPOs collaborated with NGOs or some community projects in a developing country on causes related to the economic development of Africa and Asia. For example, literacy organizations mentioned donating books, health foundations donated vaccines, education foundations provided funding to support education, homeless shelters undertake projects in building homes across rural communities, and enrichment centers support needy and poverty-stricken families worldwide. Therefore, partnerships with government, private sector, local communities, NGOs, and NPOs are critical to fulfilling SDGs-ensuring Equality.

COVID-19 Impact on NPO Roles and Revenues as Gap-fillers

From the market perspective, unemployment, loss of income, and supply chain problems during the pandemic by default left a big gap in the market for the Government to fill. The Government provided some assistance to struggling small businesses. Many nonprofit organizations benefitted directly from Families First Coronavirus Response Act (FFCRA), which provided employee paid leave rights for certain employers to provide paid sick leave or expanded family and medical leave for specified reasons related to COVID-19. The Coronavirus Aid, Relief, and Economic Security (CARES) Act also provided an economic relief package for public health and the economic impacts of COVID-19. These support systems are examples of government partnerships with NPOs to ensure that NPOs have the resources to deliver their supplemental roles when the Government is short-handed. The Loans for NPOs, Employee retention tax credit, the line charitable tax deductions, Health and Economic Recovery Omnibus Emergency Solutions Act (HEROES Act) are all examples of support the Government provided to support small businesses and NPOs. However, it was still not enough. To accomplish their gap-filling roles, NPOs must have the resources and capacity.

The analysis showed that the pandemic increased the demand for nonprofits and exacerbated the need for more social safety net programs. As the pandemic persisted and lockdowns were widespread, the need to provide food relief, homeless shelters, and healthcare safely became critical. Consistent with a study from the Independent Sector (Independent Sector, June 2020), many of the NPOs sampled indicated a reduction in employment in 2020 compared to prior years due to COVID-19 and the economic shutdown. In terms of revenues, nearly 80% of organizations experienced lost revenues

from canceled events or closed operations. Reductions in revenues included individual giving and earned income from fees for services.

The problem was deeper for the charity organizations attached to churches. Offering and tithe donations decreased, leading to the inability to support projects in their communities and partnerships with external NGOs. Economic conditions/trends since COVID-19 have also led to decreased charitable donations. Thus, the shutdown and unemployment led to an inability to donate to nonprofit organizations. From the USA perspective, operational nonprofits attached to churches and congregations tend to partner with organizations worldwide to accomplish goals that feed into the SDGs. With limited church attendance during the COVID, revenues were reduced, which impacted mission projects worldwide.

In line with studies by the CAF America, in the Voices of Charities Facing COVID-19 Worldwide, nearly 90 percent of the organizations sampled reported negative impacts related to the pandemic, including a drop in contributions, travel restrictions disrupting contact with clients, donors, and recipients. Increased costs and disrupted supply chains were among the significant impact of COVID-19, especially on the food distribution and hunger relief NPOs.

Impact on operational staff

Accompanying the increased demand was the need for operational staff to fulfill needs. The NPOs that remained operational reported increased demand for services and had to respond to the crises differently based on services rendered. These include reduced services/available operations, furloughed employees (not working but still providing benefits), closed offices, laid-off employees, and reduced employee pay and benefits due to reduced revenues.

On the one hand, NPO workers who tested positive or had family members testing positive could not work, leading to staff shortages. On the other hand, high unemployment in other sectors increased the demand on the NPOs to provide food, homeless shelters, and accessible healthcare services- including vaccine and testing drives. Thus, those who lost their jobs needed NPO's assistance to survive the COVID-19 pandemic. Even though stimulus money helped to give some recovery to families, businesses, and nonprofit organizations, it was still not enough.

Implications for Gap-filling roles/ SDGs- Partnerships for Capacity Building

Before the COVID-19 pandemic, NPOs were already dealing with the 2018-2019 government spending cuts that reduced program support and contracts for many NPOs providing government-funded social safety net programs. This budget cut might have created a dent in funding, so NPOs were already struggling before COVID-19. When COVID-19 became a pandemic, increased needs with reduced individual contributions created a "domino effect" on local NPOs and their international partners.

NPOs were working around the tax issue to diversify funding before COVID-19. Partnerships among NPOs have increased, but most of the partnerships remain operational, not institutional mergers. Therefore, the government and the private sector need to partner with NPOs to increase capacity and fill the gaps that continue to widen. Government partnerships already exist in the form of grants and contracts with NPOs. Also, some private sector businesses have foundations that support NPOs in various ways. Other private sector businesses could support NPOs through cross-sector collaborations and cause marketing. The government and private sector could increase and strengthen collaboration to help NPOs build the capacity to meet their gap-filling roles.

Looking Ahead

Whether on the frontline serving meals, supporting new learning models, or helping people receive health care and access to social services, communities depend on nonprofits to respond to the needs left behind by both the market and the government pre-COVID-19 & during this pandemic. While nonprofits are facing significant demand increases, they are also experiencing decreases in donations and other revenue. The recovery of NPOs is vital to the recovery of local economies and will help drive the national economy. As demonstrated by the sampled NPOs, the nonprofit sector continues to need assistance to return to entire operations, meet their missions, and bring needed workers back to their job. The independent sector report, which sampled a significant number of NPOs, suggests NPOs require additional payroll tax relief, help with employee healthcare costs, and additional program grants (Independent Sector, June 2020).

The question remains whether the nonprofit sector should reinvent itself to become more sustainable as a gap-fillers. Some suggest increased partnerships among NPOs, government, and the private sector or may need to become more like social enterprises. The United Nations (UN) indicates that achieving the SDGs depends on strengthening the

implementation process and revitalizing local and global partnerships that engage multi-stakeholder partnerships to mobilize and share resources in all countries, making the nonprofit sector a critical partner in this process. In addition, there is greater demand for accountability- policymakers, philanthropy, and business leaders to ensure nonprofits have the capacity, resources, and flexibility to best serve their communities now and beyond the COVID-19 pandemic. Thus, to meet human & community needs as gap-fillers, NPOs must focus on sustainability and capacity building.

Conclusion

Strong collaboration is needed now more than ever to ensure that communities and countries have the means to recover entirely from the pandemic and help achieve the SDGs. The analysis indicates that the gap-filling roles of NPOs are essential to societies and communities and for achieving the SDGs. Based on the gap-filling theory, the government can use nonprofits as a pass-through to fulfill its needs by allocating resources on behalf of the government; therefore, NPOs need resources to fulfill their needs. More than ever, this is the time for NPOs to get the needed support from the government and the private sectors to fulfill their gap-filling roles.

Real empowerment involves genuine partnerships with NPOs and other agencies, not handouts. The UN indicates that "partnerships for sustainable development are multi-stakeholder initiatives voluntarily undertaken by many sectors and stakeholders, contributing to the implementation of SDGs" (UN SDGs). Thus, government support must increase to help NPOs play their advocate and supplemental gap-filling roles. The private sector must also recognize the nonprofit sector as gap-fillers, increase partnerships with NPOs to help them build capacity, contribute to the SDGs, and help build local economies.

REFERENCES

1. Arnsberger, P., Ludlum, M., Riley, M., & Stanton, M. (2011). A history of the tax-exempt sector: An SOI perspective. In J. S. Ott & L. A. Dicke (Eds.), *The nature of the nonprofit sector* (2nd ed., pp. 125–150). Westview.
2. Berman, H(2020) "Meeting Community Needs", *Inquiry*, vol. 47, pp. 86-198, 2010. Show in Context CrossRef Google Scholar
3. Caf America, *Voices of Charities Facing COVID-19 Worldwide Volume 1, 2020-2021*
<https://www.cafamerica.org/>
4. Child, C. D., Witesman, E. M., & Braudt, D. B. (2014, July 17). Sector choice: How fair trade entrepreneurs choose between nonprofit and for-profit forms. *Nonprofit and Voluntary Sector Quarterly*, 44, 832–851.
5. Douglas, J. (1987). Political theories of nonprofit organization. In W. W. Powell (Ed.), *The nonprofit sector: A research handbook* (pp. 43–54). Yale University Press.
6. Douglas, J. (1983). *Why charity? The case for a third sector*. SAGE.
7. Lohmann, Roger A(1992).*The Commons: New Perspectives on Nonprofit Organization, Voluntary Action and Philanthropy* <https://hdl.handle.net/10535/5310>
8. O'Neill M, (2002) *Nonprofit Nation: A New Look at the Third America* John Wiley & Sons
9. Ott J. S. & Dicke L. A. (2016). *The nature of the nonprofit sector* (3. ed.). Westview Press.
10. *The independent Sector, Impact of COVID-19 on Mid-Sized Nonprofits*, June 2020
<https://independentsector.org/resource/the-impact-of-covid-19-on-large-and-mid-sized-nonprofits/>
11. United Nations, *The Sustainable Development Goals (SDGs) Knowledge*.
<https://sdgs.un.org/goals#goals>
12. Worth, Michael J. (2020). *Nonprofit management: principles and practice* Los Angeles :SAGE Publications