Pan-Canadian Funding Practice in Communities: Challenges and Opportunities for the Government of Canada

FINAL REPORT

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PREFACE

The Task Force on Community Investments (TFCI) commissioned this report from the Canadian Council on Social Development (CCSD) as part of its mandate to develop more consistent and coherent funding practices, as well as seamless, horizontal approaches to community investments across the Government of Canada.

The intent of this report is to place Government of Canada funding practice vis-à-vis the non-profit sector into a larger context of private, provincial (and even international) funding practice and, by so doing, raise the level of discussion beyond the particularities of the federal government. TFCI hopes that, through this effort, the Government of Canada’s funding regime will be informed and influenced by the experiences and forces affecting funders across Canada and around the world.

The CCSD and TFCI collaborated in the preparation of this report. The work included a joint literature review of over 300 documents, focus groups with 13 federal departments and 78 public servants, informant interviews with more than 25 other individuals with an interest in the federal funding regime, and 40 interviews with private-sector or provincial funders and non-profit leaders.

Although this report is qualitative rather than quantitative – being based on people’s perceptions and experiences as funders – it points to a changing landscape of funding practice in Canada and elsewhere: one that is based on improved collaboration, enhanced flexibility, reduced administrative burden, and greater attention to the effects of funding decisions. Indeed, it is clear that effective funding practice is emerging as an area of concern for all funders and the issue merits further study and attention.

This report also represents a partnership between federal officials and the non-profit sector – consistent with the Accord Between the Government of Canada and the Voluntary Sector. This relationship was rewarding for both parties and illustrative of the collaborative style approach that should shape government/non-profit sector relations in the future.

Katherine Scott
Vice-President, Research
CCSD

Alec Connelly
Director
TFCI
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Special thanks go to Deborah Pike and Lynn Eakin, who assisted with the research and writing of the study. They provided invaluable support to this project.

Thanks also go to the members of the Task Force on Community Investments, including Alec Connelly, Barbara Humenny, Bill Downie, Jean Ouimet and Joel Carlson, all of whom spearheaded the Government of Canada focus groups and case studies.

We would also like to acknowledge the contribution of Sarah Hurman, of Interface Strategies, who wrote the executive summary, and Elizabeth Macfie who undertook the copy edit.

At the CCSD, Nancy Perkins coordinated production of the report, Gail Dugas and Deborah Pike directed dissemination of the study, and Susan Scruton coordinated and posted the study findings on the CCSD website.

Special thanks also to the Task Force on Community Investments for providing the French translation for this report and executive summary.

Katherine Scott and Marilyn Struthers are the principal authors of *Pan-Canadian Funding Practice in Communities*.

**Project Team**

Katherine Scott, CCSD  
Deborah Pike, CCSD  
Lynn Eakin, Lynn Eakin & Associates  
Marilyn Struthers, TFCI  
Alec Connelly, TFCI  
Barbara Humenny, TFCI  
Joel Carlson, TFCI  
Sarah Hurman, Interface Strategies
PART I: INTRODUCTION

Funders need to find their own style of engagement – they must decide on the sort of funder they want to be, the risks they are prepared to take, and their interest, or otherwise, in the organisations they are funding. Understanding the process of engaged funding is an important step in the journey towards a funding relationship that is more fruitful for all concerned.¹

1. Introduction

Non-profit organizations are a vital part of every Canadian community. They provide a wide range of essential services and programs that touch virtually all aspects of our society: social justice, safety, human rights, environment, health, sports, faith, arts and culture. Families and communities rely on non-profit organizations in a host of ways, from welcoming newcomers, to running theatres, to organizing local hockey leagues, to protecting our wildlife and natural habitat. Through non-profit organizations, Canadians build social capital; generate solutions to economic, social, environmental and cultural challenges; and forge the connections between citizens, communities and governments that serve as the basis of good government.

Canada has one of the largest non-profit sectors in the world. Since the late 19th century, Canadians have turned to non-profit organizations to address community needs and interests. In past decades, Canadian governments have increasingly partnered with non-profit organizations to build Canada’s social safety net; to promote social justice, inclusion and human rights; to foster cultural expression; to protect Canada’s environment; and to extend assistance to the international community.

The non-profit sector is now a significant economic force in Canada. More than two million full-time-equivalent Canadian workers² – roughly 12% of the labour force – are employed in non-profit organizations. The economic contribution of the sector was 6.4% of GDP in 2000, a figure that rises to 7.8% when the value of volunteer labour is included.³ Even after excluding the impact of hospitals, colleges and universities, the size of Canada’s core non-profit sector exceeds that of other key industries, such as motor vehicle manufacturing, agriculture, and the accommodation and food service industries.⁴ The Canadian non-profit sector has the second-

² These data include volunteers and are based on the 2000 *National Survey of Giving, Volunteering and Participating*.
⁴ Economic activity in the non-profit sector grew solidly over the 1997-2001 period. While the sector is dominated by hospitals, universities and colleges, the core non-profit sector, which excludes these organizations, gained momentum over the period, with average growth of 7.1%. In 2001, social services represented 23.5% of non-profit sector’s contribution to the GDP; culture and recreation ranked second (15.1%), with development and housing in third place (12.9%). These were followed by business and professional associations and unions (11.6%), religion (11.4%), and health (excluding hospitals) (7.6%).
largest non-profit workforce in the world, after the Netherlands; it is proportionally larger than that of the United States, long understood to have the largest and most developed civil society sector. Worldwide, the non-profit sector is now the world’s eighth-largest economy, estimated to spend more than the GDP of Britain and to have a workforce much larger than that of the world’s largest firms. These data reveal the scale and scope of Canada’s non-profit sector, dramatically highlighting, for the first time, the crucial role that the non-profit sector has come to play in supporting the well-being of Canadians across the country.

Canadians recognize and value the role of the non-profit sector. A recent Ipsos Reid Survey on the opinions of Canadians related to charities found that “there is a near universal belief among Canadians that charities have an important role to play in society in improving our quality of life. The vast majority (79%) feels that charities understand the needs of Canadians better than government and 72% think they do a better job of meeting those needs.” It is this level of trust that gives non-profit and charitable organizations the ability to mobilize and harness the resources, volunteers and community spirit that make Canada one of the best places in the world to live.

Non-profit organizations rely on many different sources of revenue and forms of support, spanning everything from earned income and charitable donations, to in-kind contributions and sponsorships. But changes in funding practices by governments and other funders, which are central to the viability of non-profits, have over the past 15 years had a significant impact on the sector and its future prospects. Funders have shifted from general “mission support” to targeted funding for specific projects and programs, and have imposed more stringent controls over how money is spent and for what purposes. Non-profit organizations with a patchwork of short-term funding have seen their capacity to tailor their programs to community needs diminish, alongside their ability to identify and plan for emerging needs. Meanwhile, societal forces are affecting the sector: levels of civic participation are declining, yet demand for services (many delivered by the sector on governments’ behalf) is increasing. This has been described as “a perfect storm” scenario in the making.

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5 This measure takes into account both paid workers and volunteers.
6 According to the Johns Hopkins Comparative Nonprofit Sector Project, Canada’s non-profit sector represents 11.1% of the economically active population, excluding religious worship organizations. The share in the United States is 9.8%, both considerably higher than the 37-country average of 4.5%. For comparison, the non-profit sector’s labour force share in the United Kingdom is 8.5% and 6.3% in Australia. See M. Hall, et al., (2005). The Canadian Non-profit and Voluntary Sector in Comparative Perspective, Toronto: Imagine Canada: 9 – 10.
7 Lester Salamon, et al. (1999), Global Civil Society: Dimensions of the Non-profit Sector (1999) Baltimore: Center for Civil Society Studies, Johns Hopkins University, p. 9; See also: John Hall and Frank Trentman (2005), Civil Society: A Reader in History, Theory and Global Politics. New York: Palgrave Macmillan (This volume provides a broad global historical overview of the role of the sector) and the work of Kathy Brock, Queen’s University School of Public Policy.
The impacts of current funding practices – documented in numerous studies\textsuperscript{10,11} – are raising concerns among non-profits and funders alike about the effectiveness of community investments and sustainability of the non-profit sector.

This situation raises the question of what role Canadian governments and other stakeholders ought to play in supporting the non-profit sector. Debate about the best way to create an enabling financial environment for the non-profit sector is not a uniquely Canadian conversation; it engages most advanced industrial governments. Around the world, in the face of increasingly complex social and economic problems, governments are turning to a more collaborative process of problem solving.\textsuperscript{12} Greater collaboration and interdependence are the hallmark of this model of governing, not only between governments and non-governmental partners, but also within government, between departments working on horizontal files.

In this new era of “third-party government,” everyone has a stake in getting it right. Failure of community investment funding systems reveal the contradictions embedded in current modes of governing, between the old and the new, between the demands of the contracting system and the requirements of horizontal governance. This is an acute problem for the Government of Canada, which alone has the pan-Canadian responsibility for seeing to the well-being of all Canadians. Because of this and its resulting responsibility to act in the interests of the non-profit organizations that support community well-being, the federal government has a key leadership role.

Funding is just one piece of the resourcing puzzle for non-profit organizations, but it is a critical piece. While most organizations rely on various sources of revenue and forms of support, external funding from governments, foundations and others is central to the continued viability of many organizations. The efficacy of these relationships is important, even in organizations that depend on external funders for only small amounts of funding. Organizations of all types need access to tools from a range of sources – both public and private – to build a foundation that facilitates their activity and supports sustainable capacity. Getting the underlying financial structure right is key


\textsuperscript{11} Capgemini (December 2004), \textit{Program Management Review: Grants and Contributions, Final Report for Human Resources and Skills Development Canada}.

\textsuperscript{12} Lester Salamon makes this argument in his influential book, \textit{The Tools of Government: A Guide to the New Governance}. Oxford University Press, 2002. He argues, “Problems have become too complex for governments to handle on their own, because disagreements exist about the proper ends of public action, and because governments increasingly lack the authority to enforce its will on other crucial actors without giving them a meaningful seat at the table” (Salamon, 2002: 8). In this view, good public policy is the result of complementarity and collaboration. Important advantages are gained by utilizing what the state does best: raise resources and set broad societal directions, and by what non-profits do best: deliver responsive services at a human scale, and innovate in their field.
to the viability, indeed the vitality, of non-profit organizations. Getting it right is central to funders’ success.

Many steps are necessary to craft a meaningful and comprehensive plan of action for the non-profit sector. Much attention has been focused on individual organizations and their ability to be responsive, flexible and innovative under the current funding regime. Organizations are striving to cultivate and strengthen their varied sources of support. The current focus on social economy and social enterprise is but one example of efforts to foster organizational capacity and sustainability. This is one side of the equation. It is also necessary to improve our funding systems in ways that work for all stakeholders.

The challenge is push through the barriers and inefficiencies of current funding practices to create new collaborative approaches or strategies to community investment that tap the extraordinary skill, knowledge and expertise of the non-profit sector, their funders, and community stakeholders.

This report first looks at the Canadian non-profit funding economy, in which the Government of Canada is an influential player. It then examines the specific challenges that funders, and specifically the federal government, face in achieving positive outcomes for communities. Building on evidence from the broader funding community, it suggests new directions in funding policy and program design that hold the promise of more effective and responsive community investment.

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PART II: FINDINGS

2. Project Methodology

This report provides an overview of Canada’s non-profit funding economy, the challenges and opportunities involved in developing and delivering effective community investment programs, and new directions in funding policy and program design. It draws on a broad review of the literature, as well as several qualitative sources of information.

In the first phase of the project, the Canadian Council on Social Development (CCSD) conducted over 30 consultations with non-profit sector leaders and funders from across Canada, and also conducted a scan of recent literature. Drawing on these sources of information, CCSD identified and grouped key issues. At the same time, the Task Force on Community Investments research team gathered detailed information on funding practices within the Government of Canada through 13 focus groups and 25 key informant interviews with government officials (see Appendix A). In all, over a hundred people participated in the government consultation and responded to focus group questions that asked them to identify elements of the funding life cycle from their perspective, to comment on what is working well and what could change, and to state their perceptions of the effect of current efforts to make effective investments in communities.

In the second part of the study, the CCSD listed 19 funding programs and practices from across Canada, based on suggestions from external informants. These examples comprised a range of initiatives, including programs from provincial governments, the United Way, and public and private foundations. This program overview was researched through phone interviews; program materials were also consulted where available. Taken together with Government of Canada efforts to improve funding practices, the selected programs give a sense of the current direction of funding reform and innovation.

This study is not intended to be definitive, but rather to help funders and non-profit organizations to review current practices and set new directions for the future. It is a work in progress that invites further dialogue among funders and non-profit organizations to create more effective and responsive funding programs.
There are no comprehensive data sources on the range and type of funding available in Canada. Private and public foundations and United Ways, for example, track their community investments. Information is also available on individual and corporate donations to registered charities. However, with the notable exception of Quebec, governments across Canada do not publish comprehensive data on the scale or type of investment in the non-profit sector.

However, the National Survey of Nonprofit and Voluntary Organizations provides a valuable snapshot of non-profit revenue sources as reported by non-profit organizations.15 Looking at community-based organizations, excluding hospitals, universities and colleges, government funds – from either grants and contribution or payment for good and services – make up just over one-third of revenues (36%). Of this, grants and contributions accounts for an average of 22% of sector revenues, and contracts account for 15%. The largest share (43%) is generated through earned income activities from non-government sources, and another 17% of all revenue is received in the form of gifts and donations from individuals, corporations and other organizations such as United Ways or Community Foundations.

The particular mix of funding sources predictably varies from region to region and from sector to sector. Government revenues range from 18% of sector revenues in New Brunswick to a high of 49% in Newfoundland and Labrador. In most provinces, government grants and contributions make up the largest proportion of government revenues, with the notable exceptions of Nova Scotia, New Brunswick, Ontario and Alberta. Revenues from earned income are lowest among Newfoundland and Labrador organizations (30% of total revenues), compared with a high of 72% in the New Brunswick and 51% in Alberta. Giving as a proportion of revenues is highest in Prince Edward Island, at 25%, and lowest in New Brunswick (8%) and Quebec (10%).

These data reveal the outlines of Canada’s funding economy. While they do not capture the detailed mix of different funding programs that make up Canada’s funding landscape (the balance of giving, shopping and investing), they illustrate the continuing importance of government funding for the non-profit sector and the growing importance of revenue generation through earned income.

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15 There data were kindly provided by Imagine Canada. They exclude data for the Territories.
3. Canada’s Funding Economy

Giving, Shopping and Investing

Canada’s funding economy has evolved over time. It now encompasses a range of funding programs and practices, reflecting the unique mix of funding institutions and their diverse interests across the country. Governments have used funding and procurement programs for a wide range of purposes, including delivering public services, supporting artistic expression, and advancing human rights through support for advocacy organizations. Other funders, such as United Ways, Community Foundations, Lottery Boards and credit unions, have played important roles as well, underwriting high-risk ventures, for instance, or providing support for capacity development. The diversity of funding organizations has been crucial to the evolution of the non-profit sector in the past, and it is also important to its future.

Julia Unwin has developed a typology of funding programs that clearly describes the different types of programs and is useful in mapping Canada’s funding economy. Depending on the motivation of various funders, she argues, funders choose “to give,” “to shop” or “to invest” in non-profit organizations. Each type of funding tool has its own particular dynamics, posing particular challenges and opportunities for the funder and the non-profit organization. These three types of funding programs are discussed below.

• Giving

Giving has been, and continues to be, an important source of support for non-profit organizations. It represents an open-ended transfer of funds and/or resources to an organization, and it has its origins in the notion of charitable giving. In the Government of Canada, while “grants” are targeted for specific purposes, there is generally no expectation of a return on the part of the donor. A grant is not subject to being accounted for or audited. With their origins in a “gift of the Crown,” these “unrestricted” funds provide for flexibility in their use and are highly valuable to non-profit organizations.

Giving takes many forms. Individual giving, for example, is extensive in some sectors of the non-profit sector. Similarly, corporate donations, as well as contributions from unions, other voluntary organizations or associations, and local business, are sources of private funds. Private foundations and community-based fundraising organizations, such as the United Way, can also be grouped in this category. They operate grant-making programs that share much in common with government granting programs. Few detailed outcomes are prescribed in advance, other than general benefits from enhanced capacity and/or continued operations. These benefits can include the advancement of science, the conduct of research and development, or maintenance of the operations of an

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17 A funding tool is the mechanism or method through which collective action is structured to address a specific objective. Salamon (2002), p. 19.
18 Grants in the federal government are defined as transfer payments to an individual or organization that are not subject to being accounted for or audited, but for which eligibility and entitlement may be verified or for which the recipient may need to meet conditions (Treasury Board Accounting Standard 3.2—Transfer Payments).
employer (e.g., a bail-out) for a set period of time to allow a community to adjust to economic change.

Giving is a powerful tool for funders to use. It enables non-profit organizations to work in previously untried areas and to develop good and lasting relationships built on trust and openness. For many, it can make the difference between survival and failure. It provides the space to plan ahead, experiment with new approaches, and build community relationships. It provides the flexibility to creatively manage and adapt to change. Where giving is only a relatively small source of revenue, organizations are challenged to cover all their general operating costs through earned income or other grants and contracts.

Today, Unwin warns, in a climate increasingly taken up with value for money, the value of giving as a funding tool has been diminished. In Canada, we see this in the growing dominance of project-based funding models across the non-profit sector. Giving does not provide a clear and transparent link of accountability as other funding tools do, and as such, can be a source of anxiety for funders. However, it remains “a crucial part of the spectrum of support that ensures voluntary organizations thrive.” It is certainly important from the perspective of non-profit organizations, caught in a funding regime that privileges time-limited project funding and contracting.

• Shopping

In contrast to giving, shopping is a highly specified approach to funding that has grown in importance, notably among government funders. While non-profit groups have been involved in service delivery since the earliest days, in the 1980s governments around the world sought to devise a more contractual basis for their funding. They adopted the language of commercial exchange. In shopping programs, funders tie payment to defined activities and outcomes, and include provisions for the active monitoring of inputs, outputs, and, more recently, outcomes.

In Canada, a range of funding tools fall into the “shopping” category. Contribution agreements, purchase of service agreements, and procurement contracts exact specific requirements in return for the subsidies they offer. With regard to the Government of Canada, for instance, “contributions” are defined as conditional transfer payments to organizations for a specified purpose pursuant to a contribution agreement that is subject to being accounted for and audited (Treasury Board Accounting Standard 3.2 – Transfer Payments). The term “contract” is reserved for the procurement of goods and services where there is competition between potential contractors – both non-profit and for-profit organizations – designed to promote value for money (Treasury Board Contracting Policy). In both cases, work specifications are defined in terms of

19 Unwin, 2004b: p.49.
21 With regard to contracts, competition is governed by the competitive process, as required under the North American Free Trade Agreement, the World Trade Organization Agreement on Government Procurement, and the Agreement on Internal Trade.
clear outputs or performance requirements, and they are subject to government audit. These types of tools are designed to facilitate funder control over the process and the outcome of the contracting process.

Funding tools such as contributions and contracts, however, can cause a great deal of uncertainty for non-profit organizations. Uncertainty is built into the process via the emphasis on competition for the project or program and flexibility for the purchaser. The very structure of these funding mechanisms erode the operational capacity of organizations in instances where funders do not provide for full cost recovery and/or narrowly prescribe which non-program costs can be included in the program or project budget. The balance of incentives in agreements and contracts is important as well; for example, where contracts are designed around value for money, explicit effort is needed to ensure that cost considerations do not undermine effective delivery and quality outcomes.

The strength of any funding tool is built on a relationship that permits partnership and collaboration. Discussions of innovation in shopping emphasize this aspect of the purchase relationship. Good practice is characterized by an understanding of the provider organization in its entirety and not just as a service delivery vehicle. It is also characterized by an approach to contracting where pricing and costing structures are sound and stand up over time. This is essential in situations where funders are seeking to provide stable, high quality public goods and services over time, to build institutions, or to effect broad social and economic change. “Funding organizations, of whatever sort, that wish to ‘shop’ from well-managed, high-performing, innovative organizations need to attend to their relationship with these suppliers, and do so in a way that builds capacity rather than preventing it.”

- **Investing**

“Investing” is characterized by a long-term view of desired outcomes. It is usually accompanied by other forms of support, and it develops in the context of a close relationship between a particular funder and an organization. The goals of investing are to build equity within the organization and the sector, to create assets against which other resources can be leveraged, and to facilitate dynamic growth.

The emphasis on funding as investment is relatively new. Thus, it is not as common as the other types of funding programs. This has been closely linked with the development of venture philanthropy in the United States and the interest in alternative forms of financing for the non-

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23 Denhardt, Kathryn G. (2003), *The Procurement Partnership Model: Moving to a Team-based Approach*. School of Urban Affairs and Public Policy and Institute for Public Administration, University of Delaware.

24 Unwin, 2004b: p. 60.

25 Social Capital Partners define venture philanthropy as “funding organizations that support enterprising non-profits and social entrepreneurs with not only financial resources, but also management and technical support as well. This
profit sector. Endowment funds are a more traditional investment tool, the primary goal of which is to provide greater financial flexibility. Arts stabilization funding provided by a number of funders in Canada, such as the Bronfman Foundation and the Vancouver Foundation, is another example of this approach. In the Government of Canada, funding by the Department of Heritage under the Arts and Heritage Sustainability Program is an example. Funds are tied to the development of long-term strategic business plans and are accompanied by the offer of significant technical and managerial support. Investing is viewed as an “engaged” form of funding, where funders actively participate in the operations of the funded organization.

Loan financing is another funding tool that has spurred recent interest in the development of a social capital market in Canada. VanCity Savings Credit Union in British Columbia has extensive experience offering loan financing to non-profit organizations. Newer organizations, such as Social Capital Partners, invest in social enterprises that employ populations outside the economic mainstream in Canada. The long-term goal is to encourages and catalyze other innovative funding mechanisms for social initiatives. In the UK, inspired by experience in the housing sector, the national government created futurebuilders in 2003, a £125-million fund for voluntary sector development. Loans – as well as other financing vehicles – are used to help an organization develop an asset base that will sustain its operations over time. The goal of these programs is to assist organizations in freeing themselves from the constraints of other forms of funding – notably grants, contributions and contracts – through the development of earned income streams and the like.

Canada’s Funding Economy

Canada’s funding economy – the particular mix of giving, shopping and investing programs available – varies across the country, from region to region and from sector to sector. Community-based organizations in Quebec, for example, have access to provincial programs that provide general operating support. Advocacy organizations have a dedicated funding source, administered through Secrétariat à l’action communautaire autonome du Québec, which is designed to strengthen the role of community-based groups and umbrella organizations in the lives of their communities. Organizations in Alberta can apply to the Wild Rose Foundation for funding to hire consultants to enhance their volunteer programs. The Vancouver Foundation manages the BC Arts Renaissance Fund, which provides matching funds to build endowments for arts organizations in British Columbia. Place matters. Sector matters. The mix of giving, shopping and investing reflects the composition of the funding community – that is, the number funders and the type of financial and in-kind supports available to support and sustain non-profit activity – in different areas and sectors. In Eastern Canada, for instance, there

28 For an overview of Social Capital Partners strategy, see: http://www.socialcapitalpartners.ca/summary.asp
are comparatively fewer private and public foundations and other funding sources, such corporate
sponsors. As a result, the relative impact of government funding practice (and individual giving,
as surveys show) is arguably larger than elsewhere. In British Columbia, by contrast, not only is
there a wider range of funders, but a wider range of funding programs available to support the
activities of non-profit organizations, including social enterprise financing. As a result, there is
greater flexibility in the type of funding and financing options available to the sector in British
Columbia.

This is not simply a question of the balance between government funding and other external
sources. While governments across Canada have shifted toward a greater reliance on “shopping”
styles of funding programs, there are differences. On the one hand, the British Columbia
government has probably moved further than any other government in opening up community
services to open competition with the for-profit sector. On the other hand, for the past 10 years,
the Quebec government has opted to pursue social and economic goals in partnership with the
community sector via a number of vehicles and tools, including core funding to service delivery
and advocacy organizations. The orientation of governments (particularly provincial
governments) is hugely important to understanding the dynamics of funding in a given region.
(We return to this point below.)

The presence of a range of funders is important, because it creates a more diverse and vibrant
funding economy, a broader spectrum of funding and financing options.31 It is the difference
between having a grocery store that sells only a few products and one that offers all of the items
in the Canada Food Guide. From the perspective of non-profit organizations, it means that there
are sources of support for a range of activities, such as services, organizational development,
strategic marketing, and community outreach. From the perspective of funders, it means that
there are a variety of potential partners serving communities, employing a range of resources and
tools to support community investment.

The other important benefit of a diverse range of funders and programs, certainly from the
perspective of this report, is the diversity of practice and experience brought to bear on funding
innovation. Community investment benefits enormously from the exchange of ideas and practices
within the funding community, here including funders, grant-makers, donors, and debt and equity
financiers. In this regard, a healthy tension is created between funders that propels practice
forward. Traditional philanthropists learn from government grant managers, who in turn borrow
good ideas from community foundations, and so on. A diverse funding economy is the base of a
diverse learning community. As funders become more aware of themselves as part of a diverse
funding economy, communities of practice in the form of funder round tables and the like come
together. Indeed we are beginning to see the emergence of a public conversation about funding
program design and practice.

31 Bill Young of Social Capital Partners (SCP) makes this point with respect to financing vehicles. SCP believes that
a much more dynamic social capital market must be created, one that would include a variety of financing vehicles
for social initiatives similar to the array of financing vehicles available in the private market. These vehicles must be
designed to attract more funding and support for a wider array of innovative social initiatives from a broader array of
funders.
The number and balance of funding sources (government versus public foundations versus corporate donors) and funding programs (shopping versus giving versus investing) are important considerations. On the whole, we found that the diversity of the funding economy is very limited in Canada. The diversity is predictably greater in the larger provinces, and certainly within Canada’s larger urban areas, than in smaller provinces, territories and rural areas. Moreover, there appears to be a broader range of funding and financing supports available to arts organizations, environmental groups, social economy groups and cooperatives, and community economic development groups – groups that have a more pronounced “market” orientation – than to more “traditional” charitable organizations in health and social services. Again, this varies by region and province as well.

Moreover, key informants were clear about the overall shift in emphasis from traditional forms of “giving” to a growing reliance on “shopping”-style funding programs and the dearth of “investing”-style programs (with the exception of the situation in Quebec). For a wide range of reasons, funders have moved away from programs designed to support an organization’s mission to programs that are tied to specific pieces of work. While other sources of revenue remain important – and indeed have taken on greater importance – the shift to shopping-style programs is now well established.32 Further, the line between giving and shopping is becoming increasingly blurred, as grant-making programs have taken on the character of contracting.

As “shopping” has become more prevalent, funding time frames have become shorter, funding arrangements have become more prescriptive and less collaborative, and the types of allowable expenses have narrowed considerably and now exclude many essential core organizational functions. There is a greater emphasis on accountability to funders and risk management (tied to new ideas about results-based management and governance models) that, in its implementation, has created barriers to the effective and responsive performance on the part of non-profits. At another level, for governments, the system of project-based contracting, with its preoccupation with risk management, has undermined collaboration and partnership by organizing the relationship between funder and recipient around control and compliance.33 Systemic underfunding on the part of government funders, shown recently in two important studies of community agencies in Toronto and Calgary, creates enormous stress for non-profit organizations and other sector funders as organizations concentrate their efforts on fundraising to backfill government funding shortfalls.34

Previous research, including Funding Matters and interviews conducted for this study, spoke powerfully about the imbalance of the current funding environment and the glaring gaps that

32 Among survey respondents in the Funding Matters study, seven out of 10 (70.8%) reported that they had experienced this shift. Overall, organizations characterized an average of 61.6% of their total funding as “project or program funding,” 25.7% as “core” funding, and another 8.1% as “other.” Core funding was defined as funding regularly received that covers, among other things, basic organizational and administrative costs. Project or program funding was defined as funding that is often short term and conditional on the receipt of identified deliverables. As well, restrictions are attached to the use of project or program funds. The average here refers to the trimmed mean.
constrain the ability of organizations to function “effectively, efficiently and sustainably.” This situation results not only from the lack of flexibility and diversity in the current range of funding alternatives, but also from inherent tensions in current funding practices, illustrated above, and the mismatch between the intent of funding programs and the funding tools or styles chosen to achieve program goals.

Conclusion

The shape and development of both the non-profit sector and the individual organizations within it are significantly influenced by the ways in which funding is made available. Organizations, being responsive and adaptive entities, will modify their activities to adapt to the funding environment. In the current context, this has created organizations that are frequently difficult to manage and that find themselves on a project treadmill. In this environment, non-profit organizations adopt management responses that do not necessarily serve their needs or further their missions. Ineffective funding is undermining performance. The challenge is to turn this proposition around: to create effective funding that will foster effective performance.

The next section looks at the challenges funders face in achieving effective community investment.

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### Key Funding Trends

<table>
<thead>
<tr>
<th>Key Funding Trends</th>
<th>Implications for Funders</th>
</tr>
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<tbody>
<tr>
<td>• Current funding programs do not provide for, or narrowly prescribe, general operating support.</td>
<td>• Organizations with diminished capacity will not be in a position to deliver needed programs as effectively as funders would like.</td>
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<tr>
<td>• Non-profit organizations are experiencing acute human resource problems related to funding instability, as well as challenges to engage and retain volunteers, including board members.</td>
<td>• Risk management is ill served if there is a high level of staff turnover and low level of volunteer engagement. It poses challenges for governance as well.</td>
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<tr>
<td>• Few financing vehicles are available to support non-profit activity, including social enterprises, etc.</td>
<td>• The playing field is not level with that of the for-profit sector. This reduces choice and capacity for funders.</td>
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<tr>
<td>• There is a lack of support – financial and in-kind – to build internal organizational and sectoral capacity, including management expertise.</td>
<td>• The resulting failure to take advantage of modern communication, record-keeping and management methods compromise the effectiveness of programs and projects.</td>
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<tr>
<td>• The highly competitive nature of many current funding programs erodes partnerships and collaboration at a time when complex social and economic problems demand these types of approaches.</td>
<td>• Tackling complex social problems requires non-profits to work together to maximize resources. Funders lose when organizations do not share and collaborate.</td>
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<td>• The accountability requirements are highly skewed in favour of funders and work to undermine the ability of organizations to engage and respond to other stakeholder groups.</td>
<td>• Effective programming requires non-profits to be accountable to their clients, patrons and communities. Funders lose if they are cut off from their base of support and legitimacy.</td>
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<tr>
<td>• There is not yet consensus on the best approaches to implementing an outcome approach to measurement and evaluation.</td>
<td>• Funders need to support the collaborative development of outcome measurement that serves the interests of all stakeholders.</td>
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<tr>
<td>• There is generally a lack of recognition of the non-profit sector’s valuable role in Canadian society, particularly in community building.</td>
<td>• Benign neglect threatens the health of non-profit sector and the quality of life in communities across the country.</td>
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Myths about Non-profit Financing

If business is part mystery and part art, a big part is also basic science and arithmetic. But enter the non-profit sector, and it’s a new and irrational world, like stepping through a looking glass. The rules, when they apply at all, are reversed, and the science turns topsy-turvy.

The following true/false quiz is based on seven core assumptions that are pretty dependable in the for-profit sector. In each case, the non-profit answer is supplied, and the pattern that develops reveals a business and management environment that would give the best, most heroic for-profit managers challenges tantamount to the Seven Labours of Hercules.

1. **Consumer buys the product** – false. Organizations provide services to people who can’t pay for them and therefore organizations sell their wares to people who do pay. Players in these two markets have diverse and contradictory goals. This adds hugely to complexity and transaction costs and the constant tension over mission.

2. **Price covers cost and eventually produces profit** – false. Non-profits take on losers because of drive and passion. Quality works against strategies that might make non-profit profitable (for example, a kindergarten class with 100 children). Most non-profits are not able to charge their clients more. In current funding context, non-profits need to find a “subsidy business” to underwrite their project or contract work. This could be fundraising, capital campaigns, related or unrelated businesses, in-kind donations, or the like, each of which has funding needs all of its own.

3. **Cash is liquid** – false. Given the restrictions on most sources of revenue, non-profits have little flexibility. The “tied” nature of most funding leads to situations where non-profits can have lots of money in the bank for programming, but no money to fix the roof of their building. Often, non-profits will turn down grants and contracts for the expansion of services, because they can’t afford the related organizational or program expenses.

4. **Price is determined by producers’ supply and consumers’ ability and willingness to pay** – false. The triangular aspect of non-profits’ customer relationship makes this answer false. Non-profits battle for both subsidy and fee, depending on product and market. Those providing one or the other have different, often conflicting, goals. This is most evident in the negotiation around quality and price, where one set of customers is most concerned with quality (“I want my child to have first-class early development programming”) and the other with price (“I want the greatest number of children to be served with our tax dollars”).

5. **Any profits will drop to the bottom line and then be available to improve the business** – false. Even when a profit is identified, non-profits often can’t use it, or it is clawed back. This mentality pervades funding for the sector: surpluses are bad! They signal that you don’t really need the money, and that we’re giving you too much. Thus, a primary source of working capital is systematically eliminated, with predictable consequences.

6. **Investment in infrastructure is necessary during growth for efficiency and profitability** – false. It stands to reason that this rule is false, because the other ones are. Existing restrictions on available funds limit investment in growth or other forms of capacity building. Funds to defray costs that most would consider a regular, sensible cost of business and a desirable investment in greater efficiency are frequently unavailable, ill-timed, and considered a cost above and beyond the real cost of providing services or goods.

7. **Overhead is a regular cost of doing business, and varies with business type and stage of development** – false. It’s unanimous! They are all false. The irony for the field as a whole is that a technique such a project funding, which is meant to control costs and enhance accountability, actually undermines efficiency and program quality.

4. Challenges and Opportunities for Funders

Current funding practices aren’t working for significant numbers of non-profit organizations. And in turn, they aren’t working for funders or for the communities that non-profit organizations serve and represent. This section explores some of the challenges that funders face in designing funding policy and programs to serve communities. It also looks at the factors that are undermining collaborative efforts to non-profit organizations and funders across a range of fields. It draws on the funding practice literature and interviews with non-profit leaders and funders from across Canada, who almost all expressed both concern about the impact of current funding practices on non-profit organizations and a desire to find better ways to support and sustain non-profit activity.

All agree that the question of effective funding practice has become more pressing as the size of Canada’s non-profit sector grows and the scale and scope of interaction between the non-profit sector and funders increases.\textsuperscript{36} This is most evident in the growth of the relationship between non-profit organizations and governments, in Canada and elsewhere, highlighting the need to focus on the challenges that this deepening relationship poses.

**Funding for Desired Impact**

Funders enter into arrangements with non-profit organizations for a variety of reasons, and they employ a variety of tools to pursue common goals. Choosing the right tool to pursue the desired goal is key to achieving successful funding outcomes. Aligning funding goals with funding tools is a central challenge for funders. The consequences of poor “alignment” are significant for all stakeholders in the funding relationship, but it is the communities and beneficiaries that non-profit organizations serve where they will be most felt.

Julia Unwin identifies three rationales for funding that are useful in describing the connection between the means and ends of funding programs. These are the rationales: maintenance of services and activities, building organizations, and systems change.\textsuperscript{37}

\textsuperscript{36} There are now over 160,000 charitable and non-profit organizations in Canada. Roughly 56\% of these are registered charities.

### Rationales for Funding

<table>
<thead>
<tr>
<th>Rationale</th>
<th>Intention of Funding</th>
<th>Type of Activities</th>
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<tbody>
<tr>
<td>Maintenance of services and activities</td>
<td>Create and/or fund successful programs and maintain good work over time.</td>
<td>Create organizations, deliver services, and undertake a range of activities (promotion of healthy lifestyles, conservation, etc.) in the public interest.</td>
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<tr>
<td>Building organizations</td>
<td>Build the institutional capacity of funded organizations. This is rooted in a belief that a strong non-profit sector is key to healthy and vibrant communities.</td>
<td>Build organizational strength and capacity through a focus on issues such as training, access to information technology, organizational development, network building, and constituency organizing and mobilization.</td>
</tr>
<tr>
<td>Systems change</td>
<td>Develop knowledge and influence the way in which governments and others with influence in policy systems operate.</td>
<td>Support research, policy development, evaluation, education, organizing and lobbying. These activities create platforms for influence through vehicles such as conferences, publications and public campaigns.</td>
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</table>

Each of these funding intents is found in the programs of Canadian funders, although they are often not explicit about their objectives. The styles of funding provided – giving, shopping and investing – influence the choice and design of funding tool or mechanism. Each type of funding program has a role to play in supporting organizations to carry out their missions: all have a place in the funding of service delivery, capacity building, and systems change. For organizations, striking the right balance between these types of funding programs is important to their financial capacity. For funders, striking the right balance is key to the achievement of their desired outcomes.

There is no ideal balance or mix of organizational revenue sources (earned income, government grants, contributions and contracts, and individual or corporate giving). Nor is there an ideal mix of funding programs. Geographic location and sector are important in understanding what is desirable with regard to funding, and what is feasible or realistic. But access to good shopping, giving and investing programs does foster financial capacity among non-profit organizations. And from the perspective of funders, developing a range of funding tools creates the flexibility to tailor programming to the realities of diverse communities across the country, and thus facilitates successful implementation, innovation and experimentation.

As noted earlier, the disproportionate focus on shopping and the relative absence of giving and investing, as well as tensions arising from current funding practices, have created instability that can lead to poor performance among non-profit organizations. Funders need to think carefully about the goals they want to achieve, the types of organization they want to support, and the tools best suited to achieving their objectives. They need to identify the different stakeholders involved (including other funders) and the availability of resources to support and sustain a given initiative.

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39 The Canadian Government’s Policy on Transfer Payments provides uniquely Canadian definitions for six mechanisms. Of these, “grants” and “contributions” are most often used for investment in the non-profit sector. However, the each funder defines their mechanisms (grants, transfers, donations and so on in a unique way), which creates challenges for learning across funding practice.
in order to determine what their role should be. They also need to think about the trade-offs involved. A contracting instrument may well be the best vehicle to ensure control of the product or service, a key concern in this era of third-party government, but it may not be the best vehicle for ensuring quality, community-based service, or for managing a successful collaborative relationship. These questions are at the heart of good funding program design.

**Administrative Practice**

Program design poses another set of challenges and opportunities for funders. This includes everything from developing equitable and transparent processes for identifying and evaluating potential recipients, to developing effective grant administration and risk management systems. We look at two dimensions of administrative practice below to illustrate the related challenges.

- **Appraisal**

Assessing proposals is at the heart of what funders do in giving, shopping and investing. And there is considerable variation in approach, ranging from the highly discretionary to the more tightly regulated open bidding systems for procurement contracts, governed by legal precedent.\(^40\) Approaches also vary according to the degree to which funders involve stakeholders, including non-profit organizations, in the decision-making process.

The discretionary character of this funding approach has come under scrutiny. Is this system fair? Lack of personal contact with funders, for instance, can be an enormous barrier for new groups trying to break in. Is it accountable? Are decision-making processes fully transparent? Does this system thwart innovation? In the absence of a focus on outcomes, it can be difficult to evaluate progress or impact. It can also be difficult for funders to extract themselves from established relationships.

The trend today, particularly within governments, is toward greater objectivity and distance in the funding process, in the face of growing demands for public accountability. Efforts have been made to ensure that the application processes are fair and transparent: that they are open to all interested parties, that they employ process protocols and standardized evaluation criteria, and that communication with applicants is open to interested parties. In part, this process has been propelled by the shift to “shopping” styles of funding, such as contracting. As well, concern about potential litigation and the desire to protect funders from unacceptable levels of risk have been important factors according to a number of key informants.

It is essential that funding processes be open and accessible to all sectors of the community. But the challenge in appraisal for funders is not to throw the baby out with the bathwater. Objective and fair funding practice does not mean that the relationship between the funder and the sector/organization need be distant, or that the funders should be removed from the concerns of the community. Good funding practice is based on good relationships. As such, the perspective and judgment necessary to make good funding decisions can come only from local knowledge and administrative experience built up over time with non-profit organizations and other

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stakeholders. Good assessment is both fair and engaged. This is true for shoppers, givers and investors.

- General Operating Support

The debate about general operating support continues. As far back as 1913, the secretary of the Rockefeller Foundation, Jerome Greene, wrote:

> It is unwise for an institution like the Rockefeller Foundation to assume permanently or indefinitely a share of the current expenses of an endowed institution which it does not control. Such a continuing relationship inevitably carries with it a continuing responsibility for the conduct of the institution that is aided. The relationship should therefore not be entered into unless with the deliberate intention of assuming such responsibility.\(^{41}\)

In other words, Greene was arguing, the Foundation should use its grant-making to support short-term programs and not to build or sustain the organizations that deliver these same programs. Today, a majority of funders take this view.

From a funders’ perspective, providing general operating support – or core funding as it has been also called – can be problematic on several fronts.\(^{42}\) First, the pressure to account for the expenditure of dollars has never been greater. Governments, foundations and United Ways are all caught up in the push to demonstrate the effectiveness of their funding. Funders that rely predominantly on project-specific funding vehicles argue that it is much easier to track project dollars than to assess the impact of general operating support.\(^{43}\) There is also potential for greater recognition for the funder with a project-based funding approach, as opposed to the use of a more “indirect” funding vehicle, such as general operating support.

As well, funders opposed to general operating support worry about organizations’ becoming dependent on them, and about the potential loss of the funder’s flexibility. Government officials have expressed concern about the need to limit funding expectations on the part of non-profit organizations, because the requirements of the annual budgeting process do not enable them to make long-term commitments. Providing general operating support, they argue, reduces flexibility to shift funds to new priorities as directed by legislatures. It can also work, others argue, to stymie innovation and the inclusion of new groups and interests if available funds are already dedicated to a fixed number of groups and/or issues and program areas.

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\(^{42}\) This discussion draws from Jeff Krehely and Meaghan House (2005), *Not all Grants are Created Equal: Why Non-profits Need General Operating Support from Foundations,* Washington: National Committee for Responsive Philanthropy.

\(^{43}\) In open bidding systems, the issue of administrative costs is still very important, but less attention is paid to specific budget line items (and hence to the level of particular administrative costs). Rather, proposals are evaluated against criteria such as cost per unit, geographic coverage, and staffing ratios. Adequate administrative costs, however, are still a key issue, as organizations seek to pare these costs in order to win against competitors (including for-profits) with lower cost structures.
The challenge is how to balance these considerations with the evidence of growing instability among non-profit organizations, locked into project-based funding arrangements that do not adequately take account of core organizational costs. (See box Myths about Non-profit Financing.) The need for a new balance is clear. A variety of funders – largely from the philanthropic sector – are looking at alternatives that range from developing general operating support (giving) programs for select organizations, to changing the terms and conditions of existing project-based funding vehicles (such as alternative administrative cost methodologies and full cost recovery policies) to investing in the development of an asset base against which organizations can raise unrestricted dollars. The UK government, for example, has highlighted full cost recovery as a crucial approach for third-sector organizations and directed government departments to implement in their contractual arrangements with non-profit providers.44

The UK example is instructive. Although they, by their own account, have not resolved the issue of full cost recovery or those related to the lack of general operating support, the government and other major grant-makers in the UK have taken up the challenge. Little such headway, though, has been made in Canada. The systematic underfunding of core operating expenses in project funding vehicles, notably among governments,45 coupled with the lack of sources of unrestricted dollars (through fundraising and the like), continue to seriously erode the financial capacity of non-profit organizations across all sectors. General operating support remains one of the most critical and intransigent issues on the funding reform agenda.

**Profit-making, Project Surpluses and Social Enterprise**

Traditionally, non-profits have received funds from philanthropic giving and grant-making of one style or another. As the funding economy has changed and the mix of available resources tilted toward targeted, short-term, competitively let contracts and contributions, earned revenue from non-government sources has become an increasingly important source of income for some non-profit organizations.46 A significant proportion of organizations already depend on a range of sources of earned income, including membership fees, fees for goods and services, and charitable gaming – particularly smaller organizations with annual revenues under $500,000.47 Organizations are now exploring different options for expanding these revenues, including launching mission-related and subsidiary for-profit businesses (e.g., museum shops), the sale of program-related products and services (e.g., Employee Assistance Programs), the use of staff or client resources (e.g., when staff serve “paying” as well as “mission-based” clients), and the

46 Non-profit organizations—including charities—are not strangers to earned income activity. Typically, these activities have been organized on a non-profit basis. However, it is important to note that non-profit organizations are free to establish for-profit ventures, subject to regulation by the Canada Revenue Agency. Under CRA guidelines, charitable organizations and public foundations can operate “related businesses” that promote their charitable missions. They can operate other business activities if the majority of staff involved are volunteers. There remains a great deal of confusion, however, about the precise interpretation of “related business.” This is one of the issues that was studied, but not resolved, under the Voluntary Sector Initiative.
47 Almost one half (43%) of total revenues of the non-profit sector (excluding hospitals, universities and colleges) came from earned income in 2003, according to the National Survey of Nonprofit and Voluntary Organizations. The respective figures for small and medium-sized organizations were even larger.
leasing and/or rental of hard property, licensing and soft property assets (e.g., mailing lists).

Investment income, sponsorships, and joint business ventures with for-profit or publicly owned companies are other sources of potential earned income. For these groups, earned income—specifically income from commercial activity—represents a source that is “less restrictive” and potentially more stable than other types of external funding. The idea, in the words of Tim Dramin from the Tides Foundation, is to “improve the brain and muscle of the non-profit without damaging the heart.”

The pursuit of earned income presents challenges for both non-profit organizations and funders. One of the barriers to creating more conducive funding and financing environment, among government funders specifically, is confusion about the place of earned income and profit-making within the context of a non-profit organization. Overall, there is still confusion—particularly among government funders—about earned income and the role that it plays in financing mission. Many organizations, as noted above, are already involved in earned-income activities that either directly support or generate funds to support mission-related activities. Yet lack of understanding about the role and potential of earned income and profit-making has thwarted the development of financing and related supports (including supportive regulatory frameworks and tax incentives) for social enterprise ventures and the like.

As well, there has been confusion with regard to the treatment of unspent, “surplus” funds in the context of government-sponsored funding agreements. This undermines community investment. In many instances, funders claw back funds in the belief that surpluses of any kind represent ill-gotten gain and poor planning. Such surpluses usually result from factors such as late project start times or unexpected loss of staff. But there are too many stories of governments clawing back legitimate project “surpluses” in order to comply with funding program controls that are out of touch with changes in the funding economy. Moreover, because most transactions to the non-profit sector are relatively small to begin with, surplus funds are often also small; as a result, it can cost more for a funder to recover these funds than they are worth.


49 Tim Dramin (November 2000), Engaging the New Social Entrepreneurism: Recent Revenue Diversification Strategies of Canadian and Latin American Non-profits (draft), Tides Canada Foundation.

50 See Mark Goldenberg (2006), “Building Blocks for Strong Communities: Key Findings and Recommendations,” Toronto and Ottawa: Imagine Canada and CPRN.

51 For non-profits, energies devoted to operating earned income ventures, particularly for-profit business ventures, can divert energies and resources from other core activities. Earned income in its many forms facilitates commercialization, a powerful force that can pull organizations away from their original missions, place enormous stress on the culture of the non-profit organization, and work against the ethic of the non-profit sector. See Raymond Dart and Brenda Zimmerman (2000), “After Government Cuts: Insights from Two Ontario ‘Enterprising Non-profits,’ ” in Keith G. Banting, ed., The Non-profit Sector in Canada: Roles and Relationships, McGill-Queen’s University Press; also Brenda Zimmerman and Raymond Dart (1997), Charities Doing Commercial Ventures: Societal and Organizational Implications, Ontario Trillium Foundation and Canadian Policy Research Networks.
Some funders, such as the VanCity Credit Union and the Tides Foundation, actively support the development of income-generation activities through innovative capacity-development programs and tools such as loans and loan guarantees. These funders are supporting, for example, the costs of partnership development related to new programming and/or new approaches to service delivery, technical upgrades that result in cost savings, or the study of mission-related social enterprise prospects. Others are funding the start-up costs of programs that are intended to generate profit or fee-for-service revenue that is closely allied with mission. Still others are looking at regulatory changes that would allow organizations to retain “surpluses” that arise from organizational efficiencies, late start-up, or in-year program changes with a view to enhancing organizational stability or leveraging other resources to support mission-related activities. As the number and variety of financing options expand for non-profit organizations, and more organizations expand their income-generation activities, funders are challenged to change their administrative practices to facilitate organization innovation and diversified revenue generation.

Accountability and Risk Management

Ensuring adequate accountability is one of the oldest and most widely recognized issues in funding program design and implementation. Its dimensions include legal, financial and performance issues. Firstly, funders must ensure that funds are spent on the stated purposes, in the manner out by the specific funder. Government grants, contributions and contracts are typically subject to application, reporting, record-keeping and audit requirements, as well as other cross-cutting legal requirements, such as minimum employment standards. Financial accountability involves ensuring that funds are spent appropriately as well as legally. This means that funds are not wasted or used inefficiently. This is a complex task when, as is the case in most non-profit organizations, a project or program has many revenue sources. And finally, assessing performance adds another level of complexity – a discussion to which we turn below.

As noted earlier, at the crux of accountability is the challenge that the interests of funders and of non-profit organizations (indeed any third-party delivery agent) are not always identical. The funder wants to ensure full compliance with its desired objectives. The fund recipient or contractor will attempt to maximize their own discretion, drawing on their local knowledge to define their needs. These differences in position are often reinforced by differing perceptions about the goals of the project or program – the result of differing values, pressures, external expectations, and circumstances. One of the consequences of this inherent tension is the drift to more elaborate accountability provisions, as funders attempt to close the gap between their expectations and the performance of recipient organizations.

Timothy Conlan notes that most means of assuring accountability have limitations and drawbacks: “Tight restrictions on program purposes … can create administrative burdens, obstruct good management practices and program coordination, and restrict the recipient’s capacity for innovation and effective service delivery. Similarly, overly detailed or demanding application, planning, reporting and auditing requirements can create administrative dysfunction among recipients and lead to goal displacement.”

53 ibid., p. 12.
These problems have been amply documented over past years in reports such as *Funding Matters*. Non-profit organizations have expressed extreme frustration with the intensity of funder scrutiny and the stress related to multiple reporting and accounting requirements for each funded program or project. Non-profit organizations have also complained that there was no real sense of proportionality in reporting, that there seems to be a one-size-fits-all approach. Small organizations with contracts worth $10,000 are required to provide the same kind of information as organizations with contracts worth a million dollars. The impact on organizations is enormous in terms of both cost and time. Time and resources are diverted from mission-related activities into accounting activities that provide little, if any, benefit to organizations. These systems are prohibitively expensive for funders as well, again in terms of cost and time.\(^5^4\) Achieving a balance between oversight and flexibility remains one of the most difficult challenges facing funders.

Achieving a balance between oversight and flexibility is also central to the development of effective risk management tools.\(^5^5\) Assessing the risk of failure of a particular program, project or organization is a key task in any funding process. Because it is impossible to eliminate risk, the challenge for funders is to be clear about their tolerance levels for a particular funding program. They must recognize that often critically important work – such research and innovation, support of marginal populations or issues, or bringing diverse communities together to build community assets – is more risk prone than other work and needs a different approach. The challenge is to develop processes that permit the selection of funding opportunities that are a “fit” with the risk-tolerance levels of a particular program or funder, and then to negotiate the least-invasive controls and conditions required to achieve balance.

To this end, relationships are an effective and often overlooked risk management tool. Building a funding relationship enables funders to get to know an applicant organization over time, create trust, problem solve, and amend agreements over the life of a funding agreement in an ongoing collaborative process. A risk management system that is driven by fear of failure erodes the relationships and collaborative processes necessary to achieve positive outcomes for communities.

**Assessing Impact**

The other critical dimension of accountability is performance assessment. How do funders know they are making a difference? This question is central to all current funding discussions, part of a broader process of rethinking organizational accountability and effectiveness. Funders of all stripes are struggling with these issues. Concerns with public accountability have never been higher on the public agenda. Increasingly, funders – and governments in particular – are being asked to demonstrate the value or impact of their community investments.

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\(^5^5\) Funders use a number of processes to balance risk. These include pre-contracting assessment processes to determine the nature or level of types of risk in the application, organizational assessment to determine the likelihood of good project management, and proposal assessment to determine the relative “fit” of activities with a specific funding program. The finding contract can be used as a risk management tool by dispersing funds in amounts over time and designating reporting processes and timelines that are appropriate to risk.
Performance assessment involves systematically defining the goals and objectives of individual projects or programs, carefully measuring progress toward achieving those objectives, and thoroughly evaluating the outcomes and effectiveness of the activities. There have been concerted efforts to improve the methods for measuring outcomes and effectiveness. Within government this has taken place against the backdrop of efforts to introduce performance-based budgeting. But there remain significant challenges for funders. Julia Unwin describes the dilemma this way:

They [funders] know they want to fund in order to make a difference. They know they want to fund organizations that are well-managed. They recognize that measurement is an important but difficult aspect of management in any public policy area. Yet they want to support organizations and do so in a way that enables them, rather than hinders them.\(^{56}\)

There is a high level of interest in outcomes measurement among non-profit organizations, certainly as a source of organizational learning. Yet the ways in which it has been approached have been problematic. In the absence of a clear understanding of how to measure success or failure, coupled with the demands on funders to answer to their own stakeholders (including public auditors), the goal of outcome measurement is compromised, as funders attempt to exert greater control over contracting organizations through increased monitoring and verification activities. The critical boundary between evaluation and monitoring is thus broken down, resulting in what Michael Power has called an “audit explosion.”\(^{57}\)

### A Note on Administrative and Fundraising Costs

New Philanthropy Capital, a UK-based group at the forefront of efforts to evaluate the impact of non-profit organizations, does not include measures of administrative efficiency in its outcome evaluation model. It argues that the administrative cost as a percentage of operating costs is not a good predictor of results. Indeed, the reverse is often true when better administration – hence relatively more expensive administration – results in better outcomes. Moreover, comparisons made on the basis of administrative costs are flawed because of the wide variation in the methods used, and, therefore, in the costs reported. As a result, it is extremely misleading to use reported administration or fundraising costs as the basis of any judgment of organizational effectiveness.\(^{58}\)

Ian Smillie makes the point that measuring social development or sustainability or social capital or community engagement is no mean feat.\(^{59}\) It is not surprising that that the very difficulty of quantifying these kinds of results has tended to force funders to push for even greater reporting at the...

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\(^{56}\) Unwin (2004b), p. 79.


project level. The elevation of monitoring and verification creates an “audit/accountability mentality” concerned with outputs and fault finding rather than being forward looking. The complexity of the measurement task leads some funders to confuse monitoring of funded activities and evaluation of funded projects’ contributions to the development of broad outcomes. Non-profits feel that they are being asked to do “research” on nickel-and-dime project budgets to demonstrate effectiveness.

The challenge for funders remains to develop collaborative evaluation systems that serve the needs of all stakeholders, while at the same time to develop approaches to financial monitoring and risk management that are effective, less burdensome and less costly. To this end, the field of outcome evaluation is growing and evolving at a great rate. Groups such as New Philanthropy Capital in the UK are piloting approaches that not only examine results, but also organizations’ risks and organizational capacity. Others are exploring ways to refocus risk management systems around performance and enhanced collaboration. These efforts are premised on the negotiation of clear goals and performance criteria, in exchange for which non-profit organizations retain flexibility to structure and operate their programs to achieve common goals. The new focus on outcomes reduces the need to emphasize inputs and outputs.

Collaborative Practice

The relationship between funders and organizations, as the discussion above illustrates, is critical for the sustainability and effectiveness of the non-profit sector and the communities they serve. It is central to the horizontal mode of governance, which has been widely accepted as the current model of government. As Susan Phillips writes, “Governance entails working through networks rather than hierarchies, embodies a variety of cooperative arrangements involving both state and non-state actors, and takes advantage of the proliferation of policy tools that has occurred over the past several decades …. In a context that centres on interdependence, not power relationships and on negotiation and persuasion, not control, the skills required for effective governing have shifted from those of management to those of enablement.”

The level of engagement between the non-profit sector and funders, and specifically between non-profit organizations and governments, varies across the country, reflecting to differing degrees the understanding and value attached to the role of the sector in communities. At one end, non-profit organizations are seen as vehicles for the expression of individual goodwill and charitable impulse; non-profit or charitable organizations are understood as vehicles for individual efforts. There is no particular value attached to the presence of the non-profit sector as service providers, as vehicles for citizen engagement, as advocates, or as community builders. At the other end of the spectrum, non-profit organizations are viewed as collective expressions of community energy, partners in social, economic and cultural development. There is recognition of the non-profit sector as an active partner, akin to the private for-profit sector – a sector with coherent interests and goals, a sector rooted in community.

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60 OECD, Development Assistance Committee (November 2001), Results-Based Management in the Development Co-operation Agencies: A Review of the Experience—Executive Summary. Paris: OECD.
Where market models predominate at the provincial level – as in British Columbia, Alberta and New Brunswick, for instance – the distinctive role of the non-profit sector isn’t recognized or promoted. One prominent non-profit leader from Alberta stated that auspice – the issue of non-profit versus for-profit – simply wasn’t an issue for the province. In all of these provinces, which have moved the furthest in implementing a system of open competition for public services, the relative importance of a non-profit provider versus a parapublic provider (such as a college versus a for-profit provider), is a consideration only to the extent that it constitutes a competitive edge. This is not to say that no attention is paid to the civic life of communities and the role of the non-profit sector in this regard. Indeed, the Alberta government has made a considerable investment in its efforts to support volunteering, for example. Furthermore, a group of non-profit sector leaders and funders has spearheaded an initiative to develop a Voluntary Sector Framework, the primary goal of which is to strengthen the relationship between the non-profit sector and the provincial government. But the community investment strategies in these provinces are not directly linked to the non-profit sector. It follows that funding policies and programs are not explicitly designed to facilitate the capacity of non-profit organizations – and the sector more broadly – to pursue their missions.

In Quebec, by contrast, auspice is important to the organization and delivery of community-based service and advocacy. Quebec stands out as having the most developed relationship with the community sector, the result of many years of consultation and negotiation. Institutions and formal processes have been established to foster and facilitate the efforts of the community sector and provincial funders on behalf of communities. The funding tools reflect the value attached to having an “autonomous” community sector working to advance the social, economic and cultural goals to their communities. This vision does not preclude active partnership with for-profit providers, as the experience with the social economy demonstrates. But the role of the non-profit sector, as well as the relationship between the government and non-profit organizations, is central to their community investment strategy. The same cannot be said of other regions or provinces – or at the federal level.

In other provinces and territories, experiences vary. In Saskatchewan and the Northwest Territories, for instance, the governments have adopted Voluntary Sector Frameworks, similar to the Accord between the Government of Canada and the Voluntary Sector signed in 2001.

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63 In Saskatchewan, the provincial government launched its own initiative in 2002: the Premier’s Voluntary Sector Initiative, which followed up on the Broadbent Report of 1999. In 2003, the Premier’s VSI released A Framework for Partnership Between the Government of Saskatchewan and Saskatchewan’s Voluntary Sector, which describes the development of the voluntary sector and sets out the values and principles upon which to build a stronger relationship with the sector.

64 In March 2005, in the Northwest Territories adopted the GNWT Declaration on Volunteering (based on the Manitoba model) and the NWT Volunteer Support Initiative (VSI) Action Plan. The goal of the NWT Action Plan is “to honour and support volunteers and voluntary organizations, and increase their capacity to advocate, lobby and support positive change in NWT communities.”

65 The Accord is a framework that represents a public commitment by the government of Canada and the voluntary sector to more open, transparent, consistent and collaborative ways for the two sectors to work together. The Accord establishes the following commitments to action for the government of Canada and the voluntary sector: the government will consider the implications of legislation, policies and programs on the sector and will engage the sector in open, informed and sustained dialogue, and the voluntary sector will identify important or emerging issues
While the results of these initiatives remain to be seen, they do symbolize the value that these governments place on the non-profit sector and their commitment to collaboration. Many of the other provinces have taken steps to recognize the value of volunteering and the important role that volunteer groups play in communities. However, they have stopped short of recognizing the non-profit sector as a partner in social and economic development.

Creating greater room for shared learning and new thinking is a particular challenge for all parties in the funding relationship. This requires a rethinking of the relationship between funders and non-profit organizations. The level of engagement and interaction is extensive, but the relationships are weak, organized largely on a subsector basis. Comparatively few funders engage non-profit organizations or sector representatives in planning, in decision making or in learning. This results from the imbalance of power inherent in the funding relationship, embedded in the orientation and practice of current funding programs. The relationship is not framed or understood as a partnership of equals.\(^{66}\)

Enhancing collaboration is not always easy. For an idea that is central to new modes of governance, the discussion about what is needed to foster and sustain collaboration is not particularly advanced. Phillips identifies a number of challenges: what is the nature of the problem to be solved? Who controls the agenda? How should collaboration be supported and sustained? Who should participate as representatives in collaborations? Generally, there is a lack of machinery and management processes to facilitate and manage collaboration. The notable accomplishments of the VSI notwithstanding, collaborative governance is not being practised as conceived. Indeed, Phillips argues that current funding tools are not well suited to the spirit of horizontal governance.

The system of project-based contracting and the preoccupation with accountability that surrounds it have not yet adjusted to the flexibility required and risk involved in relationship-based interdependency. Results-based management with its emphasis on system-wide controls and efficiency has not been adapted to joint processes that unfold and evolve at the direction of partners, and in which outcomes and deliverables may not be able to be specified with precision in advance. Current practices of sporadic consultation as the means to relationship building do not meet the needs of ongoing collaboration and interdependence inherent in new governance.\(^{67}\)

New machinery is needed, then, that creates a space for sustained dialogue and decision making and that promotes learning across and between funders and the non-profit sector.

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Taking up the Challenge

Funders face numerous challenges, all of which are difficult in their own right: how to ensure the appropriate and effective use of funds, how to define and measure results, and how to provide sufficient flexibility to maximize performance and responsiveness to local needs and aspirations. But the most difficult challenge may be that “the common goals of good grant design are often in conflict.”

High transaction costs for funders and non-profit organizations, for instance, can and do stymie performance, innovation and engagement.

Below, we examine the funding climate in the Government of Canada. We then discuss promising new directions in the pursuit of effective and responsive community investments that address some of the challenges in funding policy and program design.

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### Key Funding Challenges for Non-profit Funders

- Confusion around different types of funding mechanisms and the need to align program objectives with the appropriate funding mechanisms.
- Lack of a body of current knowledge and policy on funding program design and practice.
- Concern about competing demands for limited financial resources; balancing support for established grantees with the need to consider new applicants and emerging issues.
- Difficulty in demonstrating the success of funded projects/services and the need for more coherence and flexibility in applying outcome measures to determine the impact of the initiatives in which they invest their resources.
- Competing accountability requirements for expenditure of dollars to taxpayers / boards of governors / donors / communities / clients / organizations.
- Need for cost-effective and transparent grant administration (including issues such as requirements related to “minimum-level” payments, timing of payments to need, various clawback provisions, prohibitions on surplus, risk management, horizontality impediments (in the government and the sector).
- Difficulty in ensuring responsive, collaborative funding. What types of mechanisms are needed to ensure that community/grantee needs and aspirations are taken into consideration in the development and implementation of funding programs?
- Supporting financial sustainability and capacity development. What funding programs and funding vehicles are best suited to these goals? What are the best approaches to funding “non-program”/administrative costs?
- Lack of consensus on how to support non-profit organizations as community builders, as advocates of often-marginalized communities, and as sources of social capital.

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5. Funding Practice in the Government of Canada

The Government of Canada has been engaged in a funding relationship with the non-profit sector organizations since the early 1900s, when it made its first grant of $1,000 to the Canadian Lung Association. In 1974, the relationship had grown to the point that the government established a National Advisory Council on Voluntary Action, under the Department of the Secretary of State, to study the relationship between the sector and government. It was not until 1995 that the government reopened this dialogue despite a number of trends affecting the relationship, including fiscal downsizing, growth of the sector and increasing mutuality as government turned to the sector for engagement on social issues.

In 1995, 13 national umbrella organizations came together to form the Voluntary Sector Roundtable (VSR) to respond to issues of widespread concern to the sector. In 1997, the VSR commissioned the Broadbent Panel to promote accountability and governance in the voluntary sector. The VSR produced a joint report in 1999, presenting the recommendations that formed the basis of the Voluntary Sector Initiative (VSI). Also in 1999, the Social Union Framework Agreement (SUFA), between the Prime Minister and provincial premiers (with the exception of Quebec) and territorial leaders explicitly called on governments to work in partnership with the non-profit sector to ensure citizen input into policy and programs.

The VSI was a five-year (2000-2005), $94.6 million joint initiative that produced a broad body of work aimed at strengthening the relationship between the federal government and the non-profit and voluntary sector and the capacity of the sector to provide service and build community. To this end, An Accord between the Government of Canada and the Voluntary Sector (2001) and two codes of good practice on policy dialogue and funding (2002) were negotiated. The Voluntary Sector Forum (VSF) – an alliance of non-profit sector organizations – continues to raise awareness of the Accord and its codes and to provide pan-Canadian leadership and coordination in the sector on horizontal and sector-wide issues.

More than 50 federal departments and agencies managed transfer payments in 2004–05, worth approximately $109.6 billion. These payments were made to further approve federal government objectives in social/cultural, economic, government operations, international and justice areas. For that year, $24.8 billion was spent in grants and contributions, of which 34% or $8.5 billion was paid to non-profit organizations through programs offered, for the most part, by

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69 Canada (1977), *People in Action: Report of the National Advisory Council on Voluntary Action to the Government of Canada*, National Advisory Council on Voluntary Action, Ottawa: Department Secretary of State recommended a number of activities to enhance the capacity of the sector.

70 The report of the “Broadbent Panel” *Building on Strength: Improving Governance and Accountability in Canada’s Voluntary Sector* was released in 1999, making 41 recommendations for government and sector to enhance civil society.


73 Table 2 A 04-05 Public Accounts
11 key departments. These figures do not capture funds allocated to international organizations, which are categorized separately; contracts held through various procurement processes for research, consultation and service projects; or funds “re-granted” to sector organizations through federal foundations.

The Task Force on Community Investments (TFCI) was established in spring 2005 to study and make recommendations on how to achieve more consistent and coherent funding practices across the Government of Canada, and how to achieve seamless, horizontal approaches to community investments. Phase I of the Task Force’s mandate is to review existing funding activity and to make recommendations with regard to departmental policy and guidelines, culture and capacity, training and technology that would improve the government’s capacity to invest in communities, within the existing structure and funding regime. This report is part of the Task Force’s Phase I research.

The Life Cycle of a Funding Program inside the Government of Canada

There are a number of approaches or “lenses” possible to frame an inquiry into investment practices of the Government of Canada. The TFCI sought advice from its Director General Working Group and developed a “life-cycle” approach to departments’ activities to guide the investigation. The life-cycle approach breaks the development and implementation of a funding program into discrete parts, from the policy inquiry that drives the rationale for investment, to program design and implementation, and through to evaluation.

This lens was selected for three reasons. First, it is the most familiar approach inside government, where there is little shared language about funding practice other than the Policy on Transfer Payments (PTP). Secondly, it permits comparison of units of practice across departments and functions. Finally, it allows for eventual comparison with, and learning about, the practices of other funders in the Canadian funding economy.

In the 13 focus groups conducted within the Government of Canada, from which the ideas in this section of the paper are drawn, the Task Force sought opinions from people in departments with substantial grants and contributions programs. Questions were asked about the life cycle of a funding program, practice innovations, and barriers that might be removed to foster a strong, cost-effective investment practice inside the government.

Departments defined the following seven components in the life cycle of funding program development and implementation inside the Government of Canada. (For more details on these components, see Appendix C.)

74 Thanks to TBS for interpretation of the Public Accounts.
Pan-Canadian Funding Practice in Communities

<table>
<thead>
<tr>
<th>Policy Analysis and Development</th>
<th>Process of inquiry including review of existing research, stakeholder consultation, and evaluation of existing programs to determine appropriate areas for policy development and investment to achieve social outcomes.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Memorandum to Cabinet</td>
<td>Process of obtaining approval from Cabinet for new or changed policy direction, including resource allocations for implementation.</td>
</tr>
<tr>
<td>Funding Program Design</td>
<td>Process of designing a funding program to implement policy and create investment opportunities for the Government of Canada to achieve social outcomes in partnership with community organizations.</td>
</tr>
<tr>
<td>Treasury Board Secretariat (TBS) Submission</td>
<td>Process of achieving approval of the funding program design and the release of related funds from TBS, in compliance with the policy.</td>
</tr>
<tr>
<td>Operational Policies</td>
<td>Development of the program-level practices and procedures to implement the funding program.</td>
</tr>
<tr>
<td>Program Implementation</td>
<td>Process of implementing a funding program. Includes staff training, call for proposals, review and recommendation of funding proposals, payment, monitoring of active files, and closure of files.</td>
</tr>
<tr>
<td>Evaluation</td>
<td>Evaluation of funding program implementation to measure achievement of intended social outcomes and effectiveness of program and practice.</td>
</tr>
</tbody>
</table>

Results of this work include:

- an analysis of eight barriers to change in the government landscape;
- 18 “promising practice sites” within the life cycle of federal funding programs; and
- a lexicon of federal funding practice terms (see Appendix B).

Eight Barriers that Limit the Effectiveness of Investment Practices

A sense of frustration and limitation emerged from the interviews with departmental staff who design, administer and evaluate Government of Canada funding programs. Recipients of funding have been increasingly critical – and public – about problems in the funding economy. Government staff are aware of this critique, but they are divided about whether the problem calls for more regulation or less. The Auditor General has recognized the burden imposed on organizations that receive federal funding by the government’s increasing reliance on rules-based, one-size-fits-all approaches. In her May 2006 report, she noted that “recipients of grants and contributions have told a parliamentary committee their concerns about the way departments apply the Treasury Board’s (TBS) Policy on Transfer Payments. They said that meeting various requirements including multiple audits, demonstrating eligibility for funding, and reporting on recipients’ results – can impose a heavy financial and administrative burden.”

Her audit confirmed that departments have yet to streamline their management of grants and contributions

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in a way that would resolve those concerns. The Auditor General also recognized that the current types of payments are too rigid or inflexible and do not meet departmental needs.

Similarly, Justice John Gomery noted, in his February 2006 report on sponsorship, “We should not equate accountability with increased controls and oversight.”76 This sentiment was echoed by the Prime Minister, when he stated in a speech to public servants on March 23, 2006, “This government will not be imposing more regulations – if anything, we will look to repeal the ones that inhibit your effectiveness.” In the same vein, the Action Plan for the new Federal Accountability Act articulates intent to “ensure that third parties that receive federal funding are not faced with an unnecessary administrative burden.”

In the TFCI focus groups, people spoke about the degree of “working around” the administrative confines that departments are employing to develop good investment practice and relationships with non-profit organizations. It is as if the Government of Canada can no longer see the forest for the trees. In developing a substantial focus on risk management and due diligence, it has lost sight of the big-picture trends and requirements of the non-profit sector. This compromises its capacity to manage the investment relationships with sector organizations and, more generally, its ability to invest in outcomes that improve the well-being of Canadian families and communities.

Early in this report, we discussed the growing relational shift among First World governments toward third-party investment to accomplish public policy objectives. We also discussed a shift toward short-term “shopping” styles of funding. There is ample evidence of these relational shifts in the stories of administrative overburden in departments, concern for burden created for recipient organizations, and marked differences in knowledge about what the non-profit sector is – and, therefore, expectations about how its organizations operate. A key tension point appears in regional offices where the relational edge between government and community is most clearly seen.

Knowledge is uneven about funding practice trends, such as capacity building, effective funding program design, administrative contributions, earned revenue, sustainability strategies, and support for collaborative development across departments. There is considerable focus on tasks that account to the public purse, but less clarity about how to measure the impact – or lack of impact – from a funding transaction. Only a few departments are thinking about how individual funding programs contribute to the ongoing capacity of viable organizations, recognizing the non-profit sector as a valuable element of Canadian community life. Eight thematic change points emerge in the internal government conversation. These are broad change points, in that they are beyond the scope of departmental practice alone and will require systemic strategies to effect change. They are:

- preponderance of focus on financial risk management;
- departmental “siloing”;
- lack of technological capacity and enterprise Information Management (IM) capacity;
- inability to “see” across government funding activities;

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• inflexibility in funding mechanisms;
• two operating paradigms: Command-and-Control and Relationship-and-Negotiation;
• funding program design as an area for improved rigour and knowledge; and
• cross-government funding program implementation issues.

**Preponderance of Focus on Financial Risk Management**

The intensity of the government’s current focus on financial risk management, and the resulting over-monitoring of funding transactions, is undermining the effectiveness of community investment practice and is having unintended consequences. In essence, the pendulum has swung too far. Departments say that efforts to meet risk management requirements are overtaking the capacity to manage effective relationships with recipients and the ability to produce intended outcomes. In a department with a comprehensive funding program, one program officer estimates that 80% of time is spent on financial risk management activities. The 20% remaining is used, to the degree it is even possible, to manage the funding process, assess applications, monitor and support recipients in the delivery of outcomes, assess and manage non-financial risks, manage the funding relationship, and contribute to departmental learning from investment practice. In another department, a focus-group participant suggested that the government faces a critical question in its process of investment: to focus resources purely on oversight or to do the work of moving its social policy agendas forward.

Three interrelated points sharpen the negative impact of the current one-size-fits-all financial risk management regime:

• the resulting culture of risk aversion;
• the lack of ability to count the cost of risk management activities; and
• the narrow view of risk management which overlooks important sources of risk.

The preoccupation with financial risk management is contributing to a pervasive culture of risk aversion that limits the effectiveness of some investments and the potential to increase horizontal activity. Departments named a number of tendencies operating in the culture: “closing ranks” and reverting to silos in reporting; avoidance of more risky ventures, including horizontal initiatives; limiting ranges of outcomes from investment to those that are predictable and “safe,” thereby reducing innovation and capacity building; and establishing short-term funding agreements that contribute to the destabilization of the sector.

Events such as the sponsorship “scandal” and the HRDC audit “crisis” have contributed to a mythology about the need for more regulation. There is general cynicism about the excessively regulatory culture, and resentment about seemingly meaningless procedures, both on the part of departmental staff and in funded organizations. Further, where knowledge about the non-profit sector and/or funding practice is low, the climate fosters a belief that these organizations are generally untrustworthy, lack capacity, and need to be regulated. This belief exists despite
evidence that Canadians’ opinion is quite to the contrary. Where this belief is in play, regulation appears to become overzealous and well beyond TBS requirements.

With no accounting mechanisms to count the cost of the risk management regime, there is no check and balance on added measures. The government has no method to answer the question “When does more financial risk management become too much?” Some independent foundations routinely post their administrative overhead, and as a class of funders, are actively engaged in research and comparison of expense-to-disbursement ratios. The research addresses how much is spent to administer a transaction through variables such as staffing and foundation size and explores different categories of reportable data in order to help to better understand expense levels. While variance in expense-to-disbursement ratios should be expected (for example, a funding program supporting community development outcomes may cost more to administer than one making small capital grants), benchmarks of comparison offer the opportunity to test “reasonable” practice between funders and they make a substantial contribution to transparency.

Although the increasing cost of compliance with Government of Canada’s risk management requirements to not-for-profit organizations has been in public discussion for several years, the cost of risk management activities within departments had not been calculated by any department in this study. There is also no evidence of calculation that estimates cost savings from mitigated risk. It appears that the current risk management regime is not held in balance by measures of cost effectiveness. The lack of analysis also obscures risks that may be produced by funding program design created to manage risk rather than produce outcomes. In short, the risk assessment management regime may be not only risky for non-profit organizations, but for the government itself.

The administrative burden of risk management, focused primarily on monitoring financial processes after a decision to fund, limits the ability of program staff to manage other factors that contribute to effective investment. Funders have the opportunity to manage risk through assessment, conditions on agreement and relationship as well as through monitoring. Assessment, or even pre-application discussion, enables “up-front” attention to risk factors, such as knowledge and administrative capacity of the grantee to carry out the work, adequate project design and realistic time frames, and ability to measure outcomes. This attention permits funders to craft agreements that ensure better performance and so mitigate risk. Balancing attention to risk of failure of both financial management and outcome production is a vital consideration in investment practice.

Unintended consequences of the risk management regime are affecting both the sector and the Government of Canada. These consequences include burdensome reporting requirements, with the administrative overburden shared by both recipient organizations and government staff, who must monitor the investments. Departmental staff say trust is being compromised, particularly at

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the regional levels where relationships are more longstanding, as a consequence of the push for
greater accountability and the segregation of duties in the management of agreements.

- **Departmental “Siloing”**

Corporate leadership is required to address departmental silos that block horizontality and the
potential for interdepartmental cooperation on effective investment. Increasingly, Canadian
governments are recognizing the value of horizontal management in taking a coordinated
approach to the complex issues that communities face. This style often brings to the table other
levels of government, as well as stakeholders in the private and non-governmental sectors.

In a recent paper on lessons learned from provincial experience of horizontal policy-making, Ian
Peach points out that the first job of government is to solve problems, bringing a focus to
outcomes, rather than on transactions. He suggests that to effectively “join up” government
departments requires the ability to directly confront the “bureaucratic culture that is the
continuing legacy of the professionalization of public administration in the 1930s.” In several
focus groups, departments used the word “nightmare” to describe their attempts to work
cooperatively across the vertical systems of ministerial and departmental responsibility, to
initiate, manage or jointly fund horizontal initiatives.

The vertical nature of departmental reporting to Parliament, as required by the *Financial
Administration Act*, imposes rights and duties on ministers and deputy heads in relation to the
institutions they manage. These include a deputy head’s obligation to establish procedures and
maintain records respecting the control of financial commitments chargeable to public funds;
ministerial (or delegate) approval to issue payment; and certification before a payment is issued
by the deputy head (or delegate) to certify that contracted work has been performed, the goods
received, or the services rendered.

The Auditor General concluded in the report *Managing Horizontal Initiatives* that weaknesses
in governance, accountability and coordination, found in their audit of selected horizontal
initiatives, are due to a lack of engaged involvement in horizontal initiatives from the Privy
Council Office and Treasury Board Secretariat. Improving departments’ ability to work well
horizontally will require the central agencies to improve accountability and management
frameworks, approval processes and funding arrangements. It will also require departments to
have opportunities to apply their learning about what works from program evaluation to
incremental adjustment in their funding programs.

- **Lack of Technological Capacity and Enterprise Information Management (IM) Capacity**

The lack of technological capacity to create a linked or common investment management system
between departments is creating a number of deficits in the Government of Canada’s funding

Saskatchewan Institute of Public Policy, p.2.
80 Canada (2005), Ch. 8: “Managing Horizontal Initiatives,” in *2005 Report of the Auditor General*, Ottawa: The
Office of the Auditor General.
practices, and, in some cases, it shapes program design. Technological system limitations are, in fact, entrenching silos, creating inadvertent barriers to sharing of information about funding programs and transactions across government. According to the Government of Canada’s IM Program Transformation Initiative, best practices and processes for IM are not designed with a “whole of government” perspective. This lack of capacity makes it difficult to locate and aggregate even the most basic data about grants and contributions programs across departments and agencies.

While current systems discourage information sharing, it is also not encouraged as a cultural value. Program owners have legitimate fears that data might be misinterpreted because rules and processes are applied inconsistently across departments. Privacy constraints appear to be poorly understood, particularly in the distinction between individual recipient privacy and the public disclosure requirements of non-profits receiving public funds. New levels of information interoperability, fuelled by a stronger and more consistent IM capability across government, are needed to bring down the barriers that interfere with the ability of departments and agencies, and their community partners, to collaborate on community investments.

Some departments with large numbers of funding programs, under unprecedented pressure to transform to more integrated service delivery, are attempting to resolve management and administration issues on their own. This has resulted in a patchwork of grants management software. In the focus groups, a number of departments spoke of software under active development at the time of this research – in some case purchased and further developed from another department – without plans for eventual inter-linking to one another, or any blueprint for an interdepartmental investment management system.

Government On-Line (GOL) initiative was the most recent of a series of commitments to promote the use of technology in the delivery government services to the public that date back to 1993. This program included electronic service delivery according to clients’ needs, using an integrated and whole-of-government approach. GOL’s final report noted: “In the years ahead, expertise and best practices gained from the GOL Initiative will be channeled to other government-wide initiatives that will transform government to be more accessible and responsive to the needs of Canadians.” However, none of the three service vision statements set out in the report address services to Canadians in non-profit sector organizations.

The inability to track history and aggregate data about either fund recipients or funds awarded for different purposes across government limits elements that would improve investment practice. These elements include the ability to:

- access a government-wide funding history of an organization for application assessment;
- obtain information on the extent of Government of Canada investment in a particular organization or sector;
- gain a comprehensive picture of Government of Canada investment in related issues, and so develop a comprehensive investment strategy;

81 Canada (2003), The Information Management Program Transformation Initiative. Ottawa: TBS.
• share tombstone data, such as mission, incorporation or registration information and audits, from applicant organizations, rather than making repeated requests for the same information; and
• collaborate with other departments in horizontal initiatives by pooling funds, sequencing investments, or managing investment conditions across departments.

This lack of a common technological platform and vision limits the government’s ability to implement often-mentioned reforms that would benefit applicant organizations. These include a single portal for government information about its funding programs, common application and reporting forms, and capacity building advice for applicants. In some cases this situation limits Canadian organizations’ access to programs, particularly organizations in remote communities or in emerging issues, where relational “grapevine” information systems are not firmly in place. For other organizations, it is driving up the cost of application. To learn about funding programs, organizations currently must monitor departmental websites or call departmental staff, and then follow a unique application process for each program.

• **Inability to “See” across Government Funding Activities**

Similarly, the government’s data systems are not currently able to draw up the “big picture” of government investments in the non-profit sector. In its policy research work for the VSI study of federal Funding Practices and Policies, TBS conducted a detailed investigation of federal data sources in 2001-02 to try to determine the level of transfer payments flowing specifically to non-profit and voluntary organizations. Because of the systemic barriers encountered, the results were an approximation only. (For this report, faced with different and apparently incomparable figures used in several different government reports, we knowingly offer incomplete data, with notes on the information that was unavailable, in the introduction to this section).

Statistical initiatives through the Voluntary Sector Initiative have collected information about the breadth of the non-profit and voluntary sector in Canada to improve understanding of the challenges they face. However the lack of internal data about the extent and nature of funding provided to community organizations means that the government has little ability to monitor the degree or the parameters of its third-party relationship with the sector. In particular, data from the National Survey of Nonprofit and Voluntary Organizations enables the distinction between “big” organizations (quasi-non-governmental organizations, including colleges, universities and hospitals) and the much more numerous “small and middle-sized” organizations. The latter with budgets under $10 million provide the infrastructure of Canada’s non-profit sector, and are generally seen to be at greater risk in the current funding economy. With more ability to code, track and generate information on its funding activity and relationships with the non-profit sector, the Government of Canada could develop better investment strategies to support the long-term viability of the sector.

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Inflexibility in Funding Mechanisms

Most departments agree that the choice of funding mechanisms available in the Policy on Transfer Payments limits their ability to design the funding programs that support the government’s investment activity in the non-profit sector. Under the PTP, “grants” and “contributions” are most often used. “Grants,” with their tradition in Canadian legal precedent as unencumbered (and unauditable) charitable “gifts from the Crown,” do not offer the structural opportunity for adequate accountability measures. “Contributions,” which provide for reimbursed contribution payments to organizations against expenses, tax the limited cash flow situations of smaller organizations. Furthermore, the process to release payment places considerable administrative burden on both departments and organizations.

A scan of funding mechanisms in other First World countries and other Canadian funders reveals considerable variance in how “grants” are defined. In some cases they are understood to be flexible mechanisms with up-front assessment and incremental pre-payment with risk management and accountability measures built into a monitoring framework that can be adjusted to accommodate unexpected risks over the term of funding. A “contribution,” with its preponderance of risk management in the monitoring stage, is a uniquely Canadian instrument.

To compensate for the lack of flexibility in available mechanisms, some departments are seeking exceptions for terms and conditions to fit delivery requirements. Others design their program around their perception of the limitations of the policy, which in a culture of risk aversion, suggests that departments may be interpreting the mechanisms less flexibly than they might. The process itself – that requires a department to seek an exception from an inflexible standard rather than tailoring the instrument to the program needs – works against good program design. The process of designing by exception also inhibits adjustments to funding practices that could result from learning from and with recipients of an existing program.

Two Operating Paradigms: Command-and-Control versus Relationship-and-Negotiation

There are two conflicting paradigms, or systems of thinking, about the relationship between the sector and government are in operation at the same time. This creates tension in the department-to-central-agency relationship, as well as within some departments. This is not surprising, since there is considerable discussion about reframing public administration bureaucracies to meet the needs of modern governance, including third-party investment relationships.85 This issue was highlighted in Social Union Framework Agreement (SUFA), with regard to new funding structures – and therefore relationships – between the Government of Canada and the provinces and territories. But while the VSI discussions are lauded as progressive by international experts in

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85 See Anheier (2005) for a discussion of social accountability in New Public Management (NPM) and the four functions of the voluntary sector organizations: service-provider role, innovator role, advocacy role, and accountability role.
government-to-sector relationships, the principle of a negotiated relationship articulated in SUFA has yet to materialize with the non-profit sector.

Lester Salamon, in his presentation to the Government of Canada conference *Measuring Progress in Joint Partnerships with Government: Methodologies to Assess the Voluntary Sector Initiative* describes effective problem solving as a “deeply collaborative” venture between governments and the private – including the non-profit – sector. He argues that there is a need to move away from working in a traditional hierarchical manner towards developing the skill and capacity to negotiate and sustain multi-stakeholder relationships and horizontal networks. Much of the knowledge required to tackle public problem solving, he points out, no longer rests with government, but is held in networks of sector organizations.86

Salamon styles traditional public administration as “command-and-control,” and the new, more relational styles, as “negotiation and persuasion.” These focus on the quality of a relationship of mutuality, even if the parties’ access to resources and information is dissimilar. Focus group participants suggest that in the 1970s and 1980s, collaborative ways of working became more prevalent in departmental relationships with non-profit organizations. But this trend slowed – and in some cases reversed – after the funding cutbacks in the 1990s, at the very time when “devolution” to the sector for the delivery of many services became more routine and so made relationship-based approaches all the more important. Control functions became more prevalent in relationships with funding recipients, in part because of risk management pressures and the lack of any forum for departments to share their thinking and information about funding practices.

There is also a distinctly uneven knowledge and understanding of the size, role and realities of the non-profit sector between departments, and between individuals within departments. This manifests in quite different approaches to the issues that arise in funding practice, and it creates mistrust and conflict between staff in some departments. An attempt by a regional program officer to develop a funding agreement that met the needs of the non-profit in the community relationship was understood by her manager as an attempt to “work the system” and “break the rules,” as evidence that she had become “too close” to recipients. When asked to recommend a solution to what was clearly a dilemma for them, this staff group unanimously proposed clearer leadership and guidance on the style of relationship they are expected to implement. As the government’s relationship with the sector has evolved, without overt policy discussion and leadership, the issue becomes covert, played out on the landscape of interpersonal relations with personal belief, knowledge and values standing in the place of good policy.

The dichotomy in departmental thinking about investment practice in the sector was quite evident in the focus groups, giving the impression of two sides pulling against the middle in efforts to achieve competing objectives. The first objective is the desire for clearer regulation and control mechanisms to frame an investment transaction. The second is a desire for more discretion closer to community to enable a negotiated and partnership approach for community investment. The

unresolved and largely subliminal tension between these two approaches permeates the setting of policy outcomes for funding programs, program design, and front-line funding practices.

Building from what department staff described, and from Salamon’s public service dichotomy, we can sort these two ways of understanding into two distinct styles of relationship. These styles emerge from competing belief systems that are being implemented at the same time in Government of Canada investment relationships.

<table>
<thead>
<tr>
<th>Command-and-Control Assumptions</th>
<th>Relationship-and-Negotiation Assumptions</th>
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</thead>
<tbody>
<tr>
<td>Flexibility leads to mismanagement.</td>
<td>Flexibility leads to better agreements.</td>
</tr>
<tr>
<td>Relationship leads to a loss of objectivity and so poor decisions.</td>
<td>Relationship leads to better information and so better decisions.</td>
</tr>
<tr>
<td>Risk management as financial control and reporting.</td>
<td>Risk management as assessment and relationship building.</td>
</tr>
<tr>
<td>Outcome as a deliverable to government.</td>
<td>Outcome as a mutual interest.</td>
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The tension in these two perspectives on the role of government with regard to community investment practice is mirrored to some extent in competing models of community development practice. “Needs-based” community development is a product of the 1970s when government bureaucracy and funding for third-party service delivery were growing exponentially in Canada. The story-line of community organizing at the time was about communities assessing needs, engaging in dialogue with government about what was needed, and then entering into funding arrangements to provide service. By the late 1980s, another approach emerged in response to government cutbacks and the withdrawal of services, notably in the United States. A new asset-based community-driven development approach – associated with the work of John Kretzmann and John McKnight from the Institute for Policy Research at Northwestern University – emerged. It has been used in international development by players as diverse as Oxfam Canada and the World Bank. The story-line of practice under this model is of communities determining their own assets, and then mobilizing these resources to address their needs and aspirations, and in so doing, leveraging support from other investors, particularly governments.

<table>
<thead>
<tr>
<th>Needs-based Community Development</th>
<th>Asset-based Community-driven Development</th>
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<tr>
<td>Assessment and case building on need</td>
<td>Assessment and case building on need</td>
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<tr>
<td>Lobby or advocacy of government for support</td>
<td>Assessment of community assets and search for leveraging opportunities</td>
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<tr>
<td>Service delivery partnerships</td>
<td>Partnership investment</td>
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<tr>
<td>Government standard and control</td>
<td>Community-driven priority and control</td>
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Both approaches to government relations and community development include an important role for government financial engagement. However, the traditional relationship is more driven by government knowledge, priority and ability to fund. In the asset-based approach, communities lead with locally based knowledge developed in conjunction with government because of mutual interest in community outcome. Governments fund not only to provide service, but just as importantly, to build community capacity and thus create an enabling environment for community organizations to leverage funds from both governmental and non-governmental sources.

Some departments have been able to manage this duality in relational style between government and the non-profit sector and develop a coherent approach to the relationships with those they fund. In others, failure has become a public story. In departments that operate more in the newer relationship, there appears to be much greater success at linking the parts of the life cycle within the funding process, and in creating a reflective environment where they are able to develop a relationship and learn from recipients. These departments also understand capacity building as a vital part of their relationship with recipients.

The Government of Canada has not yet developed a full interdepartmental understanding of how capacity building fits with its funding practices and can be used to enhance the effectiveness of investment. The capacity building impact of government programs funding appears limited because:

- capacity building is not well understood and so the potential in the funding relationship or agreement is often missed;
- the lack of time devoted to the funding relationship means that program officers do not get to know many applicants well enough to assess or support appropriate capacity building;
- of a lack of knowledge and/or understanding of the non-profit sector; and
- of a lack of recognition of the strain on performance that results from multiple short-term, project-based funding arrangements.

### Funding Program Design as an Area for Improved Rigour and Knowledge Exchange

In general, funding program design is an area of government practice that lacks intellectual rigor at best, and at worst is a haphazard response to departmental perception of what is required by Treasury Board Secretariat. Program design as a stage in the development and implementation of a funding program is not recognized in a number of departments that understand funding program design as either a function of TBS or a response to the requirements of the Policy on Transfer Payments.

Well-designed programs have developed systems to incorporate both community stakeholder and program officer input and the link to local realities that their information can provide. If horizontality is to be encouraged, other important stakeholders in the design phase include other departments, as well as non-governmental funders and funders from other levels of government that have related interests and commitments. Few departments appear to have fully implemented...
the commitments in the *Code of Good Practice on Funding*.88 The absence of a consultative approach to funding program design is leading to inefficiency and potential duplication.

There is general agreement on the need for more training on the professional functions of funding program design and funding practice, as part of the implementation of the to be renewed Policy on Transfer Payments. Areas for potential training include:

- elements of design of funding programs to fit with policy objectives and community implementation;
- funding relationships as an element of the funding program design;
- audit interpretation;
- appropriate financial monitoring;
- understanding the intent, flexibility and limits of TBS policies;
- capacity building approaches;
- community engagement and collaboration strategies; and
- the nature and function of civil-society organizations in Canadian society.

As a case in point, the use of the funding relationship in grants and contributions management, including risk management, is a relatively unconsidered area of Government of Canada funding practice. In the corporate world, where good relational alliances are closely tied to the bottom line, a study by Vantage Partners suggests that failed alliances result from poor or damaged relationship in 52% of cases, 37% are due to poor planning, and only 11% of failures are caused by poor legal or financial arrangements. The authors conclude that relational failure is most often caused by a significant lack of institutional capability to systematically manage alliance relationships.89 The inability to keep up with new knowledge developed in communities that should impact on policy or funding methodology is curtailed in many departments because the Government of Canada’s focus is on the financial monitoring. In the focus groups, department staff noted that a more relational approach:

- builds trust (and therefore the relevance) of Government of Canada programs and enhances ability to fund innovation;
- reveals opportunities for risk management that affect achievement of funded outcomes, so increasing effectiveness of investment;
- enables clarity in the ethical regulation of the funding relationship at the practice level;
- is efficient in that it reduces time spent on bureaucratic “churn,” focusing rather on what makes sense on both sides of the relationship; and
- reduces the segregation of duties that compromises a holistic sense of what is going on in investment.

Design of funding programs is an emerging field in Canada, as well as internationally, as many types of funders are attempting to maximize the benefit of their investments and respond to

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critique from the sector that the transactional costs of funding agreements are too high. Dialogue and learning with other funders in the Canadian funding economy on lessons learned in investing effectively is important. So, too, is the development of knowledge and training on effective funding program design, as a discrete stage in the life cycle of a funding program.

- **Cross-government Funding Program Implementation Issues**

In the TFCI focus groups, people spoke about a range of issues that relate less directly to processes of community investment than to overall government function, yet have substantial impact on the implementation of funding programs. These issues include a sense of disconnect between regional and headquarters offices; the revolving-door movement of Government of Canada staff at many levels, leading to short-term relationships with stakeholders, a lack of context, and the need for ongoing job training; and tensions between departments and the central agencies. These issues all impede the retention and transmission of knowledge about funding practice; the government’s ability to maintain relationships with funded organizations and sectors over time, as the vehicles for third-party investment; and the development of coherent knowledge from practice about how funding programs work well in communities.

The regional-HQ disconnect was the subject of the *Final Report of the Task Force on the Coordination of Federal Activities in the Regions* in 2002. The report identified “the need for greater delegation of authority to front-line staff; reduced administrative burden for clients and front-line staff by developing shared application, approval, funding, reporting, audit and evaluation processes for programs; clearer identification of the competencies and resources required for horizontal management and joint stakeholder relations; and greater interdepartmental collaboration prior to seeking Treasury Board approval/renewal of grant and contribution programs.”

In this study, we also heard how this affects the development of both good investments and horizontal programming opportunities. The experience ranged from programs that attempt to engage the place-based expertise of regional staff, to those where regional staff speak of working around granting processes in an attempt to shoe-horn local realities into the programs they administer. Several regional staff spoke of the tension and lack of “fit” in the implementation of “made-in-Ottawa” funding policies and processes in local communities. In one community, a program officer described feeling compelled to require more than 20 rewrites of an application for under $75,000 from an organization with which she had a long-standing relationships. To a degree, the tension between program regulation and meeting local needs is inherent; but understood and managed effectively as regional capacity, it offers an opportunity for more effective practice.

When the regional-HQ relationship is working well, regional staff are actively engaged with policy development and act as a vehicle for the inclusion of place-based stakeholders in consultation. When a degree of decision-making discretion is devolved to regional staff, within program guidelines, participants are more able to respond to local realities and take advantage of

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collaborative opportunities. Participation in community-level funders’ groups, noted earlier in
this report as a way of understanding and participating in the local funding economy, is a natural
role for regional staff. It could increase horizontal responses to local needs and the potential for
leveraging resources. However, to take advantage of these opportunities, the Government of
Canada must have the structural vehicle at the community level.

Frequent staff turnover, creating the “revolving-door” scenario, greatly increases the burden of
transaction on non-profits. Because federal government staff – at all levels – change positions
frequently, departments repeatedly lose relational capacity and organizational memory. The
result, particularly for organizations with multiple departmental relationships, is a constant
rebuilding of relationship and re-documenting of funding history. The most recent Public Service
Employee Survey (2005) reveals that 50% of program managers and 41% of executive class
public servants surveyed strongly or mostly agreed that staff turnover presented significant
problems in their respective work units. In addition, 47% of program officers and 41% of
executives indicate that the quality of their work suffered because of constantly changing
priorities.

These two statistics show instability in the government’s capacity to build funding relationships:
changing staff are delivering programs with frequently changing priorities. They also highlight
the need for “evergreen” training programs on program design and implementation to address the
revolving door, as not only relationship and history are lost, but also context. In the focus groups,
people spoke of the need for internal training or supervision of junior TBS staff, to increase their
ability to advise senior departmental staff on funding program design in implementing the Policy
on Transfer Payments. They also recommended that program managers be trained in program
implementation and knowledge of the non-profit sector.

Finally, a thread running throughout these conversations was the need for leadership and clear
vision, not on “how much,” but on “how” funds flow to community organizations, and on the
nature of the relationship that the Government of Canada is co-creating with the non-profit sector
to accomplish its policy agendas. Departments perceive the government’s central agencies in
funding program development, particularly TBS, more as a shoal to be navigated than as a
navigational aid to good design and implementation. Further, several focus group participants felt
that TBS analysts lacked the knowledge, authority or confidence to provide departments with
informed and collaborative assistance to resolve their funding program issues.

On the flip side, people in TBS expressed concern that departments are not using the flexibility
that they believe is built into the Policy on Transfer Payments and its directives in designing their
programs. In a focus group, TBS staff expressed a lack of certainty about their own role with
regard to departments.

As grants and contributions programs have evolved over the last decade without systematic
implementation of the lessons from the policy dialogues with the sector through the VSI, the
relational gap between the non-profit sector and the government is widening – expressed in
ineffective programs and lost opportunities for stronger and more resilient communities. This is
an opportune moment for change – with effective program design and implementation as a
mutual interest as sector organizations want more stability from the funding economy and the
government seeks more accountable and cost-effective programming as it invests in the capacities of communities to solve increasingly complex problems.

Funders of non-profit sector organizations are becoming increasingly aware of the size, scope and value to Canadian society of that sector, through the research produced through the VSI, and of the increasing resourcing strain organizations are experiencing due to changing funding practices. The next two sections of this report deal with funding innovation generally and with promising funding practices emerging in the Government of Canada.
PART III: NEW DIRECTIONS

6. New Directions in Funding Innovation

All the good will, brain power, capacity building, finger-wagging, standard-setting evaluation and impact measures will eventually be undermined by the way we finance these enterprises. The financial system that we have put in place and support is the worst enemy, not only of the improvements everyone is trying to make, but of the socially critical programs and services this system is meant to sustain. All efforts to improve the sector will be merely palliative without essential, systemic reform of the way the rules of finance work.91

There are many varied conversations about funding innovation and reform among non-profit organizations, among funders, and among scholars studying the non-profit sector, public administration, economics, organizational development and the like. These conversations are part of a global shift in thinking about the ways in which societies pursue common goals and tackle common problems. Until now, they have evolved in relative isolation, reflecting both the distinctive character of the individual regions (demographic make-up, structure of the economy, urban or rural character) and the differences within the non-profit sector between its subsectors, such as the arts and heritage community, sport and recreation, and social services. More recently, those interested in effective community investment are reaching out to talk about common challenges and to brainstorm new ways of working together. Looking from the top down, one might conclude that funding systems are destined to be slow, inefficient, insulated and timid. Looking from the bottom up, however, we find that funders are responding to this new context. Current practices have opened up new opportunities to set funding practice on a new course.

Below, we present some of the “seeds of change” influencing the funding economy in Canada today.92 These examples focus on funding practices outside of the Government of Canada. Examples of innovation with the Government of Canada are presented in the next section.

• Capacity Building – For Funders and Non-profits

What good is a great program if the organization is collapsing? Foundations need to find new ways to make grants that not only fund programs but also build up the organizations capabilities that non-profit groups need for delivering the sustaining quality.93

92 Katherine Fulton and Andrew Blau use the term “seeds of change” to refer to alternative grantmaking strategies. Their chapter of philanthropic alternatives has informed the following discussion. See Fulton and Blau (2005), Looking out for the Future: An Orientation for Twenty-first Century Philanthropists, Global Business Network and Monitor Group Institute.
In recent years, funders have paid increased attention to the capacity building needs of non-profit organizations across all sectors. Growing demands on non-profit organizations, coupled with government cutbacks and intense competition for general operating support, have highlighted the capacity needs of the non-profit sector; only strong, adaptive organizations can navigate successfully in this environment. As well, the new focus on impact evaluation has raised questions about the capacity of organizations to sustain their good work over time. In the current funding environment, where sources of unrestricted funds to cover general operating costs are limited, access to capacity building resources has taken on added importance for organizations and their funders.

Capacity building is generally understood to be an approach that strengthens the ability of non-profit organizations – and the sector more broadly – to achieve their mission. It is a form of “investment” funding. Capacity building takes many forms, ranging from grants and contributions, to in-kind technical assistance, to assistance in leveraging community and/or financial support, to new Venture Philanthropy partnerships (which we look at in greater depth below). Some funders are now providing support for an expanding number of activities, including needs assessments, technical assistance, peer exchange, financial and technological support on selected issues such as facility purchase or renovation, sabbaticals / educational programs, and support for “backroom” or “management” functions such as training, strategic planning, fund development, IT, and HR functions. Supporting the development of sector intermediaries or umbrella organizations is another way to enhance the capacity of the sector and its member organizations.

For the last 15 years, American foundations have been at the forefront of a movement to strengthen the performance of non-profit organizations, and of the sector as a whole, through capacity building activities. While there have always been efforts to improve the functioning of non-profits, the capacity building movement since the late 1980s has created a more organized field of practice and a national as well as local infrastructure. This infrastructure now includes many funders, intermediary organizations and associations, academic institutions and consultants — all of whom are motivated to enhance the impact of investment in and through non-profit organizations.

The following examples illustrate the various types of support available to non-profits in some areas of Canada.

The Urban Issues Program of the Samuel and Saidye Bronfman Family Foundation delivers grants of up to $30,000 to 20 to 25 cities across the country. In addition, the program provides technical assistance to grant recipients throughout the duration of the grant, references materials, contacts with other organizations and potential donors, and educational opportunities via
participation in national conferences on urban issues and travel bursaries to visit other organizations to learn from their experience.

In 2003, the Centre for Sustainability was established to build the capacity of non-profits in British Columbia. It delivers three Partners in Organizational Development Programs (PODs): Social ServicesPOD for health and social services (once housed with the United Way of the Lower Mainland), ArtsPOD for arts and heritage organizations, and EnviroPOD for environmental organizations. Organizations can apply to these programs for grants (a maximum of $5,000) to cover professional fees for a consultant or resource person to help an organization to increase its capacity and effectiveness. The Centre helps organizations define their needs, and then connects them with consultants or organizations that can provide assistance. They also maintain a website with resources on board development, communications planning, financial management, etc. Each POD is funded by a number of BC-based funders, such as the United Way of the Lower Mainland and the Vancouver Foundation.

The Muttart Foundation runs a training and bursary program to improve organizational effectiveness. The Foundation provides bursaries to pay for the tuition or registration costs of short-term courses, conferences and other training opportunities. A charity may choose to send staff members or volunteers to such training sessions. In some cases, the Foundation gives training grants to charities or a group of charities to bring a trainer to their organization(s). Through the Foundation’s Fellowship program, senior managers of social service agencies are provided with a sabbatical year to undertake a special project of their own design.

- **High-engagement Philanthropy**

“High-engagement philanthropy” or “accompaniment philanthropy” is another form of capacity building that supports the growth and scaling-up of effective, “high-performing” organizations that foster or incubate social and economic innovation. High-engagement philanthropy is not new: many of the giants of North American philanthropy of the past were highly engaged in their philanthropic pursuits. However, today’s forms of high-engagement philanthropy, and the emergence of venture philanthropy in particular, represent a decisive move away from ideas of charity – the giving of alms and helping others – toward more deliberate activities designed to tackling the causes of social and economic problems. They also, as noted above, embody the notion of investment with the explicit expectation of a return.98

High-engagement philanthropy is an approach in which funders or “investors” are directly engaged with non-profit organizations in close collaboration. The funder or investor’s financial support is allied with other kinds of assistance, such as long-term planning, board and executive recruitment, coaching, and help in raising capital and in leveraging relationships to identify additional resources and partners. The funder invests significant sums of money for long periods of time, which allows the organization to concentrate on mission-related activities. Throughout

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this period, performance goals are carefully tracked and modified as organizations grow and circumstances change.99

The following are examples of high-engagement philanthropy.

Social Venture Partnerships, based across the United States and in Calgary and British Columbia, is a non-profit organization that brings together individual donors who want to build non-profit capacity, provide management and other technical assistance (such as strategic planning, board development, facilities planning and acquisition, marketing planning, IT planning and implementation, and fundraising and revenue generation). Partners invest in innovation and then actively nurture their financial investment with guidance and resources.

Social Capital Partners, based in Toronto, is a non-profit organization that invests in revenue-generating social enterprises where the majority of employees are from a disadvantaged population.100 Social Capital Partners works with selected organizations to help them acquire scale, and to improve social outcomes and financial self-sufficiency for the populations they employ. It provides financing for organizations attempting to create social value at the same time as doing business. The types of financing available include grants for start-up social enterprises, loans, and near equity financing for enterprises in the growth phase of operations (such as subordinated debt, mezzanine financing, convertible debt or preferred equity). To evaluate success, Social Capital Partners measures the progress of employees toward a sustainable livelihood and social enterprises toward profitability, using a Social Return on Investment framework that assesses the value of the social outcomes generated by a social enterprise in relation to the investment made in the business.

In the arts field, many small companies struggle with large debt loads and lack the skills and resources to establish their organizations on a financially sustainable course. The Creative Trust: Working Capital for the Arts is an independent non-profit organization that provides support and funding to small and medium-sized performing arts organizations seeking to improve their financial sustainability and develop the capacity for raising working capital and managing expenses.101 The Trust engages in an in-depth process with the participating arts organizations to develop their planning and financial skills, achieve organizational balance, and acquire and maintain a fund of working capital. It combines an intensive working process – in which participating companies are given technical assistance with strategic planning, financial management, fundraising or any other area of need – with deficit reduction grants and working capital awards.

These examples illustrate a more highly targeted and engaged form of philanthropy and investment. They are also examples of efforts to expand the type of funding and financing available to non-profit organizations. The new emphasis on capacity development has led to calls for new funding and financing instruments, similar to are available to small and medium-sized business and non-profits in other countries. Indeed, the social capital market is much more advanced in the United States and the United Kingdom. Favourable tax and regulatory regimes in

100 http://www.socialcapitalpartners.ca/index.asp
101 http://www.creativetrust.ca/files/creativetrust.htm
the United States have spurred the development of community development venture capital funds and other community loan and venture funds. The Community Reinvestment Act in the United States has resulted in significant community economic development financing from commercial banks. In the United Kingdom, the government has actively promoted social investment. In Canada, much remains to be done to foster a social capital market.102

• Re-thinking Available Resources

The shift in thinking around capacity building – and the evident tension of current funding practices – has also spurred funders to look at how they can capitalize on their resources to leverage their funding dollars and thus increase their impact. This has led to a re-thinking of their activities and available resources. Funders involved in high-engagement philanthropy have underscored the importance of contributing time and expertise. Some funders complement their funding by providing technical assistance. These types of program serve primarily to foster the capacity of individual organizations or groups of organizations by providing pro bono consultancy and advice to the groups they fund. For instance, VanCity Community Foundation’s Enterprising Non-profits Program provides orientation sessions to prospective social enterprise loan applicants to ensure that the staff and board members thoroughly understand the issues involved. Participants assess organizational readiness to launch an enterprise, identify organizational and business development needs, and learn more about the funding and application process. It is part of a developmental approach to funding where both funders (in this case, VanCity in partnership with the Vancouver Foundation and the United Way of the Lower Mainland) and applicants are engaged in a common initiative: learning about what it takes to launch successful non-profit enterprises.

Funders are re-thinking how to best use their resources in other ways as well. United Ways are increasingly taking up the role as community convenor, leveraging their unique position as both a fundraiser and grant-maker to bring potential partners and stakeholders together to problem solve and generate community solutions. Other funders are working as brokers or connectors, seeking out additional resources and bringing various players together to mount multi-stakeholder, multi-funder projects (and example is Vibrant Communities). VanCity Credit Union challenges its employees to raise funds for a particular non-profit group of its choice each year. These are different ways that funders can build upon their core activities to increase their impact in collaboration with non-profit partners.

• General Operating Support

Non-profit organizations have for some time had trouble covering core costs, as their program funders have too often not paid a fair share for organizational infrastructure such as governance, management, information technology, finance, human resources, and property management. As a result, non-profit organizations are forced to backfill these losses from other sources, such as profits from earned income (“subsidy businesses” such as museum shops), fundraising,

investments (for the lucky few), and other general or open grants from funders such as the United Way. Those unable to secure general operating support or cross-subsidize their activity face increasing stress and financial uncertainty.

A number of high-profile funders from the philanthropic sector have identified the lack of general operating support as a core threat to the continued viability of the non-profit sector. Certainly, these funders are motivated in part by the threat that systematic underfunding poses for their own investments. They have called on other funders to examine their funding programs and “pay their fair share.” (See Appendix D for an example of such a statement.)

These funders have introduced different strategies address core funding deficiencies. One group has developed general operating support programs for organizations that are closely aligned with their missions. The most notable example in Canada is the Government of Quebec, which funds the core operations of community-based organizations engaged in service delivery and advocacy under its L’action communautaire: une contribution essentielle à l’exercice de la citoyenneté et au développement social du Québec. Through this policy, the government places community organizations at the very heart of Quebec’s social practices and recognizes their role in Quebec’s social and economic development, while allowing them to maintain their independence and freedom of action. The policy also harmonizes the various funding mechanisms used by government departments and agencies. More than half of the funding provided to organizations is through core funding, allowing organizations to develop and implement programs and services that support their mission. The program also funds organizations and umbrella groups whose sole or main mission is group advocacy through the Secrétariat à l’action communautaire autonome du Québec.

Another example, at the municipal level, is the Community Funding Program of the City of Ottawa. Early in 2006, the City of Ottawa approved changes to its Community Funding Framework to better support non-profit, community-based social services and health and recreation organizations, recognizing their important role in sustaining a strong community infrastructure. At that time, Ottawa took steps to increase funding stability by moving to three-year service agreements with organizations that have established track records, introducing multi-year project funding for groups applying for support for projects or events, and recognizing both core operational costs and specific program costs in funding agreements. The new community funding program provides support to both established organizations and new groups. New groups are able to apply for project funds (up to three years), gain experience, and then apply for core support under the multi-year service funding stream. These programs provide a measure of stability for Ottawa community groups, even those for whom municipal funds make up but a small proportion of overall revenues.

Other funders have taken another approach to supporting organizational and sectoral infrastructure. They help organizations raise funds or other resources against which they can leverage additional support. There are several examples in the arts sector. The Vancouver Foundation administers the BC Arts Renaissance Fund, an endowment and development fund established by a grant of $25 million from the Province of British Columbia to support arts and culture organizations across British Columbia. The goal of the fund is to assist non-profit arts and culture organizations to build permanent endowment funds by providing matching grants. Income generated
from the capital of the funds established by arts and culture organizations provides annual revenues to ensure long-term financial stability and enable new opportunities for growth.

These are other examples of core or general operating support programs:

- Unrestricted grants to smaller-budget organizations to enable them more fully to capitalize their core budgets (e.g., the Philadelphia Foundation).
- Bridge grants to long-standing grantees before support is terminated. The Ford Foundation and Oxfam both make endowment grants to long-term grantees to equip them with a perennial source of unrestricted funds when initial funding is reduced or reallocated to other priority areas.
- Core support grants to top up project grants (e.g., VanCity Credit Union) or stand-alone core cost grants to improve organizational capacity (e.g., Baring Foundation).
- Creation of grant award programs. The Beatrice Foundation of Chicago gives out sizable unrestricted cash awards for excellence to organizations that demonstrate improvement and achievement in management.

The absence of sources of support for core or general operating functions – such as those described above – is particularly acute for organizations locked into funding agreements that do not provide for the full cost of service delivery. To this end, funders such as the Rockefeller Foundation work with non-profit organizations to determine the true operating costs and devise funding formulas that recognize overhead costs as a necessary part of effective programming. In the United Kingdom, the central government has undertaken to ensure that all service contracts with the non-profit sector account for full cost recovery. In Canada, the Joint Service Canada / Voluntary Sector Working Group identified administrative costs as a key issue of contention for employment service providers. In its November 2005 report, the Administrative Cost / Burden Sub-Committee recommended a new administrative cost framework that includes a new list of eligible expenses (including centralized administrative costs), new cost categories and budget flexibility, simplified options for payment of eligible expenditures, shorter approval times, and streamlined audit requirements. It is still exploring the development of flat rates for other Service Canada programs, again in consultation with community partners. There is potential in these initiatives to establish a more equitable and productive partnership.

103 In a 2005 National Audit Office (NAO) report, Working with the Third Sector, the authors note that full cost recovery continues to be a “major problem.” While many government departments have adopted the rhetoric of full cost recovery, it has not been widely translated into practice. Of 13 departments surveyed, eight were at least prepared to pay some overhead costs; others had reservations about whether it was appropriate in all circumstances and preferred to use formula funding approaches (e.g., paying a flat rate per customer served). The NAO identified several barriers to implementation of full cost recovery, including lack of cost information, lack of agreement on which costs should be funded, lack of clear and practical guidance, inconsistency in practice at the local level, and problems related to matching funding arrangements. See NAO (2005), p. 29-32.
• Administrative Practices

Funders are recognizing that their own funding practices matter enormously and significantly affect program delivery. Grant/contract application, approval and contracting, review and tracking, evaluation and renewal are all processes that affect programming. The goal, as stated by the British Better Regulation Commission, is to ensure that voluntary and community sector organizations are able to contribute fully to lives of their communities. To this end, it argues that funders should ensure that regulation and administrative processes are proportionate, accountable, consistent, transparent, and targeted. Unnecessary regulatory and administrative burden undermines the sector’s vital contribution.

Below, we outline some of the new thinking regarding administrative practices in the context of funding programs.

Request for Proposals: There is ongoing debate about the Request for Proposals (RFP) process. Some funders believe that this is an ineffective management tool and very costly, both in terms of time and expertise. They complain that the RFP process favours the best proposal, and not necessarily the best candidate for the job. Moreover, through a competitive RFP process, valuable experience and opportunities to build social capital can be lost. While there is greater agreement about the value of putting new services or expansion services out to tender, innovative funders are looking at more evaluative approaches to determining when and why services should be tendered and the renewal of ongoing service contracts or agreements.

An alternative to the RFP process is to work with the community of service providers and other stakeholders to plan and modify services through consultation. In the Region of Durham in Ontario, the Ministry of Children and Youth coordinates a Child and Youth Community Table that involves all providers of mental health services for children and youth in the region. This table plays an ongoing role in service planning and the allocation of new service dollars. The organizations themselves provide candid assessments of the child and youth service network, and they work collaboratively to deal with challenges. Instead of competing for service dollars through an RFP process, stakeholders are directly engaged in building the service network. As a result, they have a higher level of ownership and cooperation.

Application Process: Reform of funding application processes has been identified by a number of funders, including the Government of Canada, as a key area of reform. A number of different approaches are being used to this end. Many foundations, such as the Metcalf Foundation, now request a letter of intent before asking for full proposals. This reduces the work and cost associated with an application for funding, and it provides an opportunity for funders to coach applicants through the application process. Done well, screening and coaching applicants

improves the quality of proposal that the funder reviews, and it streamlines the administrative burden for organizations and funders.

Governments in the United States and in the United Kingdom have standardized the application process and, through technology, reduce the burden on applicants. A single portal with information about all funding programs has also increased transparency and outreach (See www.governmentfunding.org.uk and www.grants.gov). Some of the best practices around transparency, communication, feedback, etc. are being borrowed from models developed to manage procurement contracts (e.g., BC Bid) and the granting agencies (e.g., the Social Sciences and Humanities Research Council of Canada). This is one area that has benefited from greater funder collaboration.

**Review Processes:** It has been said that that assessment is both art and science. Good decision-making relies on good data and good judgment. To this end, funders have been taking steps to make the review and decision-making process as transparent as possible, while at the same time, ensuring the assessment process is grounded in a thorough understanding of the wider context. Innovative funders have been exploring different approaches, building on the long-established practice among United Ways, foundations and granting councils of using expert and/or stakeholder review boards.

In Saskatchewan, for example, community organizations have been involved in decision-making around the allocation of funds to the sports, culture and arts, and parks and recreation sectors for the last 25 years. In 1974, the Saskatchewan Lotteries Trust Fund was formed. Since that time, it has raised monies for community sport, culture and recreation organizations. To distribute these funds, the Trust Fund struck agreements with various umbrella organizations in their three sectors (now called SaskCulture, Sask Sport Inc., and Saskatchewan Parks and Recreation Association). Over time, the provincial government, recognizing the value of this community-based lottery system, transferred additional commitments to these umbrella groups, which collectively represent hundreds of community organizations across the province through their member networks. They coordinate the distribution of lottery funds to community-based organizations. At the same time, they promote the interests of each sector through capacity building activities, network opportunities, and advocacy.

The Government of Canada has worked through non-profit intermediaries as well, allocating funds and decision-making authority to community-based entities. The Edmonton Housing Trust is one such group that receives funding under the National Homelessness Initiative and the Urban Aboriginal Strategy to develop community-based initiatives with local organizations. The Manitoba Neighbourhoods Alive! Program provides community organizations in designated neighbourhoods with the support to rebuild neighbourhoods. One component of this is a Neighbourhood Renewal Fund that channels funds to local non-profit organizations to pursue various initiatives. Through this type of arrangement, the funder is assured that it is drawing on the best knowledge of the field and, at the same time, building the capacity of the sector organizations that undertake fund management and assessment. Still, the use of intermediaries is not uncontroversial, certainly from the perspective of the non-profit sector. For funders, it raises
questions about accountability and the processes in place to facilitate the generation of “shared trust.”\textsuperscript{107} However, there are several experiences worth exploring.

\textbf{Allocation of Risk:} The allocation of risk between funders and non-profit organizations is an important dimension of administrative practice. It can seriously undermine the effectiveness and viability of non-profit organizations, particularly those engaged in service delivery. For funders, risk describes the responsibility for accounting for the effective and appropriate use of public funds. For non-profit organizations, risk describes the chance that costs incurred in delivering activities to the terms of the contract exceed revenues available. Funding agreements tend to load a disproportionate amount of risk onto organizations through vehicles such as short-term funding agreements or variable payment arrangements, a vehicle that ties payment to factors over which organizations have little or no control. The Association of Chief Executives of Voluntary Organisations (ACEVO) in the UK has proposed a “Surer Funding Framework” to address the imbalance in the attribution of risk. It sets out a number of principles designed to encourage funders and organizations to come together to agree on the most efficient allocation of risk, at the lowest cost.\textsuperscript{108}

Performance partnerships have been used with some success in the United States to attempt to balance the pressures of accountability for the appropriate expenditure of funds and effective and flexible programming at the local level. The U.S. Environmental Protection Agency manages one of the most well-known programs, the National Environmental Performance Partnership System. Since 1995, the Environmental Protection Agency and state governments have worked together to focus on the most pressing environmental problems, taking advantage of the assets of each partner. Through performance partnerships, clear goals and performance criteria are negotiated through a joint planning and priority-setting exercise. In exchange for this, states and their contractors obtain considerable flexibility to structure their programs as they see fit. The roles of each party are clearly spelled out, as well as how resources will be deployed to meet joint program objectives. There is a process for joint evaluation and an agreement to implement any needed improvements.

\textbf{Risk Management:} During the life of a project, the fund manager works with the recipient organization to monitor the progress of the project. Increasingly, funders are using risk management tools to determine the degree of supervision and reporting that is required on specific projects. The Ontario Trillium Foundation, for example, has a risk management tool that determines the level of monitoring. Both the agency and the funder save time and expense as risk levels are assigned appropriately and supervision adjusted accordingly. Organizations thought to pose higher risks can be more closely supervised; additional coaching and support are provided. Some funders take this a step further and become more involved with high-risk projects – those that are oftentimes the most innovative and experimental. This practice comes from the burgeoning field of venture philanthropy, as discussed above.

\textsuperscript{108} ACEVO and NPC (2005), \textit{A Surer Funding Framework for Improved Public Services}. See also ACEVO (undated), \textit{Surer Funding: The ACEVO Commission of Inquiry Report}.
Audit: Audit practices have come under scrutiny as well. While financial management is and remains important, the focus is shifting to program risk and program management. The Ontario Trillium Foundation spent the past year testing a new audit system and will be implementing it in 2006. The foundation will do a small number of spot audits (3% of current project files), and will monitor the compliance findings to ensure the audit process is successful. A group of arts funders are collaborating to standardize financial reporting. This will make the administration process easier for organizations receiving grants and will provide more consistent financial reporting for arts funders. These are all positive steps toward effective and more cost-effective fund administration.

Collaboration

A variety of non-profit funders operate in every community and region in Canada, and there is a growing desire among them to connect with others where there are shared interests. Communication among funders about their interests, abilities and capacities is fostering more effective collaborative approaches with the non-profit sector.

While funder collaboration is still in its early stages in Canada, these associations are taking many forms, both formal and informal: from information sharing networks and sector based affinity groups, to issue-based community funding tables. Most start out with funders’ desire to share information and expand their knowledge about the needs of the sector, community or issue they fund. To date, interest has been greatest among non-governmental funders, spurred in part by growing numbers of requests for funding due to general government cutbacks dating from the mid 1990s. Working together with other funders provides an opportunity to leverage limited resources to ensure maximum impact of funding in the community. A number of types of funder collaborations are described below.

The Canadian Environmental Grantmakers Network is a group of environmental funders that facilitates information-sharing, collaboration, training and professional development, research and communications. A number of arts funders groups operate in Canada as well, many of which have overlapping memberships. In Toronto, the Intergovernmental Roundtable of Arts Funders and Foundations, for example, has been working on harmonizing application process and harmonizing financial reporting for arts applicants. The Association of Public Funding Agencies for the Arts meets regularly to discuss common issues. This funders’ forum, like the Toronto group, is working on streamlining application processes, developing methodologies for assessing funding impact, and designing and managing exit strategies for long-standing funding agreements to make room for new organizations and other common issues.

Beyond the information sharing networks, a movement of regional funder tables is developing across Canada, as funders come together with other related stakeholders to address issues affecting their communities. For example, in February 2004, Hamilton Community Foundation launched Tackling Poverty Together. This four-year initiative will provide at least $3 million to charitable organizations focusing on innovative poverty prevention and reduction. Soon after Hamilton Community Foundation announced its poverty initiative, Hamilton’s city government offered to co-convene a city-wide round table to build on the foundation’s efforts. Together with individuals living in poverty, the business community, non-profit organizations and three levels
of government, round table members developed a multi-year poverty reduction plan and established a framework to implement, evaluate and finance the plan over the next four years.

Other forms of collaboration have emerged. Examples include collaboration on individual grants, shared assessment and evaluation, shared office services and co-location (such as the Kahanoff Centre in Calgary), and the creation of new collaborative funding vehicles. The Sage Foundation of British Columbia, also known as the Sage Centre, is a good example. This foundation takes on and incubates projects across the country that enable environmental stewardship and lessen society’s environmental footprint. These projects focus on conservation, education, leadership development, and environmental and social sustainability. The Centre offers a package of financial and administrative services to projects or new organizations at a modest cost, and it assumes the full governing, legal and fiduciary responsibilities for each project. These groups are thus able to focus on program development and implementation. Once a project reaches a scale where it can be sustainable on its own and it is cost-effective to set up its own charitable entity, it leaves the foundation.

As collaborative practice takes hold in the non-profit sector, funders will need to develop more flexibility in funding mechanisms and practices to permit effective and supportive community investments to achieve desired outcomes.

• Evaluation and Learning

With the shift in focus away from tracking pennies to focusing on program objectives, many funders are again looking at different accountability and evaluation strategies. Here too one can see the impact of their understanding of the complexity of the problems they are addressing – be it developing financially sustainable arts organizations, tackling a difficult environmental problem, or addressing youth violence. Increasingly, funders are aware of the need for continuous learning as programs evolve and situations change.

Funders are clarifying the differences between monitoring (tracking and reporting on financial and service data) and evaluation (analyzing program outcomes). Funders interested in systems change are providing non-profit organizations with resources to undertake evaluation and implement change. United Ways across Canada have taken in the lead in developing evaluation models that community organizations can use to track impact in the community. The United Way of Calgary, for instance, has contracted with the Canadian Outcomes Research Institute (CORI) to assist member agencies to move to an outcome-based planning model. The United Way supports agencies to use the CORI database as a tool for their own collection of outcome information. Though this program, CORI helps agencies design measurement tools to meet their unique needs, collect and organize information, and then analyze and report on outcomes.

Funders are also developing approaches to incorporate community outcome measurement into their own work. The British Columbia Ministry of Children and Family Development, Interior Region Office, is attempting to introduce a focus on outcomes into its procurement practices in order to reorient its selection process and accountability and monitoring systems. The office uses

109 The United Way of America maintains a resource network on outcome measurement that is used across the United Way movement. http://national.unitedway.org/outcomes/
a logic model to define a service: inputs plus outputs equals outcomes. Within this framework, each component is linked together. Thus, it is not enough to be inexpensive if you don’t get results. Indicators have been developed to assess the quality of the inputs (e.g., staff qualifications, experience, suitability to task), the efficiency of the service (e.g., cost per unit of service against established benchmarks) and, finally, the impact for the client and community (e.g., early child development measures, success in securing long-term employment). Outcomes are weighted most heavily, and then efficiency of outputs, and then quality of inputs. This creates a framework for the tendering of new services and the evaluation of ongoing ones. The basic premise that it is vital to be clear about expectations. If evaluation focuses only on efficiency (as most do), then providers will structure themselves around this goal, and quality will suffer. Funders need to be crystal clear about expected outcomes and be prepared to pay for quality service.

New Philanthropy Capital is a UK-based charity that advises donors and funders on how to give more effectively. Through its work on effective giving, it has devised a method for assessing effectiveness that focuses on the charity’s risks and organizational capacity as well as results. The premise is that it is important to understand an organization’s capacity to deliver results, as well as potential risks to their ongoing success. NPC argues that only by understanding the impact of an organization’s activity will they be able to attract the level and quality of resources they need and contribute to an organization’s own internal development.110

In April 2006, a group of Calgary-based businesses launched the London Benchmarking Group – Canada (LBG-Canada), a group dedicated to maximizing the impact of their corporate community involvement programs.111 This group is associated with the London group (now 12 years old) and others like it around the world. The companies involved use the LBG model to manage, measure and compare the impact of their community investments. The model provides a management framework that identifies program objectives, guides decision-making, and helps measure performance. The model provides specific guidelines to value program inputs, assess program outputs, and measure program impact. Inputs include contributions of cash, time or in-kind gifts, plus program-related management costs. Outputs are defined as external resources (i.e., additional resources that are triggered as a result of the initial investment); community benefits (i.e., performance measurement of program results); and business benefits (i.e., performance measurement of program results for the business). And lastly, outcome or impact measures are identified for the community and the business using techniques such as the social return on investment approach. Through this process, the value of the contribution of individual programs and their effects on the community and the donor are better understood.

Funders are pursuing other forms of evaluation and learning as well. Many funders have begun to emphasize strategies that help them learn from the perspectives, experiences and voices of the communities they serve. Many others, including various governments, make regular use of community boards to inform the development of policy and programs (See Collaboration, above). Others have set up learning partnerships with fund recipients to encourage the mutual exchange of best practices (e.g., VanCity Foundation). In the US, some funders are taking dialogue and sharing online. Social Edge is a virtual community managed by the Skoll Foundation where

110 See, NPC (December 2005), *Funding Success: NPC’s Approach to Analysing Charities*.
111 See London Benchmarking Group – Canada. www.lbg-canada.ca; also, www.lbg-online.net
social entrepreneurs, philanthropists, non-profit professionals and others to network, learn, debate, and share resources on a broad range of topics. The Centre for Effective Philanthropy regularly conducts Grantee Perception Reports that provide funders with confidential data about how their grantees view them, across a range of performance measures.\textsuperscript{112}

The growing number of vehicles for funder collaboration has been instrumental in advancing evaluation practices, notably in the US. Funders have long sought out peers to share learnings. But today, there is a much wider array of networks that are undertaking a broader range of activities – everything from collaborating on individual grants, to sharing assessment and evaluation, to creating new funding vehicles. The Annie E. Casey Foundation, for example, has spearheaded an initiative to track the flow of philanthropic dollars in particular areas in order to better understand the pattern of funding and how support might be more strategically targeted. Others are working together to establish professional funding standards, such as Community Foundations of Canada and the Council of Foundations in the United States.\textsuperscript{113}

All of the seeds of change discussed above focus in some way on strengthening the connections between funders, non-profit organizations, and the communities they serve. Stronger relationships result in better outcomes for all stakeholders in the funding relationship.

\textsuperscript{112} Centre for Effective Philanthropy (2004), \textit{Listening to Grantees: What Non-profits Value in their Foundation Funders}.

\textsuperscript{113} The Council of Foundations has a member-initiated program called “Building Strong and Ethical Foundations.” It is designed to increase understanding of legal practices and to develop and encourage adherence to high ethical standards in grantmaking.
7. Promising Practices inside the Government of Canada

As for other funders interviewed for this report, there are seeds of change in the practices of the Government of Canada. While there is a substantial need for broad systems changes to free up the capacity of departments to fund effectively (as outlined in Section 5), it is clear that thoughtful changes are being made in response to the changing funding economy and the needs of sector organizations. In the establishment of Service Canada particularly, recent conversations with the employment sector have set out a process for engaged discussion on funding practices between the Government of Canada and sector organizations. In September 2005, a Joint Working Group, composed of representatives from Service Canada and an array of non-profit sector organizations, reviewed the policy context and developed a streamlined, simplified administrative process for contribution agreements in the area of employment-related programs. The group’s mandate also included the establishment of a permanent advisory committee to facilitate ongoing consultation between the voluntary sector and Service Canada.\(^{114}\)

The following 18 areas of change are drawn from the departmental focus groups as seeds of change: areas that are being actively considered by departments for practice improvement. In a number of cases, “promising practices” are identified; a department or program has forged ahead to create new ways of working that other departments could replicate. They are set out here, in the context of the life-cycle stages of a federal funding program.

Policy Analysis and Development

1. Forge a closer link between policy and implementation practice

Almost all departments interviewed believe the effectiveness of funding programs would be improved by a greater connection between the learnings gained in practice and the policy development process. Most departments describe a top-down process of implementing programs to achieve policy objectives, with practice driven by political and bureaucratic imperatives rather than effectiveness in community. The creation of effective feedback loops – from program evaluation to policy, and from policy to program implementation to enable knowledge development to inform practice – is occurring only in some departments, notably the smaller ones. The result of the current disconnect is that most Government of Canada departments believe they are not learning effectively from their programs, about either what activities are most likely to produce the desired outcomes, or what elements of implementation create barriers or support effective investment. Since the non-profit sector is currently the key producer of information about what works to resolve community problems, the result of not learning from practice is an incrementally widening gap in expertise and undermining of sound policy development.

When a “learning loop” is created, it is evident from the reflective comments of staff that they become more engaged in thinking about how to support community organizations they fund to meet desired outcomes. This depth of reflection and understanding is key to the shift to evidence-

based programs that successfully link investment to outcome. These departments also appear to create more efficient and collaborative decision-making processes.

**Promising Practice: Crime Prevention, Public Safety and Emergency Preparedness Canada (PSEPC)**

The National Crime Prevention Strategy (NCPC) strives to include an evaluation component in all of its projects. To assist communities in meeting this requirement, the NCPC provides: tools to guide communities in the development of projects to produce measurable results, proposal development workshops that help communities to build projects based on a clear assessment of problems and the best solutions to address them, and evaluation training to help them develop evaluation plans and measure results. The NCPC uses knowledge gained from project evaluations to inform policy and programs that meet the needs of communities. The results also enable NCPC to meet the performance measurement and accountability requirements outlined in its Accountability Risk and Audit Framework.

**Funding Program Design**

2. Develop a clear focus on the funding program design phase

Although there was general agreement on the order of operations of the other elements of the lifecycle, the placement of funding program design was an exception. Practice varies from departments that design their funding programs and then approach TBS for approval, including the request for exceptions to usual implementation of funding mechanisms, to departments that make their submission and then attempt to cobble together a funding program design from the resulting approvals. Departments that take the former approach generally expressed a greater sense of control over funding program design and are more successful at linking evaluation and client feedback to funding program design. Departments that take the latter approach tended to speak more of constraint by TBS and limitations in the regulation of the funding mechanisms. The departments that place funding program design prior to TBS submission also appear to be those with the strongest capacity for evidence-based program design and so are able to make clear arguments to TBS for what they require. The uncertainty about where the design of program fits in the life cycle appears to reflect the general ambiguity about the process of funding program design and the idea that “how” money is invested has critical impact on recipient’s ability to use funding to accomplish the shared objectives.

3. Link funding program design to departments’ capacity to implement the required funding relationship

It appears that few departments made the link between funding program design and the internal capacity required to maintain the nature of funding relationship required to accomplish shared objectives through third-party investment. For example, a short-term program to increase capacity by funding the capital cost of computers to seniors’ organizations requires considerably less internal capacity for funding relationships than would a long-term program to develop addiction-reduction strategies in a vulnerable population over time. Consideration of the required type of funding relationship in the program design phase more consciously, prior to TBS submission,
should enable departments to build programs that manage departmental capacity more effectively.

4. Develop a reflective learning approach to funding program design improvement

An improved link between evaluation, policy and implementation results in continuous and incremental improvement in funding program design and practice. The funding economy is subject to rapid change. This alters organizational capacity, sometimes across a sub-sector. Knowledge development in the sector about new interventions or new problems also influences the funding environment. To remain effective, funding programs need to have the ability to change easily. However, most departments indicated a reluctance to approach TBS for adjustments to their existing programs that would stem from learning, reflecting the “justify and control” rather than “learn and adapt” nature of that relationship. By acting as a gatekeeper rather than mentor in relationship to departments on funding program design and practice, TBS was viewed as effectively capping the potential for departments to learn from and continuously improve their funding programs.

TBS Submission Process

5. Shift TBS role to support good funding program design as a professional competency

Without guidance on the variety of elements possible in funding program design, divergent understandings of possible implementation strategies for funding mechanisms have emerged. As the culture of risk aversion couples with lack of information about the sector and the impact of the funding program design, some programs appear so effectively hobbled with regulation that recipients have little hope of producing the desired results. The theme from the focus groups was generally that the TBS submission process is less than helpful in achieving good funding program design, and more effective training and advice to departments to understand and appropriately comply with regulations is needed. A significant shift is required to create a climate in which departments are both knowledgeable about the non-profit sector and competent in good funding program design. Components of this shift include good practical theory development, drawn from emerging practice inside and outside governments in Canada; training and mentoring within the government in funding program design and practice as a professional competency; and leadership and support from TBS.

6. Encourage internally developed RMAFs to produce better risk management

Most departments contract out the production of the TBS-required Risk Management and Accountability Framework (RMAF). One department describes a dramatic improvement in understanding of risk and consensus building on financial risk management practice gained through generating the RMAF in-house. With the engagement of program staff, the RMAF has become a useful instrument contributing to consensus building on funding practice and program intention in the department and a more holistic understanding of potential risks. A second department takes the engagement process a step further to involve recipient organizations in the development of the risk management framework.
Promising Practice: Indian and Northern Affairs Canada (INAC)
Through its Urban Aboriginal Strategy pilot demonstration projects (Vancouver, Prince George, Edmonton, Calgary, Lethbridge, Prince Albert, Regina, Saskatoon, Thompson, Winnipeg, Thunder Bay and Toronto) and its Departmental Results-based Management and Accountability Framework (RMAF), INAC through the Office of the Federal Interlocutor, has focused on the horizontal benefits and better risk management that may result from an internalized, or common, RMAF. Benefits include an increased coordination between federal government departments, other governments, and non-profits and a better regional responsiveness.

Operational Policy

7. Develop operational policies for funding programs to clarify expectations in funding design

Operational policies are department-level policy, practices and guidelines that guide program staff in the delivery of funding programs. Operational Policy Manuals exist for some programs and not in others. In the ideal, these guidelines spell out the department’s approach to implementation, the nature of funding relationship the department is trying to create, and customer and program service standards. The manuals guide consistency in funding program implementation in the department and are the vehicle for the transfer of knowledge in the refinement of practice. The policy manuals can also be used to set out expectations for appropriate relationship between program officers and applicant/recipients. Benchmarks for relationship can then be used in the supervision and training of program officers. A comprehensive approach to the development of operational policies by departments for each funding program will help to standardize delivery and make expectations clearer.

8. Set customer-service standards to provide an opportunity to benchmark Government of Canada performance and increase predictability of the funding processes

Some departments have made good progress in setting client service standards on turnaround times of applications. In other departments, an iterative or “evergreen” process enables program officers to return repeatedly to applicants and funded organizations for information, which increases the administrative burden for recipient organizations. There appears to be no coherent conversation across the Government of Canada about the service standards for funding programs. This is a list of types of standards, some of which are in place in some departments:

- publicly available timelines for application review, feedback, funding decision, report monitoring and cheque release;
- call return times;
- plain language documents and simplified forms; and
- public calls for proposals and funding criteria.
9. Set program performance standards

Some departments also currently set program performance standards. These standards are internal-to-government standards that affect a department’s ability to implement its funding programs. They not only create expectation for performance and for supervision processes, but also permit some data generation for assessment of a department’s capacity to implement a specific program. These kinds of standards include:

- file load per program officer;
- call return time;
- provision of pre-application counselling and post-review or post-decline feedback;
- provision of capacity building and relational functions of client service (which also contribute to departmental knowledge development); and
- provision of program information and outreach (which develops the applicant pool).

Program Implementation

10. Improve application assessment as a risk management opportunity

Some departments support pre-application processes which enable applicants to provide more and better information in the assessment phase. Some external-to-government funders “front-end load” their risk assessment into the applicant assessment phase of the life cycle. Prior to a decision to fund, they assess based on two questions: “Is this a good organization in which to invest?” (e.g., has sound financial practices, an adequate track record of receiving and spending public funds, a solid board of directors) and “Is their plan adequate?” (timely, needed, a good fit with policy priorities, etc.) Capacity building with applicants on project development with a referenced approach to application review reveals a considerable amount of information that informs an assessment about the level of risk associated with a given project. A referenced approach to review also helps to compensate for the Government of Canada’s lack of information management capacity to track funding history.

Promising Practice: Citizenship and Immigration Canada (CIC)

Most decisions on funding initiatives at CIC are made by regional offices of the department, recognizing that they have the in-depth knowledge of local needs, priorities and organizational capacity in the community. Delegating down authority to the regional level means that decisions are more reflective of the priorities and needs across the country, while still respecting the integrity of Program criteria. A further important benefit is the shorter timeline involved for regionally-based decision-making. Funding decisions in this department are related to delivery of relatively standard services by non-profits.

11. Delegating discretion down in funding agreement details

Departments make a clear case for increased delegation of discretion in decision-making toward those most connected to funding program implementation at the community level. Regional staff in particular make the case for their ability to be more responsive to community situations, enabling a good “fit” of investment agreements to local realities. This would ensure that funding
is targeted to community issues within program mandates and increase the opportunities to leverage other resources, including horizontal programming. Not only would this delegation of discretion streamline the process and make it more effective, it would increase transparency of government practice and lessen perception of politicization of the funding process.

12. Improve understanding of a capacity-building approach to application development

Capacity building is an approach to practice that builds non-profit organizations’ ability to carry out their work (through provision of such resources as software to enable tracking of donors, support for relationship building to enable collaborative work, funds for financial services to enable increased financial accountability, and skill building). Practice in Government of Canada departments ranges from an interest and desire in building capacity (but a lack of adequate flexibility in program design), to a belief that organizations should “know better” than to apply for federal funds if they lack capacity. There is partial awareness of, but no consensus on, the notion that the Government of Canada has a role in funding the non-profit sector in a manner that is accountable to the ongoing stability and health of the sector as a valuable Canadian public resource.

Promising Practice: Multiculturalism and Canadian Studies Programs, Canadian Heritage

As well as providing on-line detailed program information and step-by-step guidance on how to apply for funding, these programs also request potential applicants to contact a Program Officer before submitting a formal application. A Program Officer can advise on how a proposal may fit with current funding priorities, assist in the development of the proposal, give detailed information on the funding process, and provide referrals to other potential funding sources, as appropriate. This pro-active approach helps build applicants’ capacity to develop sound funding proposals and to build good relationships with potential funders.

There is an opportunity to increase the impact of investment by understanding how capacity building can help organizations accomplish their objectives more effectively. The capacity building benefits of Government of Canada funding are currently limited because:

- capacity building is not understood, and the potential in the funding relationship / agreement is often missed;
- the lack of time devoted to the early stages of development of a funding relationship results in a lack of understanding of the applicant’s situation, and therefore a lessened ability to support capacity building;
- a lack of knowledge and/or understanding of the sector and how it operates in the current project-based funding regime; and
- prescriptive funding program designs limit investment to a narrow range of outcome-based elements.
13. Recognize the administrative costs of investment to the operational expenses of non-profit organizations

Virtually all departments now recognize the importance of contributing to the administrative costs related to projects funded by the Government of Canada however there is no standard. Current practice ranges from departments that routinely accept a percentage for administrative costs in project budgets, to others that are working toward administrative formulas, to those that still believe that the government’s role is to fund service production only, without regard to administration. Government-wide engagement with this issue would help to develop common understanding, standards and greater fairness. Not funding investment-related core costs erodes the effectiveness of investment, as recipient organizations struggle to stretch program dollars around what is being called a “hollowing core.”

Promising Practice: Service Canada
Service Canada has developed a formula for funding towards administrative costs of projects. Recipients can choose among three methods for calculating the administrative overhead portion of their budget: accept the flat rate offered by Service Canada, or negotiate an independent rate for overhead based on a study conducted by the organization or continue to have payments based on actual expenditures.

- Decision-making Processes

14. Clearly define decision-making chains that are appropriate to the objectives of the funding program design and that allow for ministerial accountability

There are no standards for decision-making processes as a function of funding program design, and thus practices vary. Long chains of decision-makers, or those with no fixed endpoint for decision, compromise organizations with tight cash flows and make it difficult for them to plan.

At least three types of processes were described during the interviews. In the “dispersed decision-making process,” a defined set of people in different locations make independent decisions based on separate criteria. In the “evergreen process,” anyone engaged in the funding program can re-open a decision at any point. A “collaborative decision-making process” follows a defined trajectory through several tables that engage internal stakeholders from different perspectives around common criteria.

Different types of decision-making processes suit different funding circumstances. With adequate design flexibility, one can select the process that results in the most timely and coherent decisions, within the confines of ministerial requirements.

15. Use a tiered monitoring framework to address risk management at the reporting phase of implementation

A one-size-fits-all approach to financial and outcome monitoring adds administrative burden on both sides of the funding transaction and can jeopardize good funding relationships. Some departments have developed criteria to justify a tiered approach to manage post-decision risk.
Transactions are “sorted” according to risk criteria, and higher levels of monitoring scrutiny are applied to those at higher risk. The advantages are a greater transparency in monitoring practice, but also that the program officer can allocate time to pay greater attention to the investments that are most likely to become problematic – which in some cases may also be an opportunity for capacity building, and in others an opportunity for early intervention.

**Promising Practice: Indian and Northern Affairs Canada (INAC)**

Processes and policy within this department lay the foundation for a tiered approach to monitoring and reporting requirements. Benchmark indicators of annual deficit are used to identify recipients at risk and are useful in identifying appropriate risk management strategies. This practice enables INAC to direct its staff resources to those First Nations at highest risk and assists in a reduction of administrative burden for those who are managing financially well.

**Program Evaluation**

16. **Make a clear distinction between evaluation of program outcomes and monitoring of project activities**

Across government departments, there is an emerging, but not yet coherent, understanding about the shift to evidence-based outcomes in return for community investment. This reflects an emerging shift in both governmental and non-governmental funders’ approaches to an outcome-for-investment approach. This approach requires a clear causal link between the activities funded and the achievement community outcome, demonstrated in a logic model. A number of Government of Canada departments appear to be confusing monitoring of recipients’ activities toward departmentally driven outcomes, and the evaluation of the success of the funding program (both its design and impact) in meeting broad community outcome measures. This can result in pressure on recipients to generate and measure social outcomes well beyond the scope of funded activities, although they may in fact be contributing to community outcomes. The experience inside government ranges from departments having a strong (relative to size) policy department and a clear mandate (e.g., crime prevention’s focus on preventing youth crime) that enables a measure of success in developing evidence-based departmental outcomes, to a lack of clarity on what is being evaluated. A promising emerging practice is for departments to develop “baskets” of community outcomes they expect their investment program to contribute to, and then to assess and monitor recipient activities toward these outcomes.

17. **Recognize that information generation about community issues is in the community and use program evaluation as a learning opportunity for policy**

Information generation about solutions to public problems resides in academic and practice-based research, and in the experiential results of funding programs: the tangible knowledge results of public investment. Governments no longer generate the kind of knowledge development processes that inform public policy; they must rely on information from sector organizations. Collaborative policy development processes recognizes this, and departments that engage in this manner take on a convening role, drawing together stakeholder partners in mutual learning and influence. When sector expertise and knowledge is distanced from policy discussion, government programs become increasingly out of step with sector and community realities.
18. Evaluate funding program design

How investments are made has implication for how organizations are able to accomplish outcomes. An evaluation of funding processes to gain insight into unintended consequences of funding program design and practice is an important way to monitor funding program design. As previously cited research suggests that funders remain largely unaware of the consequences of their funding practice and tend to be inaccurate in their predictions of the benefit of their programs on recipients, such evaluation processes provide the opportunity to work with recipients to develop understanding of funding processes. As one focus group participant said, it is important to understand “why” outcomes of a program were – or were not – achieved.
PART IV: CONCLUSIONS

8. Conclusions

Taking the Lead

The Government of Canada is uniquely positioned to provide leadership on the development of effective funding programs and practices to support a vibrant and financially sustainable non-profit sector. The government has a history of interest and can build on the relationships and the significant body of work completed under the Voluntary Sector Initiative. This includes the Accord between the Government of Canada and the Voluntary Sector and its companion codes: the Code of Good Practice on Funding and the Code of Good Practice on Policy Dialogue. The government’s current work provides an ideal opportunity to develop effective community funding practices, through such vehicles as the Task Force on Community Investments and the new, independent Blue-Ribbon Panel, created under the Federal Accountability Action Plan. These initiatives will identify problems in the implementation of grants and contributions programs and make recommendations for government policies and practices to ensure a fair, cost-effective and efficient delivery of grants and contribution programs in support of effective community investment.

The unintended consequences of current funding practices are creating significant problems in organizations across the country. The cost of inaction is high for funders and non-profit organizations. There is an urgent need to rebalance and improve funding practices. Without this, funders risk continuing to undermine the vital work of non-profit organizations in communities across Canada. The time is right to re-examine the relationship between non-profit organizations and their funders, particularly governments.

The Government of Canada is well placed to lead on this issue:

- Only the Government of Canada has responsibility for all Canadian communities – from the largest to the most remote. Moreover, its programs and services extend into all corners of Canada. In order to invest wisely and effectively, it must be responsive to the realities of local funding economies. Yet the government is often the most distant to the citizens and communities it wishes to serve. Therefore, the Government of Canada must make the extra effort necessary to make programs work across the country via flexible and effective funding mechanisms.

- The non-profit sector’s role in the delivery of vital public services to all Canadians is an important public policy issue. No other funder needs to be as concerned about the quality of its relationship with the non-profit sector, because no other funder relates to the non-profit sector as a whole: from arts and culture, to sport and recreation, to the environment, to social services, and so on. All stakeholders – the Government of Canada, non-profit organizations, and communities – share a common goal: achieve better governance, with greater focus on results for communities.
Looking Forward: Sites of Change for the Government of Canada

• Taking the Lead

Funding practice, including the relationship between governments and the non-profit sector, is in transition globally. Canada is a leader among industrialized countries on this issue, but it is in danger of losing its position. The Government of Canada, building on prior success, should continue its leadership role by creating more flexible and effective funding practices that will not only make its own practice more cost-effective, but strengthen the capacity of non-profits to serve communities. The government also has a key role to play in creating an enabling funding framework to support non-profit activity through its regulatory policies.

Therefore:
To continue its leadership role, the Government of Canada should establish an ongoing collaborative institutional mechanism and process in order to reform its own funding programs and practices across government. Getting its own house in order is an important step toward creating leadership for more effective community investments. This work would spearhead the generation and dissemination of knowledge on funding program design and funding practice among all Canadian funders.

• Taking Place into Account

The non-profit funding landscape varies by region in Canada. The presence or absence of non-government funders, such as Community Foundations, United Ways and major corporations, dramatically affects the type and distribution of funding to the non-profit sector. Place matters. Government funders become the equalizers, playing an important and different role in each region – and different from other funders.

Therefore:
To obtain maximum value for Canadians, the Government of Canada needs to tailor its approach and the funding tools at its disposal to reflect local, sectoral and pan-Canadian realities. This means devolving decisions closer to where the knowledge is – in the community, as well as developing the ability to work with non-profits in their communities, drawing on their knowledge and experience, in the design and implementation of community investments.

• Facilitating Partnerships

The non-profit sector is increasingly working in collaboration to achieve its objectives. The most effective community programs are based on collaboration among all stakeholders.

Therefore:
Funders such as the Government of Canada need to develop new and more flexible funding programs that facilitate the development of horizontally crafted investments and practices in support of place-based investments. More broadly, the government needs to adopt a more flexible approach to all community investments.
• **Expanding the Types of Funding Tools Available**

Effective funding practice requires a full spectrum of funding instruments, including tools for giving, shopping and investing in non-profit activity. Successful funding results from using the right tool for the right purpose.

**Therefore:**

The Government of Canada needs to develop new funding tools to support non-profit activity, including capacity development of individual organizations and the sector as a whole.

• **Reducing Funding Transaction Costs**

High administrative costs related to application and reporting on the non-profit sector side, and assessment, risk management and monitoring on the funder side, reduce the pool of dollars and other resources available for community investment by driving up the cost of the funding transaction. Sector organizations, stretched to the limit by current practices – particularly those of government – have been very vocal about the high cost of applying for and receiving funds. More hidden, but at least as great a problem, are the high public costs of inefficient assessment and decision making and over-monitoring for limited or low-risk investments by funders.

**Therefore:**

The Government of Canada should examine the internal cost-to-investment ratios, in order to streamline its practices, particularly those related to financial risk management, and to build the program capacity to fund more cost-effectively.

• **Recognizing the Full Cost of Project and Program Delivery**

Underfunding of core or administrative functions through existing funding agreements seriously undermines non-profit organizations and their efforts on behalf of communities.

**Therefore:**

The Government of Canada should recognize, benchmark and fully fund the administrative costs of the organizations it funds, the funded programs, and the transaction costs of funding agreements.

• **Forging Relationships with Other Funders**

A range of funders operate in each community or region. Therefore, communication among funders about their interests and abilities can foster more effective and collaborative approaches to work with the non-profit sector. For instance, the regional funder tables developing across Canada, which fit with governments’ desire for increased horizontality, suggest an important opportunity.
Therefore:
The Government of Canada, as a significant (and in some sectors, dominant) funder in communities across Canada, needs to increase its capacity to participate in decentralized thinking and programming. It can do this by participating in collaborative forums, with adequate discretion to take advantage of opportunities. This will support understanding about how funding practices affect communities, and it will create opportunities for collaborative investment.

- **Building Knowledge on Funding Practice**

The real challenge today is to find a way to comprehend and manage the myriad tools to address public problems and pursue the public good. This is important advice for all stakeholders in Canada’s funding economy. A necessary part of any funding reform agenda is to expand the knowledge base about the practice and effects of good funding. We need to develop systematic knowledge about how to become better givers, shoppers and investors in order to create programs and tools to ensure effective community investment.

Therefore:
The field of funding practice and funding program design in Canada requires further research. More information is needed to understand the types and uses of various funding instruments to support effective program design and delivery; other tools of government, including procurement practices; and the components of good funding policy design and implementation. As a leading funder across the country, the Government of Canada should support research and training on funding practice and program design.

Furthermore, in order to better report to Canadians, the government needs to build its own knowledge base to more accurately track and analyze its funding activity and practice across the whole of government. Such information will enable the government to better understand and account for the scope and scale of its activity, and permit regular gap analysis. An information management system to track all funding processes would allow the government to understand and benchmark funding practice and more effectively manage risk.

- **Developing and Sustaining Strong Relationships with the Non-profit Sector**

Good funding practice is built on good relationships and on the funder’s capacity to develop and sustain that relationship over time. The funding relationship is also an often-overlooked mechanism for risk management.

Therefore:
The Government of Canada needs to continue to strengthen its relationship with the non-profit sector, at both the pan-Canadian and community levels. To increase the benefits of its funding, the Government of Canada needs to make its funding practice more collaborative across departments and with other funders.
Furthermore, all funders need to provide ongoing opportunities for stakeholders to bring their unique bodies of knowledge together to learn, identify challenges, problem solve, and take action. This feedback cycle would provide information to adapt funding programs and practices to respond to changing needs and circumstances in communities.

Finally, departments with funding programs need to have the capacity to build relationships with recipients that are appropriate to the type of funding offered.
APPENDICES

Appendix A: Program Overviews and Federal Focus Groups

1. Program Overviews

These are the funding programs we examined in the course of our research. This report is not intended to be definitive, but rather to serve as a starting point for further study and discussion on promising funding practices in Canada.

- British Columbia Ministry of the Attorney General, Settlement and Multiculturalism Branch
- British Columbia Ministry of Child and Family Development, Interior Region Office
- Canadian Environmental Grantmakers Association
- Canadian Arts Funders’ Forum
- Centre for Sustainability
- City of Ottawa, Cultural Services and Community Funding
- The Creative Trust
- Edmonton Housing Trust
- George E. Cedric Metcalf Charitable Foundation
- JW McConnell Family Foundation
- London Benchmarking Group
- Manitoba Neighbourhood Alive! Program, Manitoba Intergovernmental Affairs and Trade
- The Muttart Foundation
- Ontario Ministry of Children and Youth Services, Central East Region, Durham
- RBC Foundation
- SaskCulture / Saskatchewan Lotteries Trust Fund
- Tides Foundation Canada
- United Community Services Cooperative
- United Way of Greater Toronto
- Wild Rose Foundation
- Secrétariat à l’action communautaire autonome du Québec
2. Federal Focus Groups

We held focus groups with officials from these federal departments:

- Agriculture and Agri-Food Canada
- Citizenship and Immigration Canada
- Environment Canada
- Health Canada and Public Health Agency of Canada
- Human Resources and Skills Development Canada
- Industry Canada
- Indian and Northern Affairs Canada
- Justice Canada
- Canadian Heritage
- Public Safety and Emergency Preparedness Canada
- Service Canada
- Social Development Canada
- Treasury Board of Canada Secretariat
# Appendix B: Funding Practice Lexicon

<table>
<thead>
<tr>
<th>Funding Practice Lexicon</th>
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<tbody>
<tr>
<td><strong>administrative costs</strong></td>
</tr>
<tr>
<td>(contribution to funding of core organizational functions)</td>
</tr>
<tr>
<td>Core administrative costs of an organization, generally defined as the essential activities, facilities and supplies that permit an organization to deliver its programs. These include human resource management, financial management, governance and executive management, as well as central operations.</td>
</tr>
<tr>
<td><strong>administrative funding</strong></td>
</tr>
<tr>
<td>Funding of the administrative costs related to a specific project/program and/or funding of a share of core administrative expenses</td>
</tr>
<tr>
<td><strong>application form</strong></td>
</tr>
<tr>
<td>Template for an application document</td>
</tr>
<tr>
<td><strong>application – intake process</strong></td>
</tr>
<tr>
<td>The administrative process that formally acknowledges receipt of application by the funder and certifies the information as complete or not</td>
</tr>
<tr>
<td><strong>application batching</strong></td>
</tr>
<tr>
<td>A Government of Canada process of grouping recommended applications for ministerial approval</td>
</tr>
<tr>
<td><strong>application deadline</strong></td>
</tr>
<tr>
<td>A preset calendar deadline for the receipt of funding applications</td>
</tr>
<tr>
<td><strong>application deadline – rolling</strong></td>
</tr>
<tr>
<td>A process for receiving applications that has no preset or finite receipt date</td>
</tr>
<tr>
<td><strong>application form</strong></td>
</tr>
<tr>
<td>A standard format for applicants to request funds</td>
</tr>
<tr>
<td><strong>audit</strong></td>
</tr>
<tr>
<td>An examination and verification of an organization’s financial and accounting records by a professional such as a Certified Public Accountant</td>
</tr>
<tr>
<td><strong>audit – annual</strong></td>
</tr>
<tr>
<td>An annual audit of a non-profit or charity’s annual financial situation usually contained in an annual report or Canada Revenue Agency report</td>
</tr>
<tr>
<td><strong>audit – program</strong></td>
</tr>
<tr>
<td>A process of verification of expenditures related to a funded project/program</td>
</tr>
<tr>
<td><strong>audit – random</strong></td>
</tr>
<tr>
<td>A process of spot audits of funded projects selected randomly from client files by a funder to monitor efficacy of reporting systems</td>
</tr>
<tr>
<td><strong>audit – single point</strong></td>
</tr>
<tr>
<td>A single set of uniform requirements for audits designed to streamline the number of audits required of an organization that receives funding from multiple sources</td>
</tr>
<tr>
<td><strong>call for proposals (CFP)</strong></td>
</tr>
<tr>
<td>A formal call for proposals directed to potential applicants</td>
</tr>
<tr>
<td><strong>capacity building</strong></td>
</tr>
<tr>
<td>A process by which an organization/sector increases capabilities, knowledge or resources in order to achieve desired outcomes</td>
</tr>
<tr>
<td><strong>cheque release process</strong></td>
</tr>
<tr>
<td>Administrative process to prepare and release a cheque to a successful applicant</td>
</tr>
<tr>
<td><strong>collaborative</strong></td>
</tr>
<tr>
<td>Two or more organizations that create a formal partnership to pursue a common aim</td>
</tr>
<tr>
<td><strong>collaborative agreement</strong></td>
</tr>
<tr>
<td>Documentation of the operational agreement between two or more organizations forming a collaborative</td>
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<tr>
<td><strong>contract</strong></td>
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<tr>
<td>Legal agreement between funder and recipient of funds, spelling out term, reporting expectations, and conditions of funding</td>
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<tr>
<td>Term</td>
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<td>-------------------------------</td>
</tr>
<tr>
<td>contribution</td>
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<tr>
<td>core funding</td>
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<tr>
<td>decision making – dispersed</td>
</tr>
<tr>
<td>decision-making process</td>
</tr>
<tr>
<td>decision-making – discretionary</td>
</tr>
<tr>
<td>earned income</td>
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<tr>
<td>evaluation</td>
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<tr>
<td>evergreen process</td>
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<tr>
<td>financial reporting</td>
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<tr>
<td>funders’ forum</td>
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<tr>
<td>grant</td>
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<tr>
<td>horizontality</td>
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<tr>
<td>letter of agreement (LOA)</td>
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<tr>
<td>letter of intent (LOI)</td>
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<tr>
<td>letter of intent process</td>
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<tr>
<td>monitoring</td>
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<tr>
<td>minister’s letter</td>
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<tr>
<td>memorandum to Cabinet (MC)</td>
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<tr>
<td>Term</td>
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<td>------</td>
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<tr>
<td>versions</td>
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<tr>
<td>non-profit organization</td>
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<tr>
<td>non-profit sector</td>
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<tr>
<td>organizational development</td>
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<td>organizational readiness</td>
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<tr>
<td>partnership</td>
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<tr>
<td>pre-application advice</td>
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<tr>
<td>profit</td>
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<tr>
<td>program evaluation</td>
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<tr>
<td>recipient</td>
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<tr>
<td>request for proposals (RFP)</td>
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<tr>
<td>review engagement</td>
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<tr>
<td>reflective practice</td>
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<tr>
<td>relational contracting process</td>
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<tr>
<td>review process</td>
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<tr>
<td>service standards</td>
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<tr>
<td>sole-source justification</td>
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<tr>
<td>strategic investment</td>
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<tr>
<td>Term</td>
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<tr>
<td>-------------------------------</td>
</tr>
<tr>
<td>surplus</td>
</tr>
<tr>
<td>terms and conditions</td>
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<tr>
<td>unearned revenue</td>
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</tbody>
</table>
# Appendix C: Life Cycle of a Funding Process in the Government of Canada

<table>
<thead>
<tr>
<th>In All Departments</th>
<th>In Some Departments</th>
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<tbody>
<tr>
<td><strong>Policy Analysis</strong></td>
<td><strong>Stakeholder consultation</strong></td>
</tr>
<tr>
<td>Policy analysis</td>
<td>Regional or program implementation – level consultation</td>
</tr>
<tr>
<td>Policy agenda (department and Government of Canada)</td>
<td>Link to program evaluation</td>
</tr>
<tr>
<td>Review of research</td>
<td>Generation of program level outcomes</td>
</tr>
<tr>
<td>Synthesis of research</td>
<td>Demonstration projects</td>
</tr>
<tr>
<td>Policy direction / framework</td>
<td>Capacity analysis</td>
</tr>
</tbody>
</table>

### Memorandum to Cabinet / Speech from the Throne / Budget Announcement

| Rational and budget for program | Exploration of the potential for collaborative approaches with other departments |
| Resources to deliver | |
| Decision | |

### Program Design

| Establish intended outcomes | Evidence-based outcomes connected to Government of Canada policy outcomes |
| Selection of funding mechanism from Policy on Transfer Payments | Term of funding connected to intention of program |
| Craft terms and conditions | Payment schedule connected to applicant capacity |
| Craft decision-making structure | Provision to fund project administration costs |
| Craft delivery structure | Assessment of capacity of applicant class |
| Resources | Step-wise decision-making process, including collaborative decision-making forums where required |
| | Customer service standards |
| | Assessment criteria set |

### Treasury Board Secretariat Submission

| Treasury Board Submission Document | Internally developed risk management frameworks |
| Terms and Conditions | |
| ARMAF/RBAF | |

### Operational Policy at the Department level

| Operational Policy Directive and Guidance | Documentation of departmental funding practice |
| | Guidance on discretionary areas of practice |
| | Client Service Standards and measures |
| | Operational Manuals |
| | Maintenance of Operational Manuals |

### Program Implementation

| Priority setting | Consultation on funding priorities |
| Call for proposals | Program officer training |
| Assessment | Communication to potential applicants |
| Approval | Call for and review of Letters of Intent |
| Agreement | Pre-application counselling and information |
| Payment process | Customer service standards made public |
| Monitoring processes on finances | Step-wise decision-making process |
| Monitoring processes on progress/results | Assessment criteria and process for project and organization, which may include funding history with Government of Canada and other funders, examples of previous work, letters from contingent funders, letters of reference, external references, review of annual audit, bylaws and strategic plans. |
| | Capacity development |
| | Additional monitoring processes, such as repeat reporting, random audits, compliance audits, site visits, and phone counselling |
### Evaluation

<table>
<thead>
<tr>
<th>In All Departments</th>
<th>In Some Departments</th>
</tr>
</thead>
</table>
| Feedback to applicant on declined proposals, including advice on improvement and other sources of funds | Stakeholder participation  
Program impact evaluation  
Evaluation of funding program design  
Feedback loop to policy development  
Refinement of outcome measures |
| Summative and formative program evaluation process       |                                                                                     |
Appendix D: New Philanthropy Capital’s Donor Charter

New Philanthropy Capital suggests the following principles when thinking about how to give:

**Pro-active selection of charities based on results.** Donors should support charities that are achieving excellent results for the people they serve, rather than charities that have the most effective and professional fundraising teams or the lowest administrative costs.

**“Light touch” engagement with charities.** In most instances, we recommend that donors minimize the demands on the time and resources of the charities they fund. In practice, this means not imposing arduous reporting requirements and limiting visits and contact with charities. A range of different levels of engagement may be appropriate, depending on the objectives of donors.

**Funding organizations, not projects:** As a donor, it is tempting to stipulate that a grant can only be used for a particular project, because this makes it much easier to see the direct charitable impact of the donation. However, we believe that this practice can limit the impact of the donation. Firstly, it may cause charities to propose projects that meet the donor’s objectives, but which stray from their core mission. Secondly, if circumstances change, then charities are unable to respond. We believe that the charities we recommend can and should be trusted to make decision in the best interests of the people they serve. In general, we recommend that donors fund organizations, not projects. Practically, this means giving unrestricted funding.

**“Just right” donations – not too big, not too small.** Judging the right size for a donation to a charity is an art, not a science. If a donation is too big, there is a risk that rapid growth will create significant organizational problems, particularly when the donation runs out. At the other end of the scale, if a donor makes a small donation and requires a charity to go through application and reporting processes, then the administrative burden may outweigh the benefit of the donation. Of course, small donations with no strings attached are always welcomed by charities. In general, we work on the assumption that contributing more than a third of an organization’s annual income may create problems. However, if a charity is looking to grow significantly and it has a robust strategy for growth, a larger grant may be entirely appropriate.

**Multi-year support.** We recommend that donors should provide multi-year support for charities, rather than giving them a lump sum in a single year. Choosing the right length for a grant depends on the specific case – as a guide, grant-making trusts often give three-year grants. Multi-year support gives charity leaders the opportunity to make long-term plans to improve their organizations and build projects that will create and sustain improvements in the lives of the people they serve. It also allows donors to build longer-term relationships with the charities, if they wish.

**Funding measurement.** Because of the widespread lack of funding for measurement and performance management, we believe that donors should consider allowing a proportion of their giving to be dedicated to building this capacity among charities selected for support.

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www.acevo.org.uk

Canadian Environmental Grantmakers Network
www.cegn.org/main.html

The Council for Business and the Arts in Canada
www.businessforarts.org

Good Practice Funding, New Zealand. Office for the Community and the Voluntary Sector
www.goodpracticefunding.govt.nz/about-this-site/index.html

The Independent Sector
www.independentsector.org

The National Council for Voluntary Organisations (NCVO)
www.keegan-pennykid.com/charities/ncvo/

The UK Compact
www.thecompact.org.uk

Wales Funders Forum
www.walesfunders.org.uk/