

The effect of legislative grants in the potential for diversification of revenues among nonprofit corporations

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Abstract

Non-profit organizations (NPO) need to establish a diversified portfolio of revenue-producing activities in order to successfully adopt a social enterprise approach to financial sustainability (Community Wealth Ventures, 2008, p. 156; EMES 2009; Vega, 2014). NPOs in Puerto Rico are increasingly adopting earned income strategies for their long-term financial sustainability and achievement of their mission yet still rely on governmental funds for a substantial amount of their budget (Estudios Técnicos, 2015). Historically, the legislative grant program (LGP) of the Puerto Rico Legislature has been a major source of state funds for hundreds of NPOs providing social services throughout the Island (Vega & Santiago, 2003). Various authors such as Andreoni & Payne, (2001), Brooks (2006) and Carroll and Starter (2008) among others, account that being recipient of governmental funds may have a positive (crowding in) or negative (crowding out) effect on the aspirations of nonprofits to rely less on public funds. This paper examines the effect of the LGP on the ability of NPOs of attracting other sources revenues to their institutions. Statistical analyses on data mined through an archival review of a representative sample of applications submitted by recipients of these grants reveal that the crowding in effect is observed and that the LGP encourages diversification of revenues among NPOs.