

Five Forces *Reshaping* Nonprofit Finance and Leadership

A Citi Commercial Bank perspective on building organizational resilience

citi®

Commercial Bank



Executive Summary

Nonprofit leaders face mounting pressure to meet growing demand with constrained resources. In Grassi's 2025 Nonprofit Leadership Report, 77% of respondents reported increased demand for services and 79% reported higher operating costs. Average funding growth of 1.6% lagged inflation of 2.9%.[1]

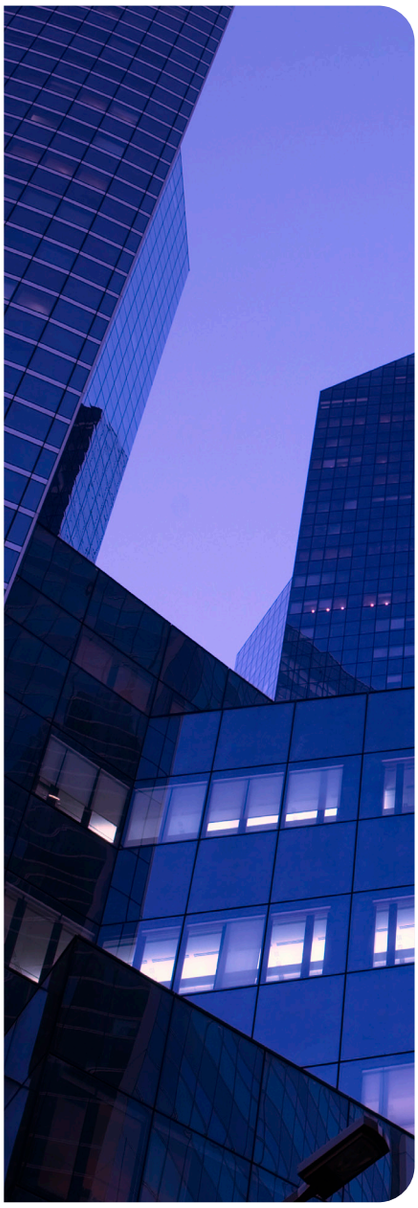
The challenges extend beyond budgets. Changes in donor behavior, government policy and technology are forcing organizations to reconsider how they raise capital, manage operations and plan for growth.

At the 2025 Citi Commercial Bank Nonprofit Summits in New York and Washington, D.C., discussions centered on five developments: the changing economics of giving, new approaches to capital, growing interest in partnerships, accelerating technology adoption and growing economic and policy uncertainty. Across our nonprofit client base, we are seeing these same pressures translate into concrete decisions — about how organizations fund operations, finance growth and prepare for a less predictable environment.

Together, these themes reveal how nonprofits are reassessing established practices while pursuing new opportunities to strengthen their organizations.

1.

The Changing Economics of Nonprofit Funding



Charitable giving is increasing even as the donor base contracts. The Fundraising Effectiveness Project estimates that contributions rose 5% in 2025 while donor numbers fell 3.6%, with larger gifts driving much of the growth.[2]

Greater reliance on major donors changes the economics of fundraising. Large, multi-year commitments can give organizations the confidence to make substantial investments. But restrictions on those contributions, or delays in payment, can leave institutions with less operating flexibility than their fundraising results suggest.

Across our nonprofit client base, we are seeing this concentration play out directly: a growing share of clients now depend on a handful of major donors or foundations for the bulk of annual giving, which changes how we think with them about cash-flow timing and reserve levels.

The CCB Nonprofit Summit discussions highlighted another change: Donors are becoming more selective and want greater transparency about how their contributions are used. The challenge for nonprofits is to meet those expectations while securing funding that supports their broader financial needs.

That raises an important consideration about the structure of major gifts. A restricted contribution may finance a new facility or program without covering the continuing costs of operating it. Organizations that negotiate support for those expenses, including staffing and infrastructure, can put themselves in a stronger position to sustain the work the gift makes possible.

For development and finance teams, the terms of a contribution can matter as much as its size. Fundraising strategy increasingly needs to account for when money will arrive, how it can be used and the financial commitments it creates.

That pairing of capital and operating support played out directly for one social services client undertaking a significant warehouse expansion to increase its food rescue and distribution capacity. The organization successfully secured restricted philanthropic support for the new facility, but the larger operation also required additional staffing, technology, transportation and working capital to support day-to-day activities. After the facility was completed and distributions increased, the organization sought additional operating support, including a line of credit, to provide flexibility as it expanded its reach and scaled operations. The experience illustrated a broader lesson: even well-funded expansion projects can place added pressure on liquidity and infrastructure, and organizations that plan for both the facility investment and the ongoing costs of growth are better positioned to sustain the expanded operation and maximize mission impact.

2.

Growing Pressure on Liquidity and Capital

Operating reserves remain thin across much of the nonprofit sector. Nonprofit Finance Fund's 2025 survey found that 52% of respondents had three months or less of cash on hand.[3] For organizations dependent on irregular reimbursements or major contributions, limited reserves can constrain both their ability to absorb disruptions and their capacity to invest.

Payment delays add to the pressure. A 2025 New York City Comptroller analysis of human services contractors found that, at seven of eight city agencies examined, first payments occurred more than 200 days after contracts began, on average.[4] While specific to New York City, the finding illustrates a payment-timing challenge common among nonprofits that rely on government contracts.

Liquidity management is only part of the capital discussion. At the CCB Nonprofit Summits, participants described growing interest in using financing to accelerate capital campaigns and pursue investments before all pledged contributions have arrived.

The distinction matters. Borrowing against reliable future receipts can allow an organization to move forward with a project that might otherwise be delayed. Financing an ongoing operating deficit presents a different proposition, since additional debt does not resolve the underlying imbalance.

For an institution contemplating a major capital investment, the decision may turn on the economics of acting now versus waiting. Borrowing introduces interest expense, repayment obligations and financial risk. Delaying construction could expose the project to higher costs or postpone the services and capacity the investment is intended to provide.

The relative costs depend on the reliability of pledged funds, the timing of expected receipts and the organization's ability to meet its obligations if conditions change. Financing can create strategic value when those factors support the investment.

52%

of respondents had three months or less of cash on hand.

In practice, many nonprofit clients address timing gaps with working capital lines, which bridge the period between when expenses are incurred and when contributions, grants or contractual payments arrive. These facilities allow organizations to fund ongoing programs and capital projects without delaying execution or liquidating long-term investments at an unfavorable time. One midsize social services organization we work with, for example, used a working capital line to continue program delivery during a multi-month gap in reimbursement from a government contract, avoiding the need to draw down restricted reserves.

For larger capital campaigns, some organizations take this a step further, borrowing against expected pledge collections so construction can begin sooner and project costs can be better managed rather than waiting for every pledge to be collected.

The speakers also highlighted opportunities to put existing assets to more productive use. Underutilized real estate, for example, may generate rental income, support shared facilities or release capital through a sale. Such options can complement financing or reduce the need to borrow, depending on restrictions, transaction costs and future space requirements.

Capital planning, viewed this way, becomes a matter of assessing how reserves, financing and existing assets can jointly support strategic priorities while preserving the resources needed to sustain operations.

3.

The Shift Toward Partnerships and Consolidation

Partnerships and mergers are attracting renewed attention as nonprofits look for ways to *expand services, share resources and improve operating efficiency.*

In BDO's 2025 Nonprofit Standards Benchmarking Report — BDO is a global accounting and advisory firm — 19% of the 250 nonprofit leaders surveyed reported merging with a similar organization in the preceding year, while 51% said they were somewhat or very likely to pursue a merger in the following year.[5] These figures measure activity and intentions among respondents, rather than an industrywide forecast.

Summit participants described particular interest among higher education and nonprofit health care institutions, where financial pressures and changing operating requirements are encouraging organizations to consider new arrangements. Nonprofits evaluating mergers, affiliations or shared-services arrangements typically weigh a common set of factors: liquidity, combined operating performance, debt capacity, integration costs, governance and the sustainability of the combined revenue base.

Higher education and adjacent sectors illustrate this pressure directly. Declining international enrollment, reductions in federal funding, changing immigration policies and weaker demand for standardized testing have pushed several institutions toward consolidation and revenue diversification. One illustrative example is a testing organization that acquired another assessment and professional-licensing services provider, following an earlier acquisition of a separate licensing organization, as part of a broader effort to expand beyond traditional testing and diversify its revenue streams.

The financial case for consolidation, however, depends on how much integration is necessary to achieve the desired benefits. Shared administrative services or joint programs may produce efficiencies without the cost of combining institutions. A full merger may create greater opportunities for scale, but it can also introduce liabilities, require substantial integration spending and temporarily strain liquidity. Expected savings may take years to materialize.

Mission and cultural alignment remain essential. Yet the economic comparison deserves equal weight: how much of the anticipated benefit requires full integration, and how much could be achieved through a lighter-touch partnership.

That comparison, more than mission alignment alone, often determines both the structure of an arrangement and the financial resources needed to make it work.

Two mid-sized New York Medicaid-funded social service agencies we work with illustrated this trade-off directly. Facing rising costs, workforce challenges and increasing service demand, the organizations explored a full merger but ultimately determined that differences in governance and organizational culture made a merger too risky. Instead, they implemented a shared-services model that consolidated finance, HR, IT and grant development functions while allowing each organization to maintain its own board, brand and legal identity. The partnership reduced administrative costs, improved service coordination, increased grant funding opportunities and enabled more resources to be directed toward client services — without the disruption of a full organizational merger.

4.

Accelerating Technology Adoption

Artificial intelligence is moving rapidly into nonprofit operations. Grassi's nonprofit leadership surveys found that the share of respondents using AI increased from 31% in 2024 to 48% in 2025.[1]

The CCB Nonprofit Summits highlighted a broader opportunity. Alongside AI, participants discussed integrating donor management and enterprise systems, reconsidering legacy technology providers and outsourcing selected functions.

These investments compete for the same limited resources. For some nonprofits, integrating existing financial and donor platforms may offer greater immediate value than deploying new AI applications. Fragmented data and inefficient workflows can limit the benefits of advanced tools, regardless of their capabilities.

Across our client base, the most common AI use cases we are seeing fall into a few categories:

Donor targeting and engagement

Analyzing CRM data — giving history, engagement patterns, demographics and communication preferences — to tailor messaging, subject lines, campaign timing and suggested contribution amounts.

Grant and reporting automation

Using AI to draft first versions of grant reports, compliance filings and board materials, reducing the hours program staff spend on documentation.

Program and case management

Summarizing case notes or client interactions for social services organizations, freeing frontline staff to spend more time with clients rather than on data entry.

Finance and forecasting

Supporting cash-flow forecasting and scenario modeling, particularly for organizations managing irregular reimbursement timing.

The potential benefits include improved donor conversion, stronger retention, greater staff capacity and lower administrative costs — though these initiatives are most credible when supported by measurable results, such as hours saved, reductions in outside vendor expenses, or increases in campaign response rates.

More broadly, AI may offer particular advantages in organizations where staff spend substantial time preparing reports, processing information or performing repetitive administrative work. The speakers emphasized combining automation with human expertise, allowing employees to devote more attention to activities requiring judgment and relationships.

Selective outsourcing presents a similar calculation. Outside providers may offer specialized capabilities or lower operating costs, but the benefits depend on service quality, pricing and the organization's ability to oversee the relationship.

These choices require a clear view of where operating capacity is most constrained and which investments would make the greatest difference. Technology modernization, AI and outsourcing are alternative or complementary ways to address those needs.

Governance remains a consideration. In a 2026 study by NTEN (Nonprofit Technology Network) and the Bridgespan Group, approximately 22% of 404 executive respondents reported having an AI risk management plan in place.[6] As organizations expand their use of AI, policies governing sensitive information, vendor access and human oversight will need to keep pace.

In practice, the greatest payoff comes not from any single tool but from directing technology spending toward the processes and capabilities that most affect organizational performance — and from measuring the results.

5.

Growing Economic and Policy Uncertainty

Organizations that establish decision points in advance can respond more quickly, *whether circumstances require restraint or create room for growth.*

Government funding decisions, changes in immigration and labor policy, tariffs and broader economic conditions are creating new challenges for nonprofit planning. The effects vary by institution, from workforce constraints to higher construction costs or changes in demand for services.

In BDO's 2025 survey of 250 nonprofit leaders, 96% reported that federal policy changes had affected their organizations, while 53% had adjusted their strategic plans in response.[5]

The effects are already visible across our client base. Funding and policy changes have required several nonprofit clients across social services, climate advocacy and conservation to reduce expenses and undertake significant workforce reductions. Other organizations are reconsidering their funding models more broadly: one client, for example, is shifting away from reliance on government contracts and developing corporate partnerships to replace lost funding and build a more diversified revenue base.

At the CCB Nonprofit Summits, participants emphasized shorter planning cycles and more frequent reassessment of financial assumptions, since the value of a plan often depends on how quickly it can be revised when conditions diverge from forecasts.

Base, upside and downside scenarios can help management understand those consequences. Their value comes from the decisions they inform.

A material reduction in expected public funding may change the timing of a capital project. Higher labor costs may affect expansion plans. Stronger fundraising or lower project costs may create an opportunity to invest sooner than anticipated. In evaluating major investments, clients are placing greater emphasis on liquidity, funding certainty, project phasing and the ability to adjust costs if economic conditions deteriorate.

Organizations that establish decision points in advance can respond more quickly, whether circumstances require restraint or create room for growth.

The speakers also emphasized stronger partnerships between boards and management, supported by financial literacy and regular cash-flow sensitivity analysis. Those practices become particularly important when executives need to make decisions between formal budget and strategic planning cycles.

Striking that balance — giving management room to act while keeping boards informed of the financial stakes — is as much a governance discipline as a financial one. It also underscores a related risk: organizational transitions create openings for payment fraud, making independent verification of changes to payment instructions essential during leadership changes, banking migrations and mergers.

Where the Five Forces Intersect

The developments examined in this report are connected. A major gift can support expansion while increasing operating expenses. Financing can bring an investment forward but introduce new obligations. A merger may reduce costs over time while requiring substantial spending on integration.

Technology investments and policy changes can alter those calculations further.

For nonprofit leaders, understanding how decisions in one area affect resources and options elsewhere is central to durable planning. The strongest financial and strategic plans account for those connections and can be adjusted when assumptions change.

Five Questions for Nonprofit Leaders



Funding

How do the terms, timing and restrictions of major contributions affect our ability to finance continuing operations?



Capital

When would financing an investment now create more value than waiting for committed funds to arrive?



Partnerships

How much organizational integration is required to achieve the expected financial and operational benefits?



Technology

Where would investment produce the greatest operating improvement: AI, core systems modernization or outsourcing?



Planning

Which changes in funding, costs or policy would cause us to revise a major financial or strategic commitment?

Conclusion

The discussions at the CCB Nonprofit Summits reflected a sector facing considerable pressure, but also finding new ways to finance growth, improve efficiency and adapt to change.

For nonprofit leaders, the task ahead is to weigh these opportunities against their financial and operational consequences, and to make decisions with enough flexibility to respond as conditions evolve.

How Citi Can Help

Citi Commercial Bank works with nonprofit organizations across these same pressure points, bringing together banking capabilities designed to support both day-to-day operations and longer-term strategic decisions:

- **Liquidity management:** Operating and reserve account structures, cash concentration and working capital lines designed to bridge the gap between when expenses are incurred and when grants, contracts or pledges are collected.
- **Capital planning and strategic financing:** Financing solutions to accelerate capital campaigns or major projects, including structures that borrow against reliable pledge receivables, alongside advisory support to evaluate the trade-offs between financing now and waiting for funds to arrive.
- **Treasury solutions:** Payment and receivables tools to help organizations manage the timing and reconciliation of grants, donor contributions and government reimbursements more efficiently.
- **Fraud prevention:** Payment controls and verification protocols that help protect organizations during periods of change — including leadership transitions, banking migrations and mergers — when the risk of payment fraud is elevated.
- **Transaction and integration support:** Guidance for organizations evaluating mergers, affiliations or shared-services arrangements, including how to assess liquidity, debt capacity and integration costs before committing to a structure.

We see our role as a trusted advisor in these decisions, not simply a provider of individual products. The organizations making the most of this environment are those that revisit their financial strategy regularly and have a banking relationship that can flex with changing needs.

Sources and Methodology

1. Grassi. 2025 Nonprofit Leadership Report, published Oct. 23, 2025. Data cited: service demand, operating costs, funding growth, inflation and AI adoption figures.
   Source:
   https://www.grassiadvisors.com/news/key-findings-2025-nonprofit-leadership-report-reveals-innovation-strategies/
2. Fundraising Effectiveness Project. Q4 2025 Report, released April 21, 2026. Data cited: year-over-year change in giving and donor participation for 2025.
   Source:
   https://publications.fepreports.org/archive/2025-q4/
3. Nonprofit Finance Fund. 2025 State of the Nonprofit Sector Survey. Data cited: operating cash position across 2,206 surveyed nonprofit organizations.
   Source:
   https://nff.org/state-of-the-nonprofit-sector-survey/2025-state-of-the-survey-nonprofit-sector-survey/
4. Office of the New York City Comptroller. Nonprofit, Nonpayment: An Analysis of Payment Delays for the City's Human Service Contractors, published April 29, 2025. Data cited: payment timing at NYC human services agencies.
   Source:
   https://comptroller.nyc.gov/reports/nonprofit-nonpayment/
5. BDO. 2025 Nonprofit Standards Benchmarking Report. Data cited: merger activity/intentions (p. 11) and federal policy impact (p. 17), based on a survey of 250 nonprofit executives.
   Source:
   https://insights.bdo.com/rs/116-EDP-270/images/2025_NPE-Benchmarking-Overview.pdf
6. NTEN and the Bridgespan Group. State of Nonprofit AI Adoption and Governance, published Sept. 10, 2026. Data cited: AI risk management plan adoption among 404 executive respondents (of 917 total survey respondents).
   Source:
   https://www.nten.org/publications/state-of-nonprofit-ai

Research and methodology: This report draws on published research and themes from the 2025 Citi Commercial Bank Nonprofit Summits in New York and Washington, D.C., supplemented by observations and anonymized examples from our nonprofit client relationships. All third-party examples referencing specific organizations have been anonymized or generalized. The independent studies cited cover different populations, periods and methodologies, and their findings should be interpreted within those limits. Summit observations and client examples provide qualitative context and do not constitute original survey findings.



The market, service, or other information is provided in this communication solely for your information and "AS IS" and "AS AVAILABLE", without any representation or warranty as to accuracy, adequacy, completeness, timeliness or fitness for particular purpose. The user bears full responsibility for all use of such information. Citi may provide updates as further information becomes publicly available but will not be responsible for doing so. The terms, conditions and descriptions that appear are subject to change; provided, however, Citi has no responsibility for updating or correcting any information provided in this communication. No member of the Citi organization shall have any liability to any person receiving this communication for the quality, accuracy, timeliness or availability of any information contained in this communication or for any person's use of or reliance on any of the information, including any loss to such person. This communication is not intended to constitute legal, regulatory, tax, investment, accounting, financial or other advice by any member of the Citi organization. This communication should not be used or relied upon by any person for the purpose of making any legal,regulatory, tax, investment, accounting, financial or other decision or to provide advice on such matters to any other person. Recipients of this communication should obtain guidance and/or advice, based on their own particular circumstances, from their own legal, tax or other appropriate advisor. Not all products and services that may be described in this communication are available in all geographic areas or to all persons. Your eligibility for particular products and services is subject to final determination by Citigroup and/or its affiliates. The entitled recipient of this communication may make the provided information available to its employees or employees of its affiliates for internal use only but may not reproduce, modify, disclose, or distribute such information to any third parties(including any customers, prospective customers or vendors) or commercially exploit it without Citi's express written consent. Unauthorized use of the provided information or misuse of any information is strictly prohibited. Amongst Citi's affiliates: (i) Citibank, N.A., London Branch is authorized and regulated by Office of the Comptroller of the Currency (USA),authorized by the Prudential Regulation Authority and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority and has its UK establishment office at Citigroup Centre, Canada Square,London E14 5LB, (ii) Citibank UK Limited is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority and has its registered office at Citigroup Centre, Canada Square,Canary Wharf, London E14 5LB, and (iii) Citibank Europe plc, UK Branch is authorised by the Central Bank of Ireland and by the Prudential Regulation Authority and subject to regulation by the Central Bank of Ireland, and limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority and has its UK establishment office at Citigroup Centre,Canada Square, London E14 5LB. Outside the UK: (i) Citibank Europe plc ("CEP") is Licensed by the European Central Bank and regulated by the Central Bank of Ireland and the European Central Bank under the Single Supervisory Mechanism and has its registered office at 1 North Wall Quay, Dublin 1, and (ii) Citibank Europe plc branches located in the EEA are subject to regulation by the respective host country regulator and the Central Bank of Ireland. This communication is directed at persons: (i) who have been or can be classified by Citi as eligible counterparties or professional clients in line with applicable rules, (ii) Persons in the United Kingdom, who have professional experience in matters relating to investments falling within Article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005,and (iii) other persons to whom it may otherwise lawfully be communicated. No other person should act on the contents or access the products or transactions discussed in this communication. In particular, this communication is not intended for retail clients and Citi will not make such products or transactions available to retail clients. The information contained herein may relate to matters that are: (i) not regulated by the UK Regulator, and/or (ii) not regulated by any applicable financial services regulatory body, and not subject to protections under any relevant law including protection under any applicable financial services compensation scheme.

© 2026 Citigroup Inc. (organized under the laws of USA with limited liability) and/or its affiliates. All rights reserved. CITI, CITI and Arc Design, CITIBANK and CITIGROUP are trademarks and service marks of Citigroup Inc. and/or its affiliates and are used and registered throughout the world.

26 - 4DFDFAF4 10/26