FUNDING MATTERS:
The Impact of Canada's New Funding Regime on Nonprofit and Voluntary Organizations

Summary Report

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in collaboration with the
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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.

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Canadian Council on Social Development

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Preface

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. 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. 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 across a range of sectors face in trying to fulfill their missions.

This is the Summary Report of the *Funding Matters* project. The Final Report is available in English and French on the CCSD website at www.ccsd.ca.

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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.

A study by the Canadian Council on Social Development (CCSD) in collaboration with the Coalition for National Voluntary Organizations (NVO) 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. The instability of the 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 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.

The 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 the 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.

THE INSTABILITY OF THE 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.

- 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 a 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 project partners and to demonstrate that they have secured funding from other sources (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. The study describes concerns in some quarters about the trend among private corporations to replace donations with sponsorships. But the major, over-riding concern is about the new funding strategies of governments, the largest funder 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 in the community.
- **Loss of infrastructure** – With the move to project funding and the tightening of restrictions on administrative costs that are 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 now often 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 projects and partners 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. You do not want to have your name in the media when your next funding submission comes up for approval. 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 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 nonprofit and voluntary activity are still strong. But the cracks that are appearing in the sector deserve attention before they become major fractures. There is a real and timely opportunity to modify funding strategies and reverse their unintended consequences.

The funding trends and their consequences are discussed further below. But first, we outline what the nonprofit and voluntary sector looks like, and what kinds of organizations this study included.

The Nonprofit and Voluntary Sector

Defining the nonprofit and voluntary sector is not a straightforward task. Studies are gradually putting together a picture of the sector, but it is still incomplete. The lack of information is due in large part to the fact that only recently has it been regarded seriously as a "sector" at all. The Voluntary Sector Initiative (VSI) represents a major step forward in this regard.

The VSI describes the sector as comprised of "self-governing organizations that exist to serve the public benefit, generate social capital but do not distribute private profit to members, depend to a meaningful degree on volunteers, involve participation on a voluntary basis, and are independent or institutionally distinct from the formal structures of government and the profit sector" (VSI, May 2001).

The VSI notes the diversity of the sector, which includes registered charities,

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incorporated non-profit organizations, and groups that are neither registered nor incorporated. It recognizes that many of the organizations in the sector rely on paid staff to carry out their work, but that all depend on volunteers to serve on boards of directors or steering groups for their governance.

To get an idea of the size of the sector, there were almost 79,000 registered charities in Canada in 1999 (CCRA estimate). Charitable organizations, however, represent less than half the nonprofit and voluntary sector. It is estimated that there are 100,000 non-profit, non-charitable corporations in Canada, about which we have very little data.

Then there are the grassroots groups – small, unincorporated, volunteer-based groups with limited financial resources. Even less is known about these groups. They have been described by one author as "the dark matter ignored in prevailing 'flat earth' maps of the sector" (Smith, 1997).

While revenue estimates vary, it is clear that the sector as a whole makes a significant contribution to the Canadian economy. More than 900,000 Canadians are employed in the nonprofit and voluntary sector, excluding hospitals and universities (McMullen and Schellenberg, 2002). Every year, Canadians donate an estimated one billion person-hours to voluntary activities – the equivalent of more than half a million full-time jobs (Hall, McKeown, and Roberts, 2001).

Because nonprofit and voluntary organizations are involved so many aspects of Canadian life, the contributions of the sector to society are everywhere. The VSI notes: "The diverse multitude of organizations range from small community-based groups to large, national umbrella organizations, all enriching the lives of Canadians in various ways."

Nonprofit and voluntary organizations deliver services such as home care for the sick and elderly, recreation programs for children and youth, shelter for victims of abuse, or assistance to immigrant families adjusting to a new country. They enliven our cities with arts and cultural events, teach us about protecting our natural environment, promote literacy and learning, advocate on behalf of the marginalized, and monitor the quality of life of our communities, among a host of other activities. Together, these organizations play an essential role in promoting active citizenship and building bridges between communities and cultures, across regions and between Canada and other countries.

This study concentrated on what have been called "public benefit organizations" that exist primarily to serve others and contribute to the general welfare (Salamon, 1995). This approach excluded member-serving organizations, such as professional groups, consumer groups, unions and cooperatives that are primarily organized to pursue the interests of their members and are funded through membership fees. Religious organizations were also excluded from the study.

Hospitals and universities were excluded as well – on the basis that they are largely controlled by governments. They are also by far the largest nonprofit and voluntary sector organizations in the sector, certainly in terms of funding. There is a huge range between the few big and many small charitable organizations. Eighty per cent of charities reported revenues under $250,000 in 1995, and 7% of them reported revenues over $1 million (Dreessen, 2000).

For the purposes of this study, organizations such as the United Way and public and private philanthropic foundations were consulted as funders, rather than as members of the nonprofit and voluntary sector.

The nonprofit and voluntary sector organizations that contributed their views to inform this study tended to be incorporated, with or without charitable status. They have an institutional presence, usually locally or regionally, but in some cases nationally. Some of the organizations interviewed for this study started out as grassroots groups, but have evolved into more formal, professional entities. The areas of activity in which these organizations pursue the public good can be categorized under the following general headings: social services, community benefit, environment, arts and culture, health, ethnocultural activities, and recreation and sport.

Financial Capacity and Funding Trends

The changes that are happening in the nonprofit and voluntary sector are part of a sweeping restructuring in the organization of modern societies. The private corporation has been reshaped by globalization, technology and a host of other factors. In the 1990s across Canada and around the world, governments launched major initiatives to balance their budgets and reinvent themselves for the new millennium.

Nonprofit and voluntary organizations have been struggling to shape a new course in the face of the social, economic and political forces buffeting their sector, and to sustain their ability to pursue their mission. Financial capacity is an essential part of organizational capacity and sustainability. Building on earlier work done on the sector (Working Together, 1999), this study takes the view that financial capacity is not just about money in the bank. Capacity includes relationships with funders and the institutions, mechanisms and practices that enable or hinder the ability of organizations to carry out their work.

GOVERNMENT

Historically, government has been the most important funder of the nonprofit and voluntary sector. Direct government funding accounts for roughly 60% of total sector revenues. The largest government contribution comes from provincial and territorial governments. In addition, the sector benefits from indirect government support in the form of charitable tax credits and GST rebates – an estimated $1.5 billion in 1997-98 (Treasury Board Secretariat, 2000). Governments also provide meeting space, equipment, facilities and training to many organizations.

MANY ORGANIZATIONS THAT SURVIVED GOVERNMENT CUTBACKS OF THE 1990S NOW DEPEND ON FUNDING THAT MAY UNRAVEL.

In the 1990s, in an environment of fiscal constraints, governments cut direct financial support to many nonprofit and voluntary organizations that they had funded for decades. But the changes in funding mechanisms were more profound than just cutbacks for many (although cutbacks were profound enough for some organizations to close their doors) – the relationship itself between government and nonprofit and voluntary sector organizations changed.

This new relationship is reflective of a philosophy that introduced values associated with the private marketplace – competition, diversification, entrepreneurialism, innovation, focus on the bottom line – into the mix with more traditional public sector values of accountability, stability, responsiveness to clients and community, and serving the public interest.

Organizations were told to diversify their funding base and become less dependent on tax dollars. A number of organizations that had traditionally received an annual government grant to support their work, which left them a degree of autonomy in directing their own affairs, lost all or most of that core funding. Instead, many were left to apply for project funding targeted to certain priority areas or to enter into purchase-of-service contracts with government ministries and departments
for delivery of specified programs.

From the funders' perspective, governments — as well as other private sector funders — are implementing mechanisms to ensure the most effective use of dollars by:

- targeting funding to programs and projects that meet in this instance the elected government's priorities and focusing on the results to be achieved;
- reducing support for administration to increase the proportion of funding that goes into programs and services;
- monitoring contracts closely and requiring organizations to demonstrate that they have used the funds for the purposes intended and achieved the expected results;
- encouraging groups to show how they can do business differently and do more/better with less;
- reducing duplication and gaps in service and enabling more integrated and holistic solutions to complex problems by making organizations collaborate through partnerships; and
- retaining flexibility to meet changing priorities in a volatile environment by avoiding long-term financial commitments.

EARNED INCOME

There are a number of other sources from which the nonprofit and voluntary sector can and does derive income, including memberships, donations, philanthropic foundations, the sale of goods and services, investments, commercial ventures, gaming, corporate sponsorships and others. The reliance on a particular income source often reflects the history of the organization, its community, and its primary activity.

A second major source of income for the sector as a whole is fees and charges. Sports and recreation and arts and cultural groups have traditionally relied heavily on fees and charges. For other nonprofit and voluntary organizations, it is a marginal source of income. Some organizations charge fees for mission-related services (a university, for example), while others generate income through ancillary businesses such as museum shops or parking lots.

Earned income is not an option for everyone. You have to have something to sell to make money from goods and services. If you levy charges, you need clients or members who can afford to pay the fees or buy the tickets. A commercial venture may work for some groups, while others may consider it a betrayal of their mission. Commercial activities are not without their own costs. They can divert staff energies and resources toward income generation and away from core activities.

PRIVATE GIVING

Private giving is the third major source of revenue for the sector. Private funds may come from individuals, private corporations, unions, foundations, or community-based fundraising organizations such as the United Way.

There is a prevailing myth that voluntary activity is largely sustained by the donations of concerned individuals. This is certainly true for religious organizations, for example, and many smaller community-based service or advocacy groups. But most nonprofit and voluntary organizations pursue other sources of funding in no small part because of the inherent instability of private giving. Significant revenue fluctuations from year to year make it very difficult for established organizations to staff and deliver programs, particularly over the long term, by relying exclusively on private giving.

Ongoing fundraising is hard work, and organizations report increasing difficulties in recruiting volunteers for fundraising purposes and high levels of donor fatigue. Increasingly, nonprofit and voluntary organizations rely on a relatively small group of donors and volunteers who drive nonprofit and voluntary sector efforts.

Other private funders involved with nonprofit and voluntary sector organizations have become, like governments, more “proactive” in their approach. A number of private foundations are more strategic or targeted in what they fund. Rather than reviewing requests for funding across a wide spectrum of activities, they are deciding on their priorities and programs, then asking groups to submit requests within those areas.

Agencies like the United Way are also requiring organizations to spend considerable time and effort every year demonstrating that they have been operating efficiently and providing a valuable service to the community. The original principle of pooling charitable funds in a “united” campaign is changing in some communities where United Ways are offering donors the choice of designating their dollars for specific purposes. There is some concern that unpopular, but much-needed, services may ultimately lose out in competition with more “appealing” programs.

CORPORATIONS ARE NOW MORE LIKELY TO FAVOUR ORGANIZATIONS THAT ARE IN A POSITION TO DELIVER A SIGNIFICANT RETURN, BY WAY OF RECOGNITION, ON THEIR INVESTMENT.

CORPORATE PHILANTHROPY

Corporate philanthropy is a viable source of private giving for only a select few among nonprofit and voluntary organizations. Corporations prefer to associate with organizations that closely resemble themselves, with structures and procedures with which they can identify. They prefer short-term funding for projects, rather than long-term support for organizations (Leat, 1995). They are now more likely to favour organizations that are in a position to deliver a significant return, by way of recognition, on their investment.

There has been a major shift in corporate giving away from donations and in favour of sponsorships, where a corporate name or logo/brand or promotion of some kind is featured in exchange for financial assistance. Some nonprofit and voluntary organizations are dipping their toes into the sponsorship pool, but others are worried that being associated with a for-profit product or service will damage their reputation as a non-profit, public interest group and alienate their traditional supporters.

Corporate funding has in no way made up for government cutbacks. Some critics of government funding of nonprofit and voluntary organizations contend that government crowds out private giving — that individual and corporate donors feel they give enough through their tax dollars. Research in the U.S. indicates that the opposite is true – lower government funding of nonprofit and voluntary organizations sets a lower standard of responsibility for private giving. The American research found that lower levels of state funding for voluntary organizations is associated with lower levels of private giving, especially corporate donations (Useem 1987, cited in Leat, 1995).

GAMING

Gaming is an interesting illustration of how funding has changed in recent years and is worth reviewing. Many nonprofit and voluntary organizations have run bingos and other such events for a long time. This method of fundraising is labour-intensive, but has been relatively successful in many communities. Governments, however, have moved into the gaming business in a big way. Net profits from government-led gaming (or gambling) were $5.5 billion in the 1999 fiscal year, with charity-run gaming generating an additional $712 million (Azmier, 2001).

Governments have set aside a portion of gaming profits to support voluntary activities. Some provinces are distributing gaming profits through public foundations, such as the Trillium Foundation in Ontario and the Wild Rose Foundation in Alberta. Nonprofit and voluntary sector organizations apply to foundations for grants in a process much like applications for government funding. Over the past decade, gaming grants have become an increasingly important source of revenue for some groups.

The experience of one community, however, illustrates the downside of this new funding trend. When one of four Ontario casinos was built in Thunder Bay, it put the existing charitable bingos out of business. There were 116 groups relying on bingo revenues, and only 11 were approved for Trillium Foundation funding. Some were turned down, and others gave up, discouraged by the complex, time-consuming application process. ("Arts funding or social engineering?" R3)

The Consequences of New Funding Approaches

Many nonprofit and voluntary sector organizations contributing to this study made a point of saying that they understand and support funders' goals of increased accountability, efficiency, innovation and partnership. However, there is huge variation in the relative ability of organizations to cope with the emerging funding regime. Larger organizations are much more likely to have the organizational infrastructure necessary to manage in the new, more unstable and competitive environment. Smaller organizations, including many advocacy groups, are being marginalized.

We should also add the caveat that not all funders are following the trends. Departments or agencies of the same government may take different approaches. But the trends described in this study were not confined to one subsector or type of nonprofit and voluntary organization or to one region of the country. They were pervasive and their effects are cumulative.

The quotations below are all from study participants who spoke in focus groups, interviews, and case studies.

VOLATILITY

"Predictability. Whatever it's going to be, you have to know what it's going to be. To me, that's the key."

The written survey that is part of this study (responses were received from about 50 organizations, 32 of which provided detailed financial data over time) helps to illustrate a point that was made time after time throughout the consultations – increased volatility and insecurity in the sector. It also reinforces the overall message that organizations are very concerned about how they are funded, more so in many cases than the actual level of funding.

Three-quarters of survey respondents had been affected by cuts in government funding in the 1990s, and over half were affected by

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reductions in funding from foundations, individuals and others. In response, they redoubled their efforts to make up for lost revenues from one source with income from another. Almost all (93%) said they were trying to diversify their funding sources, and two-thirds reported they had succeeded.

The survey found major increases in aggregate income (almost 37%) between 1997 and 2001 among those providing detailed data. Even taking into account a 2% annual inflation rate over that period, this growth is very strong. However, within this small sample, there were winners and losers – organizations that lost ground, while others gained. The overall picture is one of significant turmoil.

The sheer size of income shifts is a warning sign and an important finding of this study. A "volatile" organization was defined as one where income gains or losses were 25% or more, adjusted for inflation, over the five-year period (1997-2001). A stable organization was defined as one where the gains or losses were 10% or less. Fifty-six per cent of these organizations had income swings of more than 25%; another 25% experienced relatively stable income, and the other 19% were somewhere in between. Volatility was greatest among social service and environmental organizations.

What difference does volatility make? According to the study participants, it undermines an organization's stability and its capacity to provide consistent, quality programs or services, to plan ahead, and to retain experienced staff. As one participant said: "We want to support people to make change, but we can't commit to anyone. We never know if we will be around ... We would like to be proactive, to be moving forward, but we need consistent funding."

"Unstable and hence unsustainable funding sources and streams are leading to difficulty in planning strategic directions and budgets."

"Being in a constant state of uncertainty causes our organization to be very vulnerable. Retention of a skilled coordinator is difficult. Too much energy is spent on funding dilemmas which takes away from growth of the organization."

A TENDENCY TO MISSION DRIFT

In the past, governments provided core grants to fund organizations to pursue their respective missions. That funding supported basic core organizational and administrative costs as well as the cost of programs. The organization retained a significant degree of independence in selecting and implementing program and organizational objectives. Core or grant-based funding tended to be more predictable and to last longer than the current mode of funding.

Among organizations that responded to our survey, more than half said that core funding made up, on average, less than 25% of their total revenues.

With the new project-based funding model, funders are increasingly narrowing the range of organizations and organizational activities that they are willing to fund. They are limiting their focus to costs related to a given project or program (rather than the organization as a whole), and extending greater financial control and administrative oversight over how the money is spent. Funding tends to be short-term, and renewal is uncertain after the expiry of the project or contract.

There is concern in the nonprofit and voluntary sector that organizations are bending themselves out of shape to conform to funding criteria. One can debate whether the priorities of funders should be paramount. Funders pay the bills, but nonprofit and voluntary organizations are closer to their communities and pride themselves on keeping in touch with community needs. An organization that can no longer fulfill its primary mission risks losing credibility with clients and with the community.

One study participant described how clients blamed the community organization for failing them because a service had to be withdrawn when the funding ended. Another commented: "I am very concerned that the Province will be changing its method of funding us. We don't fit any of their new programs, despite the fact that they have been funding us for 22 years."

Concerns about loss of autonomy and mission "drift" were raised frequently in the consultations. In a focus group in one small community, people talked about mission "yank" resulting from the injection of a very large project which had the effect of diverting the work of the whole community.

"A big struggle – I think it is the key struggle in the sector right now – is staying true to mission."

"You are constantly having to juggle your mission and mandate to suit the funding agenda. It isn't your funding agenda. Let's be clear – it is their funding agenda."

Over time, targeted funding also creates a bias in favour of more well-established organizations that have the infrastructure to pursue ever-changing funding priorities. Targeting by private as well as public sector funders may also mean that much-needed but not-so-popular programs and services will be discontinued in favour of more appealing causes that make donors and politicians feel good. Environmentalists note that it is always easier to raise money for popular causes that are easy to understand ("bears and bunnies") than it is for more complex and less photogenic issues (such as restoring wetlands).

LOSS OF INFRASTRUCTURE

With the move to project funding and the tightening of restrictions on administrative costs that can be covered by funders, some

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organizations are losing their basic infrastructure. They are becoming a series of projects connected to a hollow foundation.

Administration has become a "dirty" word in nonprofit and voluntary sector funding. An organization is typically allowed to include a portion of administrative costs, such as phone or rent, in a project budget. But there are strict terms and conditions detailing what is an acceptable expenditure and what is not. Some funders will not pay anything for administrative costs. As a result, non-program functions are underfunded.

These functions include things as basic to organizational survival as organizational management, human resources management, volunteer coordination, board governance, research and evaluation, and costs related to maintaining financial reserves for salary and wage liabilities, capital replacement or other contingencies (for example, when project funding is late and staff have been hired).

There is no understanding (or room on cash flow reports) for activities related to staying connected to clients and beneficiaries, community members or other nonprofit and voluntary sector organizations. There is no support for organizations to participate in policy development discussions at the request of funders, usually government.

"Five years ago, the money we got to deliver these government programs actually covered the costs. Now, I'm not nearly covering costs of operating the building. In reality, we're subsidizing the government programs."

"I think we need a dialogue and a better understanding of the whole issue of core and operating funding – with foundation funders as well as governments."

REPORTING OVERLOAD

Study participants acknowledged their responsibility to be accountable to funders (as well as to their members, clients and communities), and to report on how money was spent and what results were achieved. However, the intensity of reporting requirements has increased, and concerns were expressed about how much work is required, especially from small organizations that do not have the administrative infrastructure to deal with all the paperwork.

There is a sense that reporting has taken on a life of its own – that in some cases, reporting requirements have little to do with the purpose or quality of the project or program. "I see it as the government having adopted a commerce model where groups are having to prove their market relevance all the time – so you are not justifying yourself in terms of output or quality – but by simple denominators of dollars or numbers of people, which are crude indicators," was a comment from one focus group participant.

Identifying the right indicators is a challenge for both funders and nonprofit and voluntary organizations. Those involved in prevention efforts or work with very vulnerable people, for example, have difficulty with quantitative outcome measures when research shows that improvements may not show up for a long time. Enforcing rigid outcome targets established at the beginning of a project can cause problems in delivery if the targets are too ambitious or they are not the appropriate targets, or if the organization is not allowed to adapt to changing circumstances.

One of the case studies revealed how stringent controls by funders that prevent organizations from moving dollars within the same project from one budget line to another can create unnecessary failure. Funding was withdrawn from an environmental organization that could not convince enough homeowners to conduct "green" audits, instead of allowing the group to move home visit dollars to a successful storefront operation that was raising community awareness.

This example speaks to another aspect of funding – there is little tolerance for risk-taking. While there is much talk about supporting innovation, there is little evidence that government funders are willing to let organizations try out something that might not work. If organizations know they will be penalized for failure, there is no incentive to risk taking a non-traditional approach.

"With having to fit into specific sorts of funding pots – it really does ultimately stifle innovation. While we are expected to be creative and innovative, you have to fit into very stringent criteria."

Seeking project funding for several programs is far more time-consuming than getting a stable grant for the organization that is renewed on a reasonably predictable basis. In other words, more time and energy is required of administrators – time and energy that nobody wants to fund.
"A significant amount of time is used to find sustaining funds for project grants. Time could be better spent in other areas if operational funding was stable and from all levels of government."

Diversified funding also means multiple reporting requirements to different funders — usually involving separate forms, procedures and timelines. With funding beginning and expiring at different times for different projects and funders, organizations must also hire and let go program staff on a revolving-door basis or find money elsewhere to bridge salaries to the next funder or funding period. For many organizations, these requirements wreak havoc with their human resource management, not to mention their cash flow.

HOUSE OF CARDS

Partnership has become a buzz-word in the world of nonprofit and voluntary sector funding. It is becoming increasingly common for funders to set criteria that require organizations to show they are working with other partners to deliver the program or service before an application for funding will be considered.

NONPROFIT AND VOLUNTARY ORGANIZATIONS ACT AS THE CONSCIENCE OF OUR COMMUNITIES… THEY REMIND US OF WHAT IS HAPPENING TO PEOPLE WHO ARE LEFT OUT OR TREATED UNFAIRLY.

Many nonprofit and voluntary organizations pride themselves on their ability to build strong and productive partnerships. At the same time, they are leery of “paper” or artificial partnerships that are put together for funders among organizations with no history or prior plan for working together. They also point out that partnerships are not appropriate for delivery of every program or service.

It is becoming increasingly common for funders to require that an organization seeking funding secure contributions (financial and in-kind) from partners up-front before the funder will agree to participate. This may be done to discourage organizations from relying on a single funder or to promote collaboration among groups involved in similar activities.

While there are certainly successful partnerships of this kind, partnership projects can be fragile. The withdrawal of one partner or the loss of one contract can bring down the whole interlocking operation because each contribution – whether it is a staff secondment or space in a community centre or cash – depends on the others. Study participants referred to this as the “house of cards” phenomenon.

The environmental organization that was the subject of a case study (mentioned above) provides an illustration. At the time of the case study, the group was facing the loss of a large amount of project funding because of a freeze preventing the hiring of short-term contract staff through a job creation program. If they couldn’t hire project staff through this job creation program, funding for the whole project would be withdrawn. Project funding had raised the group’s revenues to $170,000. But a group member noted that the budget could go back to $3,000 (what they can fundraise in the small towns and rural areas of their community) in one year.

A number of study participants spoke of funders who will not agree to support a project until others have committed themselves, the last one standing being the preferred position. It is like financial musical chairs.

“Everyone wants to be the last in – it is seen as the best spot. Funders want to leverage, but not to be leveraged.”

“There is an issue of intergovernmental competitiveness. Very often they will withhold funding because they know if they put more in, another level of government will put less, and so you have a kind of stopgap system.”

Successful working partnerships require time and effort to establish and nurture. Funders tend not to allow any funding for such time and effort. All the up-front work required to put together a joint funding proposal is not usually considered to be part of the project at all, and few funders allow for ongoing relationship-building during the course of a project.

“We now have to document every in-kind contribution and on this one small project, we have 25 partner organizations and we have to have each organization fill out forms documenting their time – it has become a major administrative headache that isn’t even funded.”

One organization described a government-funded project that required them to raise matching funding in advance. After an eight-month delay in processing the request, their matching donation dried up as their private corporate funder moved on to a new set of priorities.

"Building community is no longer seen as the important goal – the whole emphasis on partnership is leading to 'friend-raising'. "

ADVOCACY CHILL

Funding of advocacy work is controversial. There are those who believe that no tax dollars should go to fund efforts to lobby governments and the public on behalf of certain causes or the need for services. But in the history of nonprofit and voluntary organizations in Canada, advocacy on behalf of one's community has been regarded as part of the role of many organizations.

Some organizations whose missions include advocating on behalf of the marginalized and powerless in society have found themselves out in the cold. Others are still being funded, but are keeping their heads down. People in the sector call it advocacy "chill." When organizations must cobble together projects and partners 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. You do not want to have your name in the media when your next funding submission comes up for approval.

In some cases, nonprofit and voluntary organizations act as the conscience of our communities. Sometimes they remind us of what is happening to people who are left out or treated unfairly. They remind us of the fragility of the natural environment on which we depend, and what members of society owe each other. Advocacy chill is silencing those voices.

HUMAN RESOURCE FATIGUE

"You become so lean, everybody today is doing what six years ago was three jobs."

People, both paid and volunteer, are stretching themselves to the limit to meet the new challenges from funders and still remain faithful to their mission and to the citizens and communities to whom they feel responsible. But how long can this go on?

The nonprofit and voluntary sector tends to be treated as a poor relative of government and the private sector. The poor relative is supposed to live on less because it is associated with charity and unpaid labour (volunteers). This myth continues despite the fact that many

THIS PILLAR IS SHOWING SOME SERIOUS CRACKS... ACTION NEEDS TO BE TAKEN BY PUBLIC AND PRIVATE FUNDERS TO ENSURE THAT THOSE CRACKS DO NOT BECOME MAJOR FRACTURES.

organizations have become more formalized, more professional, and more "business-like" in their operations, often at the urging of funders.

Many organizations benefit from the commitment and skills of volunteers, but the cost of using volunteer labour is often overlooked. Capable volunteers are a wonderful resource, but organizations must have the time, energy and funding to recruit, train, organize, schedule and retain them.

A 1995 study of voluntary organizations found that over 80% of those surveyed had paid employees, though not very well paid. Employees tend to be less well paid than in government or the private sector simply by virtue of being in the voluntary sector (Browne and Landry, 1996). A more recent study also found that average hourly earnings and access to benefits in the nonprofit sector lag behind those in the private and quasi-public sectors. And temporary and part-time work is more prevalent (McMullen and Schellenberg, 2003). Nowadays, the loyalty and stamina of staff in the nonprofit and voluntary sector is being severely tested.

"Staff are working longer and harder with no compensation – burnout results, especially among those who are balancing work and family."

"I would say one of the impacts is deterioration of employee quality of life."

What Does It Matter?

What does it matter if a lot of nonprofit and voluntary sector organizations are at risk? Typically, the sector is misunderstood and its contributions to Canadian life are undervalued. Nonprofit and voluntary sector organizations deliver many critical services in communities across this land. They represent a vital piece of our social and economic fabric. They have rightly been characterized as the third pillar of our society, alongside government and the private sector.

This pillar is showing some serious cracks, and our study suggests that action needs to be taken by public and private funders, in concert with the nonprofit and voluntary sector, to ensure that those cracks do not become major fractures.

The people working and volunteering in the sector continue to show great commitment and creativity. And many of the funding trends that have been identified were not intended to cause harm – the motives were positive. There is a real and timely opportunity to modify funding strategies and reverse some unintended consequences.

If nothing is done, the sector will continue to suffer from increasing instability and for a significant cross-section of organizations, their capacity to achieve their mission and serve their clients and communities will continue to erode. In the end, all Canadians will be the losers.

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The Capacity Joint Table, one of 7 joint tables created to undertake the work of the VSI, undertook projects in four key areas of capacity-building for voluntary organizations:

- *Research and Information Sharing*
- *Skills Development and Recruitment*
- *Policy Capacity*
- *Financial Capacity*

These projects have resulted in a multitude of resources that are available to non-profit and voluntary organizations, governments, educational institutions, volunteers and voluntary sector researchers. Many of the products will be released during 2003.

For more information about these projects, the joint tables and the VSI, please check the VSI website at www.vsi-isbc.ca.

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Canadian Council on Social Development

FUNDING MATTERS chronicles how the new funding regime for nonprofit and voluntary organizations in Canada has changed the way these organizations survive and thrive in what has become a competitive and volatile fiscal environment. This study assesses the impact of these important changes on the capacity and long-term sustainability of nonprofit and voluntary organizations. Divergent funding policies, competing regulations and labourious reporting practices are affecting the organizations' ability to pursue key goals, and too often, an organization's mission and core activities are being sidelined in the scramble for funding to stay in business.

A final report of the Funding Matters project is available in English and French on the CCSD's website (www.ccsd.ca). A Summary Report is also available in print or electronic formats in both English and French.

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