

Chapter 2: Financial Capacity and Sources of Funding

The title of this study is “Funding Matters.” On the surface, this would seem to be rather self-evident. Nonprofit and voluntary organizations need financial as well as human, intellectual and structural capital to carry out and sustain their activities. Organizations that command adequate resources – and adequate funding, in particular – are better able to pursue their goals. The concept of funding, however, is much larger than the number of dollars in the bank. Funding is also about the relationships between nonprofit and voluntary organizations and their funders, relationships that facilitate or constrain the capacity of individual organizations – and the nonprofit and voluntary sector more broadly – to achieve their objectives. Stated another way, it is not just about *how much* funding organizations receive, but about *how* organizations are funded that matters.

In this study, our goal is to explore funding relationships between the nonprofit and voluntary sector and its funders. Specifically, we are interested in the impact of changing sources and mechanisms of funding on the capacity of organizations to undertake their work over the long term. How are nonprofit and voluntary organizations functioning within a changing funding environment? Are the experiences common across the nonprofit and voluntary sector? What do the experiences of individual organizations tell us about the relationships between the nonprofit and voluntary sector and the public on the one hand, and governments on the other?

In this chapter, we set out the conceptual building blocks of our study. The first section defines the two key concepts that frame the project: the nonprofit and voluntary sector and financial capacity. In the second section, we look at funding sources and mechanisms, identifying costs and benefits of various funding arrangements that influence to a significant degree the financial capacity of nonprofit and voluntary organizations to effectively and efficiently pursue their goals.

2.1 Key Concepts

What is the Nonprofit and Voluntary Sector?

Defining the nonprofit and voluntary sector is not a straightforward task. Most would agree that nonprofit and voluntary sector organizations are a vital part of any community. The sector has been described as “the third pillar of Canadian society and its economy” (Liberal Party of Canada, *Red Book II*, 1997). Organizations within the sector range from small community-based groups to large, national umbrella organizations, all enriching the lives of Canadians in various ways. Some provide services such as health, education, social services, and arts and culture, while others have an essentially representational role, working on issues specific to particular causes or groups. Some advance religious faith and practice; others raise funds and provide financial support to other voluntary organizations. Together, voluntary organizations play an essential role in promoting active citizenship and building bridges between communities and cultures, across regions, and between Canada and other countries. In short, “the voluntary sector is about Canadians engaged and involved in improving life in their communities and the world” (VSI – definition of the voluntary sector).

At the same time, there is little consensus about an actual definition for the sector. Indeed, there are competing opinions.¹ Labels rooted in specific academic disciplines and regularly used include not-for-profit, charitable, third sector, civil society and social economy. (See Febrarro, Hall and Parmegiani, 1999 for a detailed discussion of various labels and definitions of the sector.) They all attempt to describe – from their various perspectives – the “common space between the state and market” (Hall and Banting, 2000: 1).

This common space is understood to be different from public or state institutions on the one hand (though many parts are highly dependent on government support) and from private/ business/ market institutions on the other (though many parts are active participants in the market economy). Generally speaking, the nonprofit and voluntary sector is made up of organizations that exist primarily to serve others – both members and non-members – and the broader public interest. These groups are private, that is, they are institutionally separate from government. They are privately controlled but do not exist to earn a profit or distribute profits to members or other stakeholders. They rely to a significant degree on volunteers in conducting their activities and overseeing their affairs. And lastly, nonprofit and voluntary groups can be said to be guided by values that set them apart from market and state, namely philanthropy, altruism, charity, reciprocity and mutuality (Shields and Evans, 1998: 89).

The boundaries between the nonprofit and voluntary sector and the state and market are admittedly “fuzzy” – if not downright porous (see Phillips, 1994). Hospitals and universities are a case in point. These organizations are registered nonprofit institutions, yet their operations are almost wholly circumscribed by government. Cooperatives have many of the characteristics of voluntary and nonprofit organizations even though they distribute profits to members. Other organizations are actively pursuing commercial ventures – generating profits that are used to pursue the organizational mission, to be sure – but this raises critical questions about what distinction if any can be truly made with other for-profit commercial enterprises (Weisbrod, 1998).

The difficulty in defining the sector does not stop there. One feature of the nonprofit and voluntary sector that is not in dispute is its diversity. The breadth and variety of voluntary organizations within the sector also makes it difficult to study in the abstract. Various classification schemes have been proposed. The most common scheme developed by the Johns Hopkins Comparative Nonprofit Sector Project divides the nonprofit and voluntary sector into groups based on their primary area of activity. Other schemes have classified organizations according to their function (i.e., whether it is a service organization or an advocacy organization, for instance), according to their beneficiaries, and according to their primary source of revenues. In Canada, a critical distinction is made between nonprofit and voluntary groups that are registered charities and those that do not have the tax privileges accorded by this status.

Description of the Voluntary Sector Voluntary Sector Initiative, May 2001

The voluntary sector is by its very nature, rich and diverse, defying precise definition. It is the core nature of the sector rather than its boundaries that matter for purposes of the Voluntary Sector Initiative. The name captures the essential spirit of the sector.

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

Some are registered charities, some are incorporated non-profit organizations and others exist independent of these classifications. The diverse multitude of organizations range from small community-based groups to large, national umbrella organizations, all enriching the lives of Canadians in various ways. These contributions include: delivering services; advocating on behalf of community causes; encouraging self-help; facilitating international, community and economic development; advancing religious faith and practice; and raising funds and providing financial support to other voluntary organizations. In using the term “voluntary sector,” it is recognized that many organizations rely on paid staff to carry out their work, although all depend on volunteers on their boards of directors for their governance.

The voluntary sector is about Canadians engaged and involved in improving life in their communities and the world.

Drawing distinctions between the nonprofit and voluntary sector, market and state – and within the sector itself – is not simply an academic exercise. Understanding the similarities and differences between these three pillars is key to understanding the functioning of modern society, that is, how we go about meeting individual and collective needs and aspirations – everything from home care to

environmental preservation.² Indeed, a key question driving this study of funding in the nonprofit and voluntary sector is the degree to which the boundaries between market, state and the nonprofit and voluntary sector are becoming blurred as funding practices and mechanisms have changed. Does the erosion of these boundaries pose a threat to the unique contribution of the nonprofit and voluntary sector to Canadian life?

Such broad questions also underscore the importance of exploring the diversity of experience within the nonprofit and voluntary sector around the question of funding. What, if any, are the similarities and differences across the nonprofit and voluntary sector? Are the funding experiences of various nonprofit and voluntary organizations distinctive, or can a case be made that the current funding practices are drawing the sector together around a set of common concerns? From this perspective, defining the nonprofit and voluntary sector is thus not a question of identifying “who is in” and “who is out,” but rather, defining the sector is important in order to articulate and understand its unique contribution to the quality of life in Canada and the challenges that nonprofit and voluntary organizations face in pursuing their missions. As the Joint Tables argue: “It is the core, not [the] edges, that matter for this endeavour” (Joint Tables, 1999: 16).

What is Organizational Capacity?

The long-term objective of the Voluntary Sector Initiative (VSI), announced by the federal government and nonprofit and voluntary sector representatives in 2000, is “to strengthen the voluntary sector’s capacity to meet the challenges of the future and to enhance the relationship between the sector and the federal government and their ability to serve Canadians.” The VSI was established to resolve long-standing issues between the federal government and the voluntary sector, including modernizing regulatory mechanisms and standards, improving information on the sector, engaging the sector in policy development, promoting voluntarism, and establishing codes of best practice. Roughly one-quarter of the \$94.6 million in federal funding over five years was set aside to enhance the capacity of voluntary sector organizations to undertake their work and fulfill the expectations of stakeholders.

The need to build capacity within the nonprofit and voluntary sector has been a central theme of the VSI, and directly ties the work to two earlier commissions: The Panel on Accountability and Governance in the Voluntary Sector (PAGVS), and the Government of Canada/ Voluntary Sector Joint Initiative. The first initiative was sponsored by the Voluntary Sector Roundtable, a group of 12 national nonprofit and voluntary organizations, and highlighted the needs of the nonprofit and voluntary sector struggling with increased social demands and the consequences for sector accountability and governance. In response to the Report of the PAGVS, the Joint Tables developed several recommendations to restructure state-sector relationships and strengthen the capacity of the nonprofit and voluntary sector in areas such as recruitment and retention, research and technology, and management. The Capacity Joint Table of the VSI continued with this work, focusing in particular on three areas: human resources, research and information sharing, and policy. The Working Group on Financing – a subgroup of the Capacity Joint Table, comprised of representatives from the nonprofit and voluntary sector alone – was charged with the task of exploring issues related to financial capacity within the sector.

Throughout this body of work, “capacity” has been loosely defined as the ability of organizations to undertake their work, “to achieve their missions, bring their visions to life, and fulfill their roles” influencing public policy, offering Canadians meaningful ways to donate their time and energy, and delivering programs, services and activities (Joint Tables, 1999: 30). This definition focuses on the ability – or inability – of organizations to develop and deploy resources in the pursuit of organizational goals, in the present and over the long term. Similarly, the United Nations Development Program (UNDP) defines capacity as “the ability of individuals and organizations or organizational units to perform function effectively, efficiently and sustainably” (UNDP, 1998: 5). Norway’s national development agency develops the idea of capacity as agency, specifically defining capacity as “the power or energy which determines performance and sustainability” (NORAD, 1999: 5). Following from this, “capable” or “sustainable” organizations are those that:

- are able to secure external inputs and necessary support;
- are able to provide, efficiently and effectively, a continuing stream of activities and outputs;
- are valued by stakeholders including members, clients/ beneficiaries, funders/ donors, communities; and
- for as long as the institution is needed (NORAD, 1999: 6-7).

This last point is important. The goal of nonprofit and voluntary organizations is to undertake relevant activities in the interests of their members or beneficiaries and the general public. Organizations that drift away from their mission or find themselves unable to adapt to the changing social, economic and political environment risk eroding their base of legitimacy and credibility. Enhancing or securing organizational capacity is only important – as this definition emphasizes – to the extent that it assists organizations in achieving their goals and aspirations.

Various authors identify internal and external dimensions of capacity. For example, the UNDP proposes five different “external” or system-level dimensions that influence organizational capacity (i.e., policy dimension; legal/regulatory dimension; management dimension; resource dimension; and process dimension) and seven “internal” dimensions of capacity (i.e., mission and strategy; culture, structure and competencies; processes; human resources; financial resources; information resources; and infrastructure) (UNDP, 1988: cited in Hall, 2002: 2-3). Similarly, the skills and capacities of individual members – for example, their skill level, professional networks, values and attitudes – contribute to the overall functioning of the organization.³

The nonprofit and voluntary sector organizations surveyed for this current project also identified a list of characteristics that they believed were critical to a successful organization. For them, healthy and successful organizations are those that:

- are able to adapt to work in the public interest;
- are not profit-distributing;
- are mission driven;
- integrate and value volunteer labour and contributions;
- have dynamic, inclusive leadership;
- are socially inclusive and work to bring the marginalized to the centre of community life;
- exercise autonomy of thought and action in pursuit of public good;
- are accountable to their different constituencies: beneficiaries/ clients; members, funders and other stakeholders;
- plan for the future of the organization; and

- are able adapt to the changing realities of the day in a proactive way.

This definition, like the one proposed by the UNDP, points to the myriad of relationships and resources that enable and sustain organizations, both those in the nonprofit and voluntary sector and elsewhere. Yet one can be forgiven for thinking of capacity as merely a shopping list of attributes – if an organization has the right staff, a relatively stable funder and dedicated members, it will be successful over time. The point that participants in our focus groups came back to time and again was the importance of relationships – both “internal” and “external” – among the organization, the people engaged in and touched by its activities, and the systems or structures that shape their actions. Nowhere is this more evident than in the study of funding. Capacity and financial capacity in particular cannot simply be measured by the number of dollars in the bank or the skill level of staff; rather it is defined through the complex relationships between nonprofit and voluntary organizations and their stakeholders, and the institutions that structure these relationships.

What is Financial Capacity?

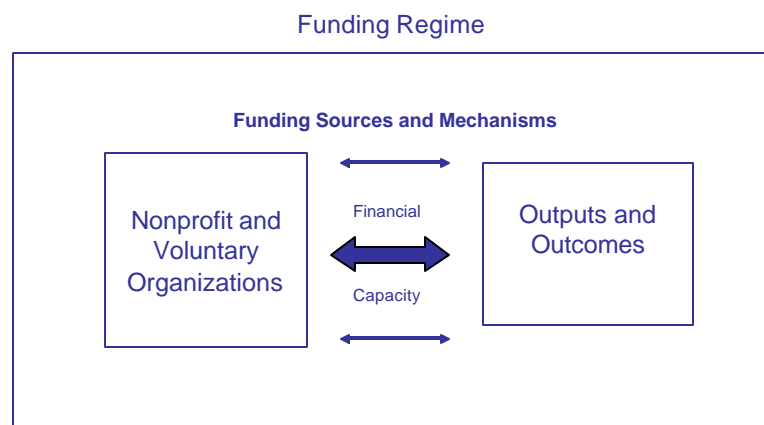
Financial capacity, like other types of organizational capacity, represents available organizational resources and relationships – both internal and external – that enable individual organizations to pursue their missions and fulfill their roles. And like other forms of organizational capacity, financial capacity is complex. It is defined, on the one hand, by the ability to generate and administer funds, and on the other hand, by the instruments and mechanisms that structure the relationship between the organization and funder. As this study amply illustrates, the mix of types and sources of funding is as important – if not more so in some cases – as the level of funding to an organization’s capacity to pursue its work effectively, efficiently and sustainably.

The current focus on the impact of the various funding sources and mechanisms is important because it draws attention not only to the internal dynamics of nonprofit and voluntary organizations, but also to the complexities of their relationships with stakeholders, most notably, with funders. No funding source or mechanism is “unambiguous” (Weisbrod, 1998). The costs and benefits of each source of funding and each funding mechanism are key determinants of organizational behaviour. Each funding source and funding mechanism imposes opportunities and constraints that affect the capacity of organizations to pursue and achieve their goals. Indeed, funding sources and mechanisms can and do influence all aspects of an organization’s activities, structures and decision-making.⁴

The focus on funding sources and mechanisms also illuminates broader principles, norms, rules and decision-making procedures that govern the relationship between nonprofit and voluntary organizations and their funders. Other scholars have used the concept of “regime” to describe the collective rules, values and sanctioned expectations that structure the day-to-day actions of nonprofit organizations and governments, and we believe that is useful in our context as well.⁵ While all actors do not operate on the same principles or seek the same objectives, overarching assumptions and expectations do exist that influence the interactions of these same actors. They define the funding environment within which nonprofit and voluntary organizations and their funders operate, and they are reflected in institutional arrangements such as the funding mechanisms that structure their relationships.

The relationship between nonprofit and voluntary organizations, their financial capacity, funding sources and mechanisms, and the broader funding regime are depicted in Figure 2.1. In this conceptual model, the funding regime is depicted as the outer box, that is, the context which frames the actions of organizations. It is not the only external influence, but it is a critical one. Regime values and expectations in turn are embedded in the various funding sources and mechanisms available to nonprofit and voluntary organizations. And funding sources and mechanisms are a key influence on the capacity of nonprofit and voluntary organizations to generate and deploy financial resources in the pursuit of mission – the intended outcomes of organizational action.

Figure 2.1: Conceptual Model



That is not to say that a particular source or type of funding always produces the same impacts for recipients, or that these funding structures are the dominant influence on nonprofit and voluntary organizations. Rather, certain types and sources of funding tend to raise certain issues. These issues are related to the types and sources of funding but the issues, and the organization's responses to them, are always shaped and constrained by the mission and values of the organization itself.⁶ In other words, nonprofit and voluntary organizations and their stakeholders are active in defining funding structures and practices at the organizational level and at the broader regime level. Indeed, the ability of nonprofit and voluntary organizations to influence their funding relationships as reflected in funding arrangements is a measure of their financial capacity and long-term financial health.

2.2 Funding Sources and Mechanisms

There is a popular notion that funding for the nonprofit and voluntary sector comes from voluntary sources, that is, from private giving. In fact, the nonprofit and voluntary sector derives income from a number of sources (i.e., from individuals, governments, foundations, United Ways/ Centraides, religious organizations, corporations, and the private market) and through a number of mechanisms (i.e., donations, gaming, sales of goods and services, grants, contracts, sponsorships, and investments).⁷ For the sector as a whole in Canada, government is the largest funder, followed by earned income and private giving/ fundraising.

Within the nonprofit and voluntary sector, reliance on various income sources and their related funding mechanisms varies, often reflecting the unique histories of the various groups. The origin of nonprofit and voluntary organizations within particular communities, the nature of the service, the presence of other for-profit or public service providers, and the philosophy and values of members all influence the particular mix of sources and types of funding. Each source represents its own opportunities and challenges for nonprofit and voluntary groups. Balancing the costs and benefits of these various sources is both complex and demanding. Below, we look at different sources of nonprofit and voluntary sector income in order to better understand the funding dynamics within individual organizations and the constraints and opportunities that different sources and types of funding represent.

Government Funding

While nonprofit and voluntary organizations rely on a host of income sources, by far the most important historically has been government. Governments over many years have provided important support – both financial and in-kind – to nonprofit and voluntary organizations. Governments have supported service organizations broadly defined – including theatres, galleries, sports clubs, and ethnocultural associations – as well as a host of advocacy and other public interest organizations. The funding relationship between Canadian governments and nonprofit and voluntary organizations reaches back to the early 1900s, when small grants were given to charitable organizations to serve vulnerable groups through orphanages, schools and group homes.

The relationship expanded considerably after the Second World War. At the federal level, for instance, the Citizenship Training Program began to fund nonprofit and voluntary organizations with the explicit intent of strengthening national loyalty among an increasingly diverse population (Joint Tables, 1999). New federal-provincial funding agreements through the 1960s and early 1970s – especially the Canada Assistance Plan – consolidated government support for nonprofit service providers. The Canada Council and other provincial arts funding bodies were set up at that time. At the same time, the federal government introduced indirect financial assistance to registered charities through the tax system and direct operational funding to organizations engaged in promoting various aspects of Canadian identity through new Secretary of State programs. Predictably, as government funding became available, the number of nonprofit and voluntary organizations grew, including the number of advocacy organizations – a unique feature of Canadian support for the nonprofit and voluntary sector.⁸ Indeed, far from crowding out voluntary contributions and activity, the nonprofit and voluntary sector has grown up alongside government over the past 50 years – here in Canada and elsewhere (Gidron et al., 1992).

Governments provide both direct and indirect financial assistance to nonprofit and voluntary organizations. In this study, we will be focusing on direct forms of government support, but it is important to keep in mind the significance of indirect support as well. In this regard, governments provide tax assistance to charitable organizations; in 1997-98 for example, the federal government provided \$1.5 billion in the form of tax assistance (the GST rebate and the charity tax credit). Indirect support delivered through the tax system has increased over the past decade as the federal government has amended regulations to encourage charitable giving. As well, governments also provide large in-kind contributions to many organizations, including contributions of meeting space, equipment and facilities, training opportunities, and personnel exchanges. Consideration is also

given to nonprofit and voluntary organizations in the form of differential pricing for conferences or other training opportunities.

Direct government funding accounts for roughly 60% of nonprofit and voluntary sector revenues, the lion's share coming from provincial and territorial governments (TBS, 2000). There is a variety of funding vehicles used to finance the nonprofit and voluntary sector, but most fall into one of three main types⁹:

- **Grants** are transfer payments to an individual or organization which 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 certain pre-conditions (Treasury Board Accounting Standard 3.2 – Transfer Payments). Grant programs provide organizational support and stability, and they enhance capacity building, often for organizations that might not otherwise exist or have alternative sources of private funding. Some government departments directly operate grant programs. In many instances, however, governments set up independent granting bodies such as the Canada Council of the Arts or the Social Sciences and Humanities Research Council. Under the direction of a board of directors, these agencies develop and oversee funding competitions. Governments establish the annual allocation and typically appoint one or more members of the board, including the chair.
- **Contributions** are conditional transfer payments to an individual or organization 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). Increasingly, funding for the nonprofit and voluntary sector is taking the form of contributions; for instance, purchase of service agreements are contribution agreements designed to fund specified services, often over a number of years. Most project funding takes this form. Governments announce competitions for funding, where organizations submit proposals to deliver requested goods or services, or seek out specific providers. Unlike contracts tendered under an open bidding system, competitions for contribution funding do not limit consideration to the lowest bidders. Requests for Proposals (RFPs) often establish detailed eligibility criteria, often setting out preferences for nonprofit, voluntary sector providers.
- **Contracts** are agreements between a contracting authority and a person or firm to provide a good, perform a service, construct a work, or to lease real property for appropriate consideration (Treasury Board Contracting Policy). The term “contract” is reserved for contracting for goods and services where there is competition between potential contractors – both nonprofit and for-profit organizations – designed to promote value for money. Work specifications are defined in terms of clear outputs or performance requirements that will encourage and accommodate the use of 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*. All contract work is subject to government audit. Market principles are brought to bear on the delivery of services in the belief that greater efficiency and consumer choice will result.

While government funding is invariably awarded through competitive processes, the key distinction between grants and contributions and contracts is the degree of control over the process and product

(see Joint Tables, “Supplementary Paper C: Advantages and Disadvantages of Alternative Funding Methods,” 1999). Grants such as those awarded by arts granting councils are an “unrestricted” source of funding. That is, funds are awarded for specified purposes, but the recipient is *not* subject to monitoring or audit. Project reports are often requested, but are not required as a condition of funding. These funds can be applied to the operation of the organization or a particular program as the recipient sees fit in pursuit of their mission. Grants afford the greatest organizational autonomy to recipients. Organizations are held to account by their members and clients/ beneficiaries for the appropriate and effective use of funds. Indeed, the desire to receive future funding acts as a powerful accountability mechanism as well. Governments use grant vehicles to advance public policy objectives, as well as to foster organizational capacity and innovation.

By contrast, both contributions and contracts tendered through an open bidding system extend much greater control over the process and content of solicited work. Support is typically provided for discrete projects or programs rather than to the organization. As a result, contributions and commercial contracts are typically organized around the priority of funders as opposed to the priorities or mission of applicants. They can be highly uncertain funding arrangements from the perspective of nonprofit and voluntary organizations. Uncertainty is built into the process via the emphasis on competition for the project or program and flexibility for the purchaser. As well, the very structure of the contract under both funding mechanisms can create uncertainty as eligible costs are narrowly prescribed, excluding in many instances, core administrative and organizational costs that are necessary to sustain the entire organization. Fixed price contracts, in particular, can be very problematic for the contracting group if they do not provide for the possibility of rising costs.

From recipient organizations, contributions and commercial contracts also tend to be more costly in terms of the time and resources devoted to acquiring and managing the contracts, in comparison to grants and many other funding sources. Moreover, these funding arrangements are designed to ensure stricter accountability and monitoring through results-based management measures. The imposition of external monitoring and evaluation systems can be very onerous for nonprofit and voluntary organizations, particularly the smaller groups, absorbing huge amounts of time and resources, often from other critical organizational activities. And lastly, there are concerns about the impact of government contributions and open bidding contracts on organizational autonomy and independence, as organizations become entangled in the dense web of government rules and regulations. This is particularly the case for organizations in receipt of contribution funding.

It is not unusual for governments to roll over contribution agreements, particularly with organizations where a long-term relationship exists or there is no other obvious service provider. Indeed, in the social service field, this is a common arrangement. In a study of the Ministry of Community and Social Services in Ontario, Panet and Trebilcock found that social services were provided almost exclusively through nonprofit agencies under purchase of service agreements (Panet and Trebilcock, 1998). These were not usually competitively tendered because of the difficulties in monitoring performance and the advantages of working with well-established networks of service providers. Direct offers were more common than competitive tenders, and relationships with commercial providers were relatively uncommon at the time. That is not to say that long-term purchase of service agreements function like grants or other forms of core funding, where monies are awarded to organizations and are subject to comparatively little oversight. While organizations in these funding arrangements with government come to expect contract renewal each year to service their clients, the complexities of contract renewal cannot be underestimated nor the

pressures related to this form of government funding.

To summarize, there is a wide variety of direct funding relationships between government and nonprofit and voluntary organizations, ranging from core grants to longer-term purchase of service contracts, to more contingent and competitive contribution agreements contracts, to commercial contracts. Predictably, the type of funding mechanism varies according to the jurisdiction, the political orientation of contracting governments, community demand for service, and the history of the relationship between governments and specific nonprofit and voluntary organizations. With the exception of grants, government funding tends to be complicated, imposes high direct and indirect costs, tends to be of short duration, and potentially threatens the autonomy of nonprofit and voluntary organizations, especially for those that operate as service delivery agents for government.¹⁰ Yet for many nonprofit and voluntary organizations, it is often the only source of potentially stable funding available, releasing organizations from the annual grind of fundraising, especially for groups that may not have access to other sources of funds such as private donations or earned income or those engaged in “essential” public service delivery. Government money is hard money to turn down.

Earned Income

The nonprofit and voluntary sector relies on a host of earned income sources to support and sustain their activities. For example, arts and cultural groups, as well as recreational organizations, are dependent on administration and registration fees and other charges to generate income. Membership fees are certainly common across a wide range of nonprofit and voluntary organizations; others such as sport leagues or clubs charge fees for mission-related services that partially or wholly cover the cost of the service. Some nonprofit and voluntary groups have launched mission-related and/or ancillary businesses; various activities include the sale of program-related products and services (i.e., Employee Assistance Programs; museum shops), the use of staff or client resources (i.e., when staff serve “paying” as well as “mission-based” clients), and the leasing and/or rental of hard property, licensing and soft property assets (e.g., mailing lists) (Skloot, 1987, cited in Dart and Zimmerman, 1998: 9).¹¹ Investment income, sponsorships, and joint business ventures with for-profit or publicly owned companies are other sources of potential earned income.¹²

The dependence on earned income sources varies across the nonprofit and voluntary sector, yet interest is widespread in what has been called “social entrepreneurship.” Nonprofit and voluntary organizations are increasingly turning to the market – when feasible – to generate income for mission-related activities and to provide social benefits through employment (Weisbrod, 1998; Ryan, 1998; Froelich 1999; Ryan, 1999). Social entrepreneurship is seen as a way to diversify income sources, to cover rising costs, and meet new demands for service, as well as improve organizational performance and impact through the use of private sector methods, tools and approaches. The idea of social entrepreneurship, according to Tim Draimin, is to “improve the brain and muscle of the nonprofit without damaging the heart” (Draimin, 2000).

Here in Canada, anecdotal evidence suggests that Canadian voluntary organizations are also pursuing earned income opportunities like their American counterparts.¹³ A number of participants in our focus groups discussed successful ventures that were generating “unrestricted” dollars for the organization. In one case, for example, a social service agency was able to purchase a large parcel of

land in the downtown core on favourable terms and they built a building that accommodated their agency and other tenants as well. Rental income provided an important stream of income that subsidized the costs of maintaining the building and other mission-related activities. Moreover, the value of the investment has appreciated over time and they are now exploring the possibility of developing the site further, again with an eye to expanding their operations. For these groups, earned income – specifically, income from commercial activity – represents a source of income that is “less restrictive” and potentially more stable than other sources of income, including private donations and project funding.

Earned income is not an option for everyone, however. The ability to generate income from fees or charges depends upon having something to sell at a price that potential buyers can afford. In the nonprofit and voluntary sector, this typically includes memberships, information and advice, research, training, counselling, the use of facilities, administrative support, and so on. In order to do so, it is necessary to have specialized knowledge and the capital to mount such an initiative – a considerable barrier for many, if not most, nonprofit and voluntary organizations. The demands of operating a successful commercial enterprise are arguably even more complex, both financially and organizationally, while the returns are not guaranteed and the financial risks are high (Zimmerman and Dart, 1998). Needless to say, not all organizations are in the position to generate earned income.

The ability to earn income is also constrained by the fact that price is a central concern for many nonprofit and voluntary organizations. Many groups exist precisely because their clientele cannot afford to pay for a specific good or service. A third party may well be involved in paying for part or all of a selected service on the behalf of clients. For many nonprofit and voluntary groups, however, charging any fee at all serves to undermine the mission of their organizations. This isn't the case for all nonprofit and voluntary groups. Earned income has always been central to financial sustainability for most arts organizations and recreational groups. And for other nonprofit and voluntary sector groups, it can be a desirable way to diversify their funding base and increase their latitude to pursue desirable projects, particularly in comparison to funds derived from government sources (Weisbrod, 1998). Operating a parking lot, for example, can produce a stream of unrestricted funds that can assist with mission-related activities as noted above. Successful businesses also enable an organization to maintain higher staff levels – staff that are available to assist with other mission-related activities as well. Overall, there is a greater emphasis on measuring the costs and benefits associated with the organizations' activities and monitoring outcomes such as client satisfaction, the impact of which many voluntary organizations would agree has been very positive.¹⁴

At the same time, earned income can reduce the ability of organizations to pursue their mission because organizations must always focus on what is likely to sell. Activities or client groups that do not produce fee income may be neglected or dropped altogether. Energies devoted to operating earned income ventures, particularly for-profit business ventures, can divert energies and resources from other core activities. These stresses can create tremendous tension within nonprofit and voluntary organizations, particularly among staff that are responsible for income generation and those in the traditional service areas.¹⁵ Ultimately, earned income in its many forms facilitates commercialization – a powerful force that can pull organizations away from their original missions – places enormous stress on the culture of the nonprofit and voluntary organization, and works against the ethic of the

nonprofit and voluntary sector.

Investment income is another kind of earned income for a small number of nonprofit and voluntary organizations. On the whole, investment income tends to make up a fairly small proportion of total income. While some organizations are involved in subletting office space, relatively few derive any significant income from market investments, an exception here being charitable foundations set up for the express purpose of fundraising for charities.¹⁶ Certainly, the costs of generating and maintaining investment income are fairly high in terms of needed expertise. As well, there are concerns with regard to ethical investing. Large reserves can also raise questions about the organization's pursuit of its mission and deter other potential donors. This being said, however, many organizations are trying to establish endowments in order to provide greater financial flexibility and stability.

Private Giving/ Fundraising

There are many different sources of private giving, which is the third major source of funding for the sector. Individual giving is extensive in some sectors of the nonprofit and voluntary sector. Similarly, corporate donations, which we discuss in greater detail below, as well as contributions from unions, other voluntary organizations or associations, and local businesses are all sources of private funds. Private foundations and community-based fundraising organizations such as the United Way/ Centraide can also be grouped under this category, although in many instances, these funders have more in common with government funders than they do with other private donors.

One of the most prevalent myths about the nonprofit and voluntary sector is that the organizations engaged in the sector are largely sustained through the donations of concerned individuals. This is certainly true for religious organizations, for example, and for many smaller community-based service or advocacy groups. Yet most nonprofit and voluntary organizations pursue other sources of funding, because private giving tends to be a relatively small source of income and is inherently unstable. The significant revenue fluctuations from year to year make it very difficult for even established organizations to staff and deliver programs, particularly over the long term. While fundraising efforts are increasingly sophisticated and some groups are attempting to secure longer-term funding commitments through planned giving and endowments, for most nonprofit and voluntary organizations, private giving does not provide a steady source of income.

“Poor children’s club runs out of money”

Column by Randall Denley, *The Ottawa Citizen*, August 02, 2002: F2

The Boys and Girls Club has been an institution in Ottawa since 1923. Perhaps because it has been around for so long, we tend to take the good work it does for underprivileged children and teens for granted. Now the club has financial troubles and Ottawans will have to decide how much they value this service.

The club operates three clubhouses, three drop-in centres and a summer camp near Eganville. About 5,000 kids a year participate and are offered gyms, swimming pools, sports leagues, computer rooms and homework rooms. The successful Police Youth Centre recently became part of the Boys and Girls Club operation and the Brian Smith Foundation formed an alliance to support the club's summer camp.

The problem is that the club is too reliant on individual and corporate donations, and those donations haven't been coming through at the expected rate this year. As a result, the club has been forced to reduce service at its clubhouses. Hours of operation have been reduced from 12 to 15 hours a day to eight and the clubhouses are closed altogether some days. This is a first step in dealing with an estimated deficit of \$250,000 to \$300,000 this year.

Reducing hours alone won't balance the approximately \$3-million budget, executive director Claude Turgeon says. If more money isn't available, "we'll be looking at significant reductions come fall."

The fall-off in the local high-tech industry has reduced the number of donors, Turgeon says. The club's bingo revenues have also been cut because fewer people are playing bingo since the city's no-smoking rules were instituted.

Donations declined sharply last year. In 2000, the club took in \$636,000 and last year the amount was cut to \$456,000. This year, Turgeon hoped to reverse that by investing \$100,000 in direct mail and telemarketing. That campaign hasn't produced the desired results and donations are expected to fall about \$300,000 short of the \$740,000 target. Expenses at the club are also up about \$100,000 because staff got a raise to bring them in line with other youth organizations and the number of staff for some programs has been increased.

Clearly, the Boys and Girls Club is going to have to do less or find more money. But who should pay?

The club's one big secure funder is the United Way. That agency features the Boys and Girls Club prominently in its fundraising campaign, likely creating the impression that the United Way has the club covered. In fact, the \$780,000 United Way donation only provides about 25 per cent of the club's budget, down from about 60 per cent 10 years ago.

There is little hope of more money for the club, United Way vice-president Eileen Dooley says. The Boys and Girls Club is the single largest recipient of money from the United Way, although the agency's contribution has remained relatively static while the overall United Way take has increased by 25 per cent in three years. The United Way has used the new money to fund additional agencies.

Turgeon plans to approach city council this fall, to see if it can help. The club receives \$140,000 a year to offset the cost of its Britannia clubhouse, because the city doesn't offer a similar service in the area.

City social services boss Dick Stewart says the city can't afford to do more for the club in the short term. To do so would mean taking money away from other organizations and "that's hardly going to happen."

Officials at both the United Way and the city are full of praise for the work that the Boys and Girls Club does. The club's work is "unassailable," Stewart says, and leads to less crime, less vandalism, better citizens and stronger families.

Turgeon says it just isn't feasible to run an organization like the Boys and Girls Club strictly on the hope that hundreds of thousands of dollars in donations will miraculously appear every year. Clubs in other cities typically receive substantial sustaining grants, Turgeon says, and that's what he thinks we need here. It seems that's not going to happen any time soon. If people in Ottawa want the Boys and Girls Club to keep its high level of service to children, it's up to individuals to give.

To donate, contact Jocelyn Umengan at 232-0925 ext. 24 (jumengan@boysandgirlsclubottawa.org) or mail your cheque to: The Boys and Girls Club of Ottawa, 412 Nepean, Ottawa, K1R 5G7.

"We can't save the whole world. We only do what we can," Turgeon says. With your help, they will be able to do more.

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Private dollars generated through fundraising efforts can be very desirable in that they are unrestricted. Recipient organizations are usually able to use these funds as they see fit in the pursuit of their mission. Yet ongoing fundraising is very expensive and labour intensive, particularly when compared to the amount raised. While nonprofit and voluntary groups build relationships with members and their communities through fundraising, it is not uncommon for groups to fail to cover their costs. The most common methods – such as raffle tickets or door-to-door solicitations, for instance – are not the ones that produce the highest yields, despite the extensive use of volunteers. Indeed, nonprofit and voluntary groups report increasing difficulty in recruiting volunteers for fundraising purposes. Groups also report higher levels of donor fatigue. A fundraising activity that is successful one year can fail the next, irrespective of the amount of effort that went into the planning. The *National Survey of Giving, Volunteering and Participating* (NSGVP) reveals that Canadians are making fewer donations: between 1997 and 2000, the average number of donations fell from 4.0 to 3.7 donations. Moreover, while a majority of Canadians report making donations to nonprofit and charitable groups (91% in 2000), most donations are very small. The top one-quarter of donors accounted for 82% of total donations. (Not surprisingly, the same group of donors also accounted for the majority of hours donated to nonprofit and voluntary organizations).¹⁷

In response to an increasingly competitive funding environment, larger nonprofit and voluntary organizations such as universities and hospitals have established development offices, staffed by professional fundraisers, to coordinate their fundraising activities. These organizations, with considerable sums of money at their disposal, are able to mount expensive fundraising campaigns, including direct mail, in contrast to the large majority of nonprofit and voluntary groups that struggle to sustain funding levels. Increasingly, the size of the nonprofit and voluntary organization is determining the ability of groups to pursue and sustain private giving.

Thus, private giving/ fundraising is volatile, highly competitive and expensive. Even its standing as a source of unrestricted dollars is being challenged, as donors – both individual and corporate – increasingly target their support not just to particular organizations, but to specific projects or programs within voluntary groups. The pursuit of wealthy donors marks another decisive shift in fundraising. Packages are tailored to individual donors, setting funding goals and the type of donor

recognition that will be accorded. In response to this new trend, some community foundations and philanthropic intermediaries like United Way/Centraide have also begun to emphasize more choice by giving donors the option of designating their donations to particular organizations or program areas.

No one would argue that private individuals should not be able to donate to groups and causes as they see fit. But the growing trend to donor choice does raise issues for nonprofit and voluntary organizations that provide valuable, but unpopular, services for society. It can also cause problems if organizations try to turn themselves inside-out to attract targeted dollars. In the process, important nonprofit and voluntary sector activities may be sidelined as the organization pursues programs for which funding is available.

Charitable gaming has been a source of unrestricted private dollars for many smaller organizations in the sector for many years. While some organizations still run bingos, the stakes have been significantly altered by the arrival of another player in the form of government-sponsored gambling. Overall, this source of revenue has diminished among nonprofit and voluntary sector groups. Community groups still sell raffle tickets; indeed, many recreation groups sell blocks of raffle tickets to members with their membership fees – an obligatory donation, so to speak. But the number and type of charity casinos and the like have decreased. Increasingly, only larger charitable organizations have the capacity to mount lotteries, for example, that can successfully compete with provincially sponsored gambling vehicles and venues. Organizations that have the resources can commission professional consultants to organize and run these fundraising events (i.e., hospital lotteries and clothing drives), retaining only a fraction of the profits to support the organization. Thus, as with other types of fundraising, a divide is opening up between large and small nonprofit and voluntary sector groups.

Gaming Grants

Until recently, charitable gaming such as bingos or raffles has been an important and efficient, although admittedly labour intensive, means of raising “unrestricted” dollars for many organizations. Today, revenue from charitable gaming is being overtaken – and in many instances, being displaced – by revenues from provincially sponsored gambling in the form of gaming grants. The exponential growth of provincially sponsored gambling such as lotteries, casinos, video lottery terminals and slot machines has transformed nonprofit and voluntary sector funding in many provinces and raised critical questions about the sector’s – and government’s – reliance on gambling as a means of financing community services and programs.

In 1969, the federal government introduced changes to the *Criminal Code* that opened the door to provincially sponsored gambling. The Quebec government was the first to launch a provincial lottery to raise funds to mount the 1976 Montreal Olympics. Other provinces followed suit, introducing lotteries and sweepstakes on the pretext for generating revenues for selected charitable and nonprofit organizations and activities. Twenty years later, the charitable gambling industry in Canada expanded again when the first slot machines were introduced at Canada’s first permanent casino in Manitoba in 1989. One year later, the first Video Lottery Terminal (VLT) was introduced in New Brunswick, representing the inauguration of non-casino gambling. By 2001, there were over 100,000 places to make a bet in Canada (Azmier, 2001).

The massive growth in provincial revenues from gambling has been startling. “Between 1992 and 1998, annual non-charity gambling revenues nearly tripled, growing from \$2.7 billion in 1992 to \$7.4 billion in 1998” (Azmier and Roach, 2000). In the 1999 fiscal year, the net profit in government-led gambling was \$5.5 billion, with charity-run gaming generating an additional \$712 million, equalling a total net profit of \$6.3 billion across Canada. This has led to gambling contributing, on average, 3.41% of all provincial revenue sources, with Nova Scotia, Saskatchewan, Alberta and Newfoundland benefiting the most (Azmier and Roach, 2000).

One of the stated reasons that governments have moved into gambling is to raise funds for nonprofit and voluntary sector programs and services. Governments have set aside a portion of gambling profits in order to support voluntary activities, often through public foundations such as the Trillium Foundation in Ontario or the Wild Rose Foundation in Alberta. Nonprofit and voluntary organizations then apply for “gaming grants” in a process that in many respects mirrors the process for applying for government funding. Over the past decade, gaming grants have become an increasingly important source of revenue for nonprofit and voluntary groups. In a study of the four western provinces by the Canada West Foundation, over one-quarter of the nonprofit organizations surveyed reported that gaming grants were their top funding source, while 50% said it was one of their top three sources. One-fifth of organizations sampled said they received over half of their annual revenues from gaming grants (Berdahl, 1999).

The extent of nonprofit and voluntary sector dependence on gambling revenues is therefore very large in some provinces. Indeed, it is arguable whether the public is fully aware of the size of gambling revenues and their role in funding the nonprofit and voluntary sector. There are a host of issues related to gaming grants and other charitable gaming activities that bear mention. Gambling has certainly gained popularity among Canadians as a source of entertainment, a source of community economic development, and a way to potentially alleviate tax pressures. Yet the ethics of gambling is a concern for many. Relying on gambling revenues – whether they are government sponsored or not – facilitates compulsive gambling, an estimated five per cent of all gamblers. And the problems of compulsive gamblers are not confined to the individuals alone, but are keenly felt by their families and communities, including nonprofit and voluntary organizations in receipt of gaming grants. As well, gambling is justly seen as a very regressive form of taxation, as low-income Canadians are more likely than higher-income Canadians to gamble (Berdahl, 1999).

As the level of funding from government and other private giving sources has been reduced over the past 10 years, public foundations have opened up as a new source of revenue. Indeed, a particular sticking point for nonprofit and voluntary sector groups is that governments which are the beneficiaries of this gambling windfall are devoting less and less of the profits to the nonprofit and voluntary sector.¹⁸ The Alberta government is a case in point. Thirteen years ago, it established a number of public foundations with gambling proceeds to fund arts and cultural groups, among others. The amount of money awarded to the foundations has not increased over this time. Indeed, taking inflation into account, there is less public funding available today for these groups from public foundations despite the increase in gambling profits. The Canada West Foundation estimated that in 1998, only 18% of revenues generated through gambling were set aside for nonprofit organizations (Azmier and Roach, 2000). Governments continue to promote provincially sponsored gambling as a means to support good works in the community, yet they are retaining the lion’s share in their consolidated revenue accounts.

There are also concerns about the fact that for many smaller community groups, provincially sponsored gambling has seriously undercut their own charitable gaming activities, such as bingos. As well, these smaller groups do not have the same capacity as larger organizations to apply for provincial gaming grants. First, these groups may not be eligible to apply for gaming grants, depending on the funding parameters of the foundation or grant vehicle established by the province. Second, if they are eligible, many smaller groups do not have the capacity to successfully navigate a complex and time-consuming grant application process – all to replace funds that many used to generate themselves through their own charitable gaming activities. Certainly, charitable gaming is no panacea – a point that we return to below – but it did serve as a viable means of fundraising for many nonprofit and voluntary groups. Gaming grants are effectively displacing what was once a relatively stable source of annual funding for some organizations with a relatively erratic source of one-time funding for a select few.

The experience of Thunder Bay is a case in point. One of four Ontario casinos was built in Thunder Bay. The community supported the idea, lured by the economic development potential, but was very conscious of the fact that local charitable organizations that had relied on charitable gaming would be hurt once the casino opened. And indeed, the new casinos killed the existing community bingos. The charitable groups then applied to the Trillium Foundation for funding to offset these revenue losses. According to the head of the Arts and Heritage Council in Thunder Bay, “We had 116 groups here that financed themselves through bingos. Only 11 of those groups got Trillium grants.” The others did not have the capacity to apply for funding, they were discouraged by the amount of red tape involved, or failed in their applications (Conlogue, 2002: R3).

Charitable gaming and gambling remain a contentious source of revenue for nonprofit and voluntary sector. That being said, however, gaming will likely continue to grow in importance in the coming years as gaming expands across Canada. It remains to be seen whether the nonprofit and voluntary sector will benefit for this.

Corporate Sector Funding

The corporate sector is a source of private giving for some nonprofit and voluntary organizations, particularly the larger organizations in the health and education fields.¹⁹ And while individual donations constitute a larger source of revenue for the nonprofit and voluntary sector, nonprofit and voluntary organizations are increasingly targeting corporate donors – often with the encouragement of governments – in their efforts to diversify and expand their funding base. Understanding corporate philanthropy, therefore, is important from this perspective. As well, corporate philanthropy provides an important lens or window on global funding trends and the calculations involved in revenue generation.

Evidence suggests that corporations tend to favour larger, highly visible charities that display organizational structures and procedures with which the corporations can identify. Corporations tend to give small donations to selected groups, they prefer short-term funding for projects rather than funding to organizations, and they are loathe to become involved in longer-term commitments or to provide funding for on-going core operating expenses (Leat, 1995: 175-76). Thus, corporate funding is not a secure or stable source of revenues for nonprofit and voluntary organizations, even for those who are in receipt of funds. Indeed, current estimates suggest that the corporate donors

only account for *one per cent* of total sector revenues. Historically, the corporate sector in Canada has not been a generous donor to charitable causes.

These data belie the contention that the corporate sector is a viable alternative funding source for nonprofit and voluntary organizations traditionally reliant on government funding. Evidence suggests that corporate funding in Canada and elsewhere in no way made up for government cutbacks to the nonprofit and voluntary sector through the 1990s (Hall and Reed, 1998). Indeed, reduced government spending has not spurred increased corporation donations. Contrary to the proposition that government funding crowds out private giving, American research suggests that lower levels of state funding for nonprofit and voluntary organizations is associated with lower levels of private giving, and corporate giving in particular, as it sets a lower standard of public responsibility (Siegfried and McElroy, 1981; Useem, 1987 cited in Leat, 1995: 176).

Corporate philanthropy is really only a potential source of revenue for a limited number of nonprofit and charitable organizations. As noted above, this stems in part from the comfort level of corporations dealing with organizations that more closely resemble themselves – in structure and personnel. It is also a reflection of the fact that corporations will favour those nonprofit and voluntary organizations that are in a position to deliver a significant return on their investment by way of recognition.

More recently, there has been a sea change in the way that corporations extend support to the nonprofit and voluntary sector. Some large corporations, for example, are setting up arms-length corporate foundations to manage donations. The larger trend, however, has been the pervasive shift away from corporate donations to corporate sponsorships. Marketing departments are now in control of “philanthropic” budgets. Corporations very carefully seek out potential nonprofit and voluntary sector partners to form strategic relationships that will deliver defined benefits, value and return for their investments in the form of heightened community profile and increased customer loyalty. There are fewer and fewer sources of unrestricted donations or funds. Rather, decisions are taken to maximize positive corporate exposure.

The world of corporate sponsorship poses many threats for nonprofit and voluntary organizations, not the least of which is to their reputation within the community. Organizations run the risk of losing control of their programs, devoting excessive time and energy to meeting contractual obligations of sponsors – often for relatively small sums of money – as well as getting bogged down in political and ethical dilemmas related to having their name associated with specific corporate sponsors or products. Under this new model of corporate philanthropy, organizations fear never being able to recoup their investment of time and resources expended in building relationships with the corporate sector. Certainly, many nonprofit and voluntary organizations report very positive and respectful relationships with corporate sponsors. Yet as with other sources of funding, it is important to consider the risks and benefits to participating organizations. The reach of private business into the nonprofit and voluntary sector through sponsorship agreements is an important trend that is transforming the funding landscape.

Foundations

Charitable foundations and grant-giving trusts are part of the nonprofit and voluntary sector and a key source of funding for many groups. There are important differences between various

foundations and trusts. Firstly, some foundations and trusts have substantial endowments and distribute the income from investments to advance the mission of the foundation. Other foundations and trusts such as community foundations raise funds to distribute in the same ways that individual nonprofit and voluntary organizations do. Like foundations that manage endowments, foundations and trusts that raise funds for charitable activities have clearly established processes for identifying funding priorities and allocating funds to designated charitable organizations.

The second important difference between charitable foundations and trusts is that some are private and some are public. A private charitable foundation manages and disburses private funds in support of charitable activity. More than 50% of foundation's assets come from a single person or group of people, most often a specific family. The founders appoint trustees or directors – often family members – to manage assets and coordinate grant-making activity.²⁰ By contrast, public foundations manage pooled assets, and no more than 50% of capital can be contributed by any one person or group of people. These assets are managed by an arms-length board of directors. Some public foundations are community foundations that focus on building endowments and supporting local charitable organizations.²¹ Others have been set up to support particular activities such as habitat preservation or particular organizations such as hospitals and child welfare organizations. As discussed, another group of public foundations has been set up by governments, including those like the Millennium Scholarship Foundation and they are funded from the profits of government-sponsored gambling or other public funds.²² All foundations and trusts are required to disburse a minimum of 4.5% of assets (averaged over two years) and 80% of receipted donations received in the last year (with the exception of bequests and gifts received with the direction to hold for at least 10 years) to qualified donees.²³

Of the more than 1,500 active foundations in Canada, over 80% are private family foundations. In 2000, all grant-making foundations in Canada had combined assets of \$9 billion; that same year, \$848 million was disbursed in grants. Most foundations, however, are relatively small. A 1995 study found that 54% of private foundations and 43% of public foundations had revenues of less than \$50,000 and that eight of 10 grants were for less than \$5,000. Foundations cluster in three main areas: welfare, education and health. In 2000, the largest percentage of grants by dollar value were made to education (31%), followed by community benefit (25% including environment), arts (13%), and health (8%).²⁴

Foundation funding has historically tended to be a relatively erratic source of funds. For one thing, foundations that draw on an endowment and/or raise funds are subject to the ups and downs of the business cycle; thus the amount available for disbursement year to year will vary, often at odds with the demands of nonprofit and voluntary organizations. Also, foundations tend to be highly targeted in their grant-making. The idea behind this type of grant-making is to provide short-term, one-time grants to launch a program or develop a business plan, for example, in order to leverage longer term, sustaining contributions from other funders, usually government. Foundations, both public and private, remain reluctant to assist with the ongoing costs of operating programs and services. They view themselves as an important, albeit supplementary, source of income to grant recipients.

The impact of this short-term approach can be devastating for groups, especially those which have historically been reliant on government grants to meet their mission and have now been thrown into the uncertain world of foundation funding. The National Ballet is a case in point. In 1996, funding

for the Ontario Arts Council, an independent public granting council, was reduced considerably. In turn, the National Ballet's grant was cut back from \$1.6 million to \$900,000. Provincial arts organizations were redirected to the Trillium Foundation, a public foundation funded from provincial gaming profits. The objectives of this foundation are very different from the Ontario Arts Council. The Trillium Foundation is expressly designed to foster self-sufficiency among nonprofit and voluntary groups; there are funds available to hire fundraisers, to develop marketing plans, to do community outreach, but no funding available to actually do ongoing programming. The National Ballet was successful in 2000 in securing a grant of \$75,000 under the community outreach and education stream to fund their 50th anniversary celebrations. However, they have not been successful in securing funding to actually pursue their core mandate (Conlogue, 2002: R3).

This approach has been questioned through the 1990s, as a number of foundations have reassessed their role and the efficacy of past grants. Private foundations such as the Laidlaw Foundation in Toronto and the Samual and Saidye Bronfman Family Foundation in Montreal increasingly view their role as an investor or collaborator in community and organizational development. These foundations are attempting to move away from short-term, "reactive" awards to grants that have a lasting impact through targeted community and organizational capacity building initiatives, often over a multi-year timeframe.

With this general shift in approach to a more "proactive" approach to funding, public and private foundations are operating increasingly like government funding bodies. Certainly from the perspective of nonprofit and voluntary groups, the time involved in applying for grants has increased, but also the funding available is now more narrowly prescribed. One major foundation, for example, is now requiring a survey of potential project beneficiaries to determine need **before** submitting a proposal for funding. Depending upon the scale of the project and/or organization, these types of developmental activities are often beyond the capacity of many organizations to complete. Similarly, reporting requirements have increased as well. Whereas grants used to be awarded with relatively few strings attached, both public and private foundations are instituting much tighter accountability and oversight requirements.²⁵

By and large, private foundation funding remains peripheral to the majority of nonprofit and voluntary groups. This funding has done little to support core needs and functions of nonprofit and voluntary organizations. The trend toward capacity-building is evident among certain larger foundations but has influenced relatively few organizations. Public foundations, by contrast, are emerging as a significant new funder for the sector. Indeed, public foundations are displacing governments as primary funders in some areas of the nonprofit and voluntary sector. The evidence to date suggests, however, that the difference between these two income sources for nonprofit and voluntary groups may well be small. This is clearly an area for further study.

United Way/ Centraide

No discussion of funding and the nonprofit and voluntary sector in Canada would be complete without reference to the United Way/ Centraide. These organizations are incorporated charitable philanthropic intermediaries which raise funds to "strengthen and build communities" (www.unitedway.ca). The first United Way/ Centraide was formed in Denver, Colorado in 1887, when local community service organizations banded together to solicit support for their organizations. In Canada, the United Way/ Centraide dates back to the early 20th century: the first

federated campaigns were mounted in Toronto and Montreal in 1917. Through the early part of the century, Catholic, Protestant and Jewish charities undertook fundraising campaigns on behalf of “member agencies.” United Ways/ Centraides were, in the early years, known by various names including, Red Feather, Community Chest and United Appeal.²⁶ In the mid-1970s, community fundraising appeals adopted the title United Way and Centraide. Today, 125 United Ways/ Centraides are working across Canada. In 2001, they mobilized over 200,000 volunteers to raise \$334 million dollars for more than 7,000 funded agencies. An additional 10,000 charities received donor designated dollars through United Way/ Centraide agencies. Together, local United Ways/ Centraides raise approximately 3% of charitable sector revenues and account for 15% of volunteers.

United Ways/ Centraides are important local funders for many nonprofit and voluntary sector organizations across Canada. Their credibility in local communities is well established, reflected in the growth of campaign dollars over the decades and the commitment of countless volunteers and businesses to their activities. The number of funded agencies is relatively small compared to the number of registered charities in Canada – roughly 9% – and certainly in comparison to the estimated number of nonprofit organizations. While the perception is that the United Way/ Centraide is a major funder of the charitable sector, in reality, they fund a relatively small number of groups.

Historically, federated funding appeals worked on behalf of a small number of community groups. Local charities applied to United Ways/ Centraides to be included on their roster of “member agencies.”²⁷ Once an agency was successful, they were typically able to count on United Way/ Centraide support year after year. This situation created the impression that the United Way/ Centraide was a closed club for the lucky few. As the number of nonprofit and voluntary organizations grew – particularly through the 1960s and 1970s – the pressures on United Ways/ Centraides grew as well. Community groups outside of the funding net were critical of the United Way/ Centraide and its dominance in local fundraising. (They continue to be frustrated in their own fundraising efforts by the public perception that the United Way/ Centraide funds a broad range of community groups.) Donors were increasingly dissatisfied as well when they were not able to direct funds to the agencies of their choice. During these years, United Ways/ Centraides were able to address concerns by expanding fundraising activities and agency rosters. From the 1960s through the 1980s, campaigns “to increase the capacity of communities to care for one another” were very successful in generating additional dollars to expand and enrich United Way/ Centraide allocations. In addition, some United Ways/ Centraides helped to launch new agencies to address growing community needs. Over the past decade, however, growth in contributions has not kept pace with demand. At the same time, United Ways/ Centraides have been forced to rethink their traditional role as fundraisers in response to community and donor pressures, not the least of which has been the reduction in government funding for nonprofit and voluntary groups through the 1990s, and the demands of donors for greater recognition and control.

There have been three notable shifts in the practice of United Ways/ Centraides. First, United Ways/ Centraides are trying to reshape their image and reorient their activities around the role of “community building.” This is more than a rhetorical slight of hand. United Ways/ Centraides, to varying extents, are embracing a much more targeted approach to funding in an effort both to identify and address emerging community concerns. Many United Ways/ Centraides are not content to be “chequebooks and thermometers.” Rather, they are positioning themselves as local

“knowledge brokers” and community developers, bringing together key players around issues of concern. “Success by Six” is an example of the new approach to community development. A number of United Ways/ Centraides have initiated Success by Six programs in their communities, spearheading efforts and leveraging resources to expand early childhood programs. These United Ways/ Centraides have taken the lead in bringing together community groups, municipal and provincial governments, school boards and private companies to develop services that achieve measurable improvements in health and well-being of young children.

Success by Six also illustrates another key trend influencing United Ways/ Centraides: the focus on the “outcomes” of programming for community members. In the words of one official, United Ways/ Centraides are attempting to shift their emphasis from “funding agencies to funding impact.” The impact of outcome thinking is not confined to new initiatives. United Ways/ Centraides are redesigning their application and evaluation processes to encourage new applicants as well as established recipients to rethink their programming in terms of client outcomes. United Way of Canada/ Centraide Canada and the United Way of America have been very proactive in developing resources and evaluation tools to encourage the reorientation of funded agencies and their programs.

And lastly, over the past decade, many United Ways/ Centraides have adopted a strategy of “donor designation” to enhance their competitiveness in the fundraising market. Donor designation allows individuals or businesses to target their donation to a specific charity or cause, whether or not it is a funded agency of the United Way/ Centraide. Similarly, a limited number of United Ways/ Centraides are also attempting to develop customized packages for selected donors that provide greater control and individual recognition for large campaign contributions. United Ways/ Centraides are trying to establish themselves as larger players in the “voluntary marketplace” in order to compete on a more equal footing with other major fundraisers, such as hospitals and universities.

These changes have predictably elicited a lot of response at the community level over the past few years, both from funded agencies and those that do not receive funding. The effort to expand the roster of funded agencies to accommodate changing community needs and issues, as well as the new emphasis on funding outcomes has challenged the financial security of long-standing members of United Way/ Centraide. On the other side, community groups on “the outside” continue to express doubts about the United Way/ Centraide’s commitment to open its door to non-traditional agencies as the growth in the number of new agencies remains small. This has been a concern among agencies serving ethnocultural and visible minority communities for many years. There is also a great deal of confusion about the new direction of United Ways/ Centraides and considerable frustration with the application process and list of eligible costs in many communities. All of this has taken place against a backdrop of funding cuts from governments and other private sources and heightened donor scrutiny. At a time when governments are pulling back from organizational funding, some United Ways/ Centraides are adopting a similar approach, confining their funding to a smaller list of priorities.

It is difficult to talk about the United Way/ Centraide as a single entity because of its strong tradition of local autonomy among its 125 organizations across the country. What is not in dispute, however, is that together they are an important piece of the funding puzzle for the nonprofit and voluntary sector. In their own right, they work to engage “the whole community for the benefit of the whole

community,” and in so doing, contribute significantly to building social capital within their local communities. At the same time, the tensions that characterize the relationship between other funders and nonprofit and voluntary organizations are evident in the relationships between individual United Ways/ Centraides and local agencies and organizations as well. United Way/ Centraide funding poses its own challenges and opportunities for nonprofit and voluntary organizations.

Having described the major funding sources and mechanisms potentially available for nonprofit and voluntary sector organizations, we turn next to a new funding regime that is emerging in Canada. We detail the characteristics of this funding regime and describe what we have learned from this study, particularly from the focus groups, about the impacts of the changing funding landscape on the sustainability and capacity of a cross-section of nonprofit and voluntary organizations.

Endnotes

¹ For the purposes of this report, we are adopting the labels “nonprofit and voluntary” sector and “nonprofit and voluntary” organization. See Chapter 1.

² Some critics argue that the distinction between is so blurry as to be meaningless (Abzug, 1999). In a similar vein, others argue that nonprofit and voluntary organizations in various sectors often have more in common with for-profit or government organizations operating in the same fields, such as health (Gidron, Kramer and Salamon, 1992: 4). For the purposes of this study, we argue that the nonprofit and voluntary sector, albeit difficult to definitively define, is distinctive in its structure and operation, as well as in its contributions to society. That being said, it is important to note the differences as well as the similarities in attempting to understand the nonprofit and voluntary sector. And this is certainly true in understanding the financing of nonprofit and voluntary organizations.

³ Health Canada has sponsored the development of a set of benchmarks for the voluntary health sector that identify the characteristics of an “excellent” organization. These include organizations that: have a clear purpose and compelling vision; produce meaningful results; optimize resources for impact; maintain full accountability; are responsive and innovative; exhibit a culture of collaboration; and have a productive and positive work environment. See Linda Mollenhauer, *Benchmarks of Excellence for the Voluntary Sector*, Participant’s Workbook and Facilitator’s Guide, ALS Society of Canada, 1999.

⁴ This perspective on organizational behaviour has been called resource dependency theory. It argues that organizations that are not capable of internally generating the resources they need to survive, attempt to secure these resources from external partners. Dependences are created – some of which can be problematic. These dependencies in turn can influence the organizational goals, structures and decision-making (Aldrich and Pfeffer, 1976; Pfeffer and Salanick, 1978). There are, of course, critiques of this specific body of organizational theory – and its centrality in understanding organizational behaviour. Yet most would agree that the financial capacity of an organization and its funding relationships are central to the ability of an organization to meet its mission.

⁵ Steven Krasner defines regime as a set of “principles, norms, rules and decision-making procedures around which actor expectations converge in a given issue-area” (Krasner, 1982: 185 cited in Smith and Lipsky, 1993: 43). Smith and Lipsky use the concept of contract regime to describe the extensive government practice of contracting with nonprofit social service agencies in the United States. Their book is an important contribution to the literature on nonprofit and voluntary sector funding.

⁶ Please see Diana Leat, “Funding Matters” in *An Introduction to the Voluntary Sector*, eds. J. Davis Smith, C. Rochester and R. Hedley (London and New York: Routledge, 1995). The following discussion draws upon her article.

⁷ In practice, there is a good deal of overlap between funding sources and mechanisms. Fundraising is both a source and mechanism of funding. In our report, we do not make a strict distinction between these terms.

⁸ See Susan Phillips, “How Ottawa Blends: Shifting Government Relationships with Interest Groups,” in *How Ottawa Spends 1991-92: The Politics of Fragmentation*. Frances Abele, ed. (Ottawa: Carleton University Press, 1991). “The rationale for government funding of public interest groups is embedded in the small-l liberal notion of the benefit of both a pluralist society and pluralist state. The presumption is that strong organizations of citizens have an intrinsic value and are essentially for a healthy society ... Therefore, government funding to these disadvantaged constituencies adds an element of fairness in the representation of the spectrum of interests in Canadian society. It allows organizations of women, Natives, official language minorities and poor people to be heard among the voice of the economically powerful” (197).

⁹ There are differences between various governments with regard to funding terminology. We have elected to use the definitions of government funding vehicles developed by the Treasury Board Secretariat of the Government of Canada.

¹⁰ Contracts that are competitively tendered through an open-bidding system tend to be less complicated because their exclusive focus is value for dollar. As such, these competitions are designed to identify the lowest bidder for a service, other considerations being secondary.

¹¹ Nonprofit and voluntary sector organizations – including charities – are not strangers to earned income activity. Typically, these activities have been organized on a nonprofit basis. However, it is important to note that nonprofit and voluntary organizations are free to establish for-profit ventures, subject to regulation by the Canada Customs and Revenue Agency (CCRA). Under CCRA 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 under study by the Voluntary Sector Initiative.

¹² It is important to note that nonprofit and voluntary organizations derive earned income from government sources as well. Indeed, as just noted, many governments are now tendering service contracts on a competitive basis. However, we make a distinction in this study between sources of

income derived from government (including contracts awarded on open bidding systems) and sources of earned income derived through the sale of goods and services to members, other organizations – both nonprofit and for-profit – and the public. For our purposes, it was important to identify government sources of funding in order to assess the impact of this funding source on recipient organizations. Thus, the value of total earned income from all sources – government and non-government – will be considerably larger than is immediately evident from our taxonomy of income sources.

¹³ Dart and Zimmerman have explored the issues related to commercialization among nonprofits (Zimmerman and Dart, 1998; Dart and Zimmerman, 2000). Others such as Paul Browne and Walter Hossli have looked at the introduction of competitive tendering in home care and community-based training services respectively (Browne, 2000; Hossli, 2001). See also Tindale and MacLachlan, 2001.

¹⁴ Earned income, according to some commentators, provides a “double bottom line” that forces the manager “to live within a dynamic tension of what makes good business sense and what fulfills the organization’s social mission” (Emerson and Twersky, 1996, cited in Zimmerman and Dart, 1998: 7).

¹⁵ Kramer talks about the clash of cultures that can occur in organizations. Clashes can stem from a variety of sources, including pressures related to earned income services and activities and the ongoing processes of institutionalization and professionalization within individual organizations, as well as larger shifts in the economy and society (Kramer, 1990: 50).

¹⁶ In 1999, roughly 2% of the total revenues of Canadian charities came from investments (interests, dividends and capital gains) and 1.3% came from rental income (unpublished CCRA data).

¹⁷ Hall, M., L. McKeown and K. Roberts, *Caring Canadians, Involved Canadians: Highlights from the 2000 National Survey of Giving, Volunteering and Participating*. Ottawa: Ministry of Industry, 2001.

¹⁸ In 1998, an estimated 18% of provincial gambling revenues were set aside for voluntary and nonprofit organizations, despite public opinion that three times this figure should be set aside for the activities of these organizations (Azmier and Roach, 2000).

¹⁹ A 1995 study found that corporate donations accounted for nine per cent of total fundraising revenues reported by Canadian charities (Hall and MacPherson, 1996: 1).

²⁰ For more information, see www.pfc.ca.

²¹ The purpose of a community foundation is to build an endowment for a particular community. Donors can set up individual funds and have as little or as much control as they wish in determining which local charities benefit from their funds. Alternately, funders can contribute to the general endowment fund, the investment income from which is distributed by the foundation’s

board of directors to address community needs and opportunities. (For more information, see www.community-fdn.ca.)

²² Government foundations can take many forms. The Millenium Scholarship Foundation is a nonprofit corporation that was established by Parliament and operates under an autonomous Board of Directors. The Trillium Foundation, by contrast, is an agency of the provincial Ministry of Culture. For the purposes of this study, we refer to all government sponsored and funded nonprofit grant-making entities as public foundations.

²³ Under the *Income Tax Act*, foundations can only transfer funds to qualified donees which include registered charities, registered Canadian amateur athletic associations, registered national arts service organizations, the United Nations and its agencies, and a few other categories.

²⁴ See www.pfc.ca/Eng/aboutkey.html. Also, www.ccp.ca.

²⁵ Concerns about accountability have also been raised regarding the relationship between public foundations and governments. In some instance, people have been critical about the extent of political oversight of supposedly arms-length granting bodies. The premier of Ontario, for example, appoints all of the board members of the Trillium Foundation. Board members are responsible for all of the granting decisions. Concerns have also been expressed about the lack of financial accountability of a growing number of public foundations to public legislatures. In April 2002, the federal Auditor General released a damning report about the lack of reporting on the expenditure of public funds set aside in public foundations.

²⁶ In 1939, local federated funding appeals came together in a national organization under the auspices of the Canadian Council on Social Development (CCSD). In 1957, this group adopted the label “Community Funds and Councils of Canada.” It became an autonomous organization in 1972, later changing its name to United Way Canada/ Centraide Canada. By 1978, United Way Canada had completely separated from the CCSD.

²⁷ No agency receives 100% of its funding from the United Way/ Centraide.