

**Funding Matters:
The Impact of Canada's New Funding
Regime on Nonprofit and Voluntary
Organizations**

2003

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The Canadian Council on Social Development (CCSD) has undertaken this project in partnership with the Coalition of National Voluntary Organizations (NVO). The research was commissioned by the Working Group on Financing, under the auspices of the Voluntary Sector Initiative (VSI). The research has been supported financially by the Government of Canada through the Voluntary Sector Initiative.

The analysis, views and opinions expressed are those of the author and do not necessarily reflect the position or policies of the NVO, the VSI, or the Government of Canada.

National Library of Canada Cataloguing in Publication

Scott, Katherine

Funding matters [electronic resource]: the impact of Canada's new funding regime on nonprofit and voluntary organizations / Katherine J. Scott.

Issued also in French under title: Le financement, ça compte.

A summary of this report is available in print format.
Includes bibliographical references.

ISBN 0-88810-518-5

1. Nonprofit organizations--Canada--Finance.
2. Charities--Canada--Finance.
- I. Canadian Council on Social Development
- II. Title.
- III. Title: The impact of Canada's new funding regime on nonprofit and voluntary organizations.

HG4027.65.S36 2003

361.7'63'0971

C2003-903381-3

*To my parents, who exemplify the giving spirit of volunteers in Canada.
They make a difference every day.*

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Preface

There is widespread interest in the nonprofit and voluntary sector in Canada. At the same time, it is surprising how little we know about it and its role in Canadian society. This is particularly startling given the expectations that are placed on the nonprofit and voluntary sector – by governments seeking to off-load public programs and services, and by citizens who expect high levels of service and diverse opportunities to participate in community life. Yet demands on the sector have not been matched by commensurate human or financial resources. Many nonprofit and voluntary organizations struggle for survival day to day.

The erosion of the financial capacity of nonprofit and voluntary organizations has prompted particular interest and reflection on the part of the sector and its funders. Nonprofit and voluntary organizations receive funding from a variety of private and public sources – such as donors, foundations, governments, corporations, individuals, earned income – and through a variety of mechanisms – such as tax assistance, grants, contracts, and contributions. Divergent funding policies, regulations and practices work singly or in combination to facilitate, or hinder, nonprofit and voluntary organizations in pursuit of their missions. Recent trends in funding, however, appear to threaten the continued viability of the sector. The shift away from core funding that is evident across Canada, to name just one example, has heightened competition among nonprofit and voluntary organizations for increasingly scarce resources. Much organizational time is now devoted to chasing short-term sources of funding, often at the expense of the organizations' mission and core activities.

The primary objective of this study is to document the changing funding landscape in Canada and to assess the impact of these changes on the financial capacity and long-term sustainability of nonprofit and voluntary organizations. Through our study, we hope to bring to light the challenges and opportunities that nonprofit and voluntary organizations in a variety of sectors face in trying to fulfill their missions, because a strong foundation of knowledge is key to developing concrete recommendations and options for funding policies and practices that will enhance and sustain the vital activities of nonprofit and voluntary organizations in communities across the country.

This is the final report of the Funding Matters project. A Summary Report is also available in English and French. The final report and summary will be available electronically on the Canadian Council on Social Development's website at www.ccsd.ca.

The Canadian Council on Social Development (CCSD) has undertaken this project in partnership with the National Coalition of Voluntary Organizations (NVO). The research was commissioned by the Working Group on Financing, under the auspices of the Voluntary Sector Initiative (VSI). The VSI is a joint undertaking between the voluntary sector and the Government of Canada. Its long-term objective is to strengthen the voluntary sector's capacity to meet the challenges of the future and to enhance the

relationship between the sector and the federal government in order to better serve Canadians. The research has been supported financially by the Government of Canada through the Voluntary Sector Initiative.

Marcel Lauzière

President

Canadian Council on Social Development

Acknowledgements

A project of this scope draws on the energies of many, many people. I would like to acknowledge and thank all those who contributed their energies and expertise to *Funding Matters*. I would especially like to express my appreciation to the many people from nonprofit and voluntary organizations who participated in our focus groups and case studies. They gave unstintingly of their time and considerable knowledge to this study, discussing frankly the challenges and opportunities that the nonprofit and voluntary sector face today. Their talent and vision are driving efforts for change.

Thanks also go to the members of the Working Group on Financing who commissioned this study and provided invaluable support to the researchers.

Special mention goes to Laura Korn Palmer, Barbara Tuntoglu, Cathy Wright, Adriana Davies, Sandra Schwartz, Brenda Wallace-Allen, Lyse Brunet, Denis Sauvé, Marion Price, and Fo Niemi who organized the focus groups across the country. Their contribution has been critical to the successful completion of this study. As well, I would like to thank Michèle LeBlanc who facilitated the focus groups with great skill.

I also relied on a wonderful group of researchers at the Canadian Council on Social Development. My special thanks go to Paul Roberts and Angela Gibson-Kierstead who analyzed the quantitative data for this project. Kate Rexe, Esther Roberts and Steve Cumming assisted with the research and preparation of this study as well.

Christie Gombay and Paul Leduc Browne prepared background research papers for the study which certainly broadened my understanding the nonprofit and voluntary sector in Canada and added considerably to the final report.

I would also like to acknowledge the contribution of Cheryl Hamilton who edited the final report and prepared the study summary. Her support has been invaluable; she literally kept me going to the end.

Many people provided administrative assistance. I would like to acknowledge the contribution of Lyne Berard, Lyne Flansbury, Stephanie Pearce, Jennifer Haire, Dianne Dodds, Rachel Green, Gail Todd, and Monica Prince Computing.

At the CCSD, Nancy Perkins headed up production and applied her experienced hand to copy editing the text. Lori Harrop directed dissemination of the study. Arlette Siquin, Christiane Ryan, Marcel Gagnon and Yolande Amzallag committed many hours to the translation of the book. Susan Scruton coordinated and posted the study findings on our website.

I would also like to express my appreciation to the Advisory Group for the project: Elmer Hynes, Susan Phillips, Faye Porter, John Saxby, and Paula Speevak-Sładowski. They provided key interventions as the project proceeded.

Many others provided advice, expertise and support. They include: David Armour, Catherine Bertrand, Phillippa Borgal, Susan Brandon, Alexis Carty, Lynn Eakin, Alice Herscovitch, John Hobday, Andrew Jackson, Larry Ketcheson, Pierre Lacroix, Marcel Lauzière, Mike McKnight, Hillary Pearson, Deb Pike, Paul Reed, Susan Shepherd, John Shields, Betsy Troutt, John Walker, and Bob Wyatt.

Lastly, I would like to thank Dianne Bascombe, my co-researcher, for her insight and passion. Dianne's experience and sheer energy propelled this project from the proposal stage through to completion. I will always be grateful for her contribution and friendship.

And lastly, to my husband Rob Frater, who kept me going through the research and writing, and held down the fort through my travels and late nights. I am very thankful.

Executive Summary: A Warning and an Opportunity

The capacity of the nonprofit and voluntary sector to fulfill its important role in Canadian society is being undermined and eroded by new funding strategies that are intended to increase accountability, self-sufficiency and competition.

This study describes the emergence of a new funding regime for the nonprofit and voluntary sector and warns of serious challenges for the sustainability of a cross-section of organizations. Instability of this sector threatens the future of a diverse range of social, health, cultural, recreational, environmental, and other not-for-profit community services for millions of Canadians.

The findings in this report are based on a series of focus groups held in different regions of the country and attended by more than 100 nonprofit and voluntary sector organizations, as well as roundtable discussions with funders and interviews with key informants, responses to a written survey of nonprofit and voluntary sector organizations, in-depth case studies, and a review of other research.

The sense of alarm expressed by the nonprofit and voluntary sector community stems mainly from **how** organizations are funded. Many organizations that survived government funding cutbacks of the 1990s are financially fragile because they are now dependent on a complex web of unpredictable, short-term, targeted project funding that may unravel at any time.

This study was done for the Working Group on Financing, a subgroup of the Capacity Joint Table of the Voluntary Sector Initiative (VSI). The VSI is a joint effort by the federal government and representatives of the nonprofit and voluntary sector to strengthen the sector's capacity to meet the challenges of the future. The purpose of this study was to identify current sources and mechanisms of funding for nonprofit and voluntary sector organizations and to explore the differential impacts affecting sustainability.

The study found that on the funding side:

- Funders are adopting an increasingly targeted approach to funding.
- There has been a marked shift away from a core funding model, which funds organizations to pursue their mission. The new model is project-based and is characterized by contracts that give funders increased control over what the organization does and how it does it.
- Funders are reluctant to fund administrative costs that cannot be directly tied to a project or program.
- Funding is being provided for shorter periods of time, and is increasingly unpredictable.
- Reporting requirements have increased.

- Funders are increasingly requiring organizations to make joint submissions with other project partners and to demonstrate that they have secured funding from other sources – either financial or in-kind contributions – before extending their support.

No one disputes the right of private donors to allocate their money as they see fit, whether it involves individual or corporate giving. This study describes concerns in some quarters about the trend among private corporations to replace donations with sponsorships. But the major, overriding concern is about the new funding strategies of governments, which are the largest funders of the nonprofit and voluntary sector in Canada.

To be clear, the participants in this study were generally supportive of the stated motives of funders to increase accountability, support partnerships, promote diversification of funding sources, and foster efficiency and innovation within the sector. However, the study found a major disconnect between the stated intent of funding reforms and the consequences of these changes for nonprofit and voluntary sector organizations across the country.

Recognizing that organizations are coping with current realities in a variety of ways and with differing levels of success, the study has identified some worrisome trends:

- Volatility – As organizations struggle to diversify their funding sources, they can experience huge swings in revenue. This volatility undermines an organization’s stability and its capacity to provide consistent, quality programs or services, to plan ahead, and to retain experienced staff.
- A tendency to “mission drift” – As organizations scramble to qualify for narrowly prescribed program funding or to win government contracts, some are being pulled away from their primary mission, which is their long-term purpose and the source of their credibility within the community.
- Loss of infrastructure – With the move to project-based funding and the tightening of restrictions on administrative costs that will be covered by funders, some organizations are losing their basic infrastructure. They are becoming a series of projects connected to a hollow foundation.
- Reporting overload – Many smaller organizations are losing heart as they face yet another round of short-term contracts, short-term hiring and letting-go of program staff, all the while pursued for multiple reports from multiple funders with multiple forms and requirements.
- House of cards – Because funders often now require financial or in-kind contributions from other sources, the loss of one contract or the end of one partnership agreement can bring down the whole interlocking structure. A service that is thriving one year can collapse the next. Organizations despair of arrangements in which funders will

not commit until other funding partners are on-side, the last one standing being the preferred position.

- Advocacy chill – When organizations must cobble together different projects and partners in order to survive, being seen as an outspoken advocate on behalf of one’s client group can be regarded as too risky, despite the justice of the cause. Some organizations may not want to have their name in the media when their next funding submission comes up for approval. In effect, advocacy organizations have been effectively marginalized over the past 10 years.
- Human resource fatigue – People, both paid and volunteer, are stretching themselves to the limit to meet the new challenges and yet remain faithful to their mission and to the citizens and communities to whom they feel responsible. But how long can this go on?

The strength and resolve of those involved in voluntary activity are still strong. But the cracks that are appearing in the sector deserve serious attention before they become major fractures. There is a real and timely opportunity to modify funding strategies and reverse their unintended consequences.