

Part II: Our Findings

Chapter 3: The Emergence of a New Funding Regime

As we approach the end of the twentieth century the voluntary sector is on the horns of a dilemma. It needs to enter the market and to become leaner and fitter, more efficient and effective, if it is to survive in the new “post welfare state” mixed economy. But entering the market, with all its knock-on effects, may reduce the sector to a second tier of government or transform it into a rather ineffective part of the for-profit commercial sector ... The only certainty is the truism that in the year 2000, the voluntary sector will be a very different place from that we know today (Leat, 1995: 185-86).

The nonprofit and voluntary sector is indeed in a different place today than it was a decade ago. The powerful forces of commercialization and the increasing costs and constraints associated with funding from external funders such as government, foundations and United Ways/ Centraides are but two of the key trends that are transforming the funding landscape for the nonprofit and voluntary sector.

In this chapter, we argue that a new funding regime is emerging in Canada. A funding regime suggests that there is a unified set of values and regulations governing the relationship between the nonprofit and voluntary sector and their stakeholders, including funders (Smith and Lipsky, 1993). Participants in our study identified a diverse range of funding arrangements, yet the common threads between the experiences of environmental groups and ethnocultural associations, for example, were clear and startling. Common values and principles were evident not only in the different funding mechanisms and practices identified, but also across the country. While the mix of funding sources and arrangements varied from province to province, nonprofit and voluntary groups in Nova Scotia were struggling with similar issues to those in Quebec and Alberta. A new funding regime is emerging that threatens the financial capacity and security of the nonprofit and voluntary sector.

The funding regime that is described in this chapter is based on an extensive review of the literature as well as a detailed analysis of interviews with key informants and discussions with participants in our focus groups and case studies. Our informants paint a detailed picture of a new funding regime that is characterized by:

- increased targeting of funds;
- a shift from a “core” funding model to a “project-based” funding model;
- increased attention on funder accountability and reporting, tied to new ideas about results-based management and governance models;
- greater emphasis on partnerships in requests for proposals and choices of funding mechanisms;
- the continued perception of nonprofit and voluntary groups as largely voluntary enterprises; and

- greater emphasis on market models to encourage greater self-sufficiency and more efficient modes of operation among nonprofit and voluntary organizations.

Below we explore each of these regime dimensions in greater detail.^{1,2}

1. Funders are adopting an increasingly targeted approach to funding

“You are constantly having to juggle your mission and mandate to suit the funding agenda. It isn’t your funding agenda, let’s be clear, it is their funding agenda.” (FG: A)

There is a general perception across the nonprofit and voluntary sector that funders are adopting an increasingly targeted approach to funding. While all funding is targeted to the extent that it is always directed to certain areas or organizations, groups have noticed that funders are increasingly imposing their priorities on the sector. This is manifested in a number of ways – through highly targeted government funding programs to selected groups or on selected topics, through the movement to “donor designation” among funding appeals such as the United Way/ Centraide, through what some have called the “obsession” of funders with innovation and pilots. Where once funders and nonprofit and voluntary organizations came together to discuss community priorities and possible programming options or, as often was the case, nonprofit and voluntary groups came forward with funding appeals for projects related to their missions, increasingly organizations are reporting that funders are narrowing the scope of funding programs and opportunities.³ While it can be argued that private giving has always been targeted to the priorities of the donor, private foundations and the like are also adopting a “strategic approach” where they are more actively engaged in defining selected projects and concentrating funds for maximum effect. And public funders are adopting the same approach.

Narrowing the focus of financial support – and hence the range of nonprofit and voluntary groups funded – is linked to a number of related trends, including concerns about efficiency (whether donated dollars are having their intended effect), about accountability on the part of nonprofit and voluntary organizations, and about limits of available funds and the legitimate role of government (as the primary funder of the nonprofit and voluntary sector) in supporting “volunteer” activity. It is also tied to the ongoing debate about the role of the nonprofit and voluntary sector as an expression of community sentiment and dissent. These concerns on the part of funders are related to the growth of funding programs in the late 1960s and 1970s, programs that have been criticized in hindsight as having fuelled the growth of demand for financial support, and in this view, public debt. In the climate of fiscal restraint that characterized the 1990s, government and other funders have sought ways to scale back their commitments to the nonprofit and voluntary sector – and at the same time, calling on the sector to do more as public services in particular were cut back, devolved or eliminated altogether. As well, problems in the administration of funding programs highlighted in various reports of provincial and federal auditors, and criticism of nonprofit and voluntary organizations – especially by those critical of government’s involvement over the years (see the Bryden Report, 1994) – have come together to reinforce the shift to more highly targeted forms of funding

Targeted funding certainly begs the question as to who is best able to speak for community needs in defining funding programs. Certainly participants in our focus groups thought organizations in the

community were best able to access and respond to local needs and demands. One participant from Quebec said: “When funding sources drive the mission of the organization it means the community often loses out” (FG: CS-Q). However, the impact of funder-driven approaches to funding of nonprofit and voluntary organizations is not in dispute.

Overall, we can see a pattern of “winners and losers.” In more targeted funding regimes, certain groups and activities are marginalized. This happens across and within subsectors. Looking at private giving, for example, there are well-established biases in public support for various groups. The health charities are the number one draw for public dollars, followed by education. Anti-poverty organizations, by contrast, are near the bottom of the list. One participant noted that “the donor community as a whole tends to be very conservative – they’re not very comfortable giving money to something that isn’t a building or a disease” (FG: E). There tends to be a bias towards “bricks and mortar” over programming or administration. As well, there are biases in favour of certain topics or issues. Environmentalists note that organizations fundraising on behalf of wildlife preservation – the “bears and bunnies” – have a much easier time than those fundraising on behalf of land trusts or climate change. Similarly, among international development agencies, child sponsorship programs clearly dominate private fundraising. Half of all fundraising accrues to the four largest child sponsorship organizations; World Vision alone raised 28% of all donations in Canada in 1996.⁴

Nonprofit and voluntary groups understand the vagaries of private giving. They have historically turned to public funders, especially in instances when their causes were not popular with the general public. Yet the targeting of dollars characteristic of private giving is increasingly influencing public giving. Whole sectors of the nonprofit and voluntary sector have been marginalized. Women’s equality seeking organizations are a case in point.⁵ Other organizations are being pushed off mission as they scramble to modify or introduce new programming to qualify for new funding programs, often of short-term duration. The impact on the autonomy of the sector and in turn, the impact on the community is significant – a subject we will discuss in greater detail in Chapter 6. At the organizational level, increasingly targeted funding creates a bias in favour of more well-established organizations with the infrastructure to pursue ever-changing funding priorities. Other organizations – often smaller or younger groups – are left searching for a foothold to sustain their programming. Targeted funding – in conjunction with other funding trends – has become an extremely effective way to winnow out the nonprofit and voluntary sector.⁶ “Campaigns and crusades, even the most temperate, are not the stuff of government. In the abstract, advocacy has its place, but in the cold light of a contracting morning, it attracts little in the way of understanding and tolerance” (Smillie, 1999a: 10).

In a parallel development, other funders, including public and private foundations and federated funding appeals, are adopting a more strategic approach to their funding. Community Foundations and some United Ways/ Centraides are attempting to tailor their fundraising campaigns to fine tune their appeal to donors. Hospital foundations and universities have paved the way here, developing highly targeted fundraising packages to meet the needs of individual donors. For example, you have certain community foundations offering, for a fee, to set up “vanity” foundations on behalf of individual donors under their umbrella. Similarly, certain United Ways/ Centraides are creating opportunities for large community donors to target their funds to selected charitable activities. This is an extension of the current practice of many United Ways/ Centraides to allow for donor

designation; individual donors are increasingly able to target an area or even a specific member agency to receive their United Way/ Centraide donation. Advocates of these practices point out that greater consumer choice greatly facilitates fundraising. As the competition for donations has increased, being able to offer a more “personal” approach – and one which offers enhanced visibility for the donor – works to increase the dollars available for charities. It is also true that a more targeted approach can work to undermine the importance of generating community funds for many groups that simply don’t have the same appeal to individual donors. Many John Howard and Elizabeth Fry Societies – agencies that do tremendously important community work – rely upon donations from United Ways/ Centraides. As more funds are targeted by donors through a community-based fundraising effort, fewer funds may be available for “unpopular” causes. It raises profound questions about the role of community-based fundraising appeals in the first place.

The same type of targeting is also evident in corporate donations. Many focus group participants commented that corporate donors almost never give donations anymore. Rather, as we noted in Chapter 2, corporations are seeking out sponsorship opportunities – funded through their marketing budgets – tying their corporate and philanthropic objectives together. This is a huge shift for nonprofit and voluntary groups as corporations are in effect buying exposure and the right to use the name of a given charitable or nonprofit sector concern to advance their profit-making goals. This presents large ethical dilemmas for nonprofit and voluntary groups as they assess the ramifications of pursuing commercial ventures of this sort. Certainly, sponsorship is much more common in certain subsectors of the nonprofit and voluntary sector, such as arts and culture and recreation, rather than in social services. But even here, we found that groups are entering into these agreements – conscious of the risks, the largest being the possible risk to their reputations.

Nonprofit and voluntary organizations across the spectrum did not like sponsorship arrangements. Many stated that they pursued sponsorship agreements because it was the only funding available from specific donors. Because sponsorship arrangements can be complex to negotiate and fulfill, they typically favour those nonprofit and voluntary organizations that have the infrastructure to pursue and conclude these contracts. On the whole, the nonprofit and voluntary groups surveyed felt that corporate donors were demanding a great deal for often very little money. More than one group said they had lost money on these deals, as efforts to profile corporate donors through a program or concert, for example, were more costly than the funding provided. One national social service organization undertook to administer a corporate scholarship program for one of its sponsors that did not contribute to its mission or bottom line. Another group stated: “From the corporate sector, it’s flavour of the month – pursuit of pet projects” (FG: A). Groups in the arts and in the recreation and sports fields did speak positively about their long association with many corporate donors. The trend to sponsorship away from corporate donations, however, was seen as problematic, yet another example of a funder-driven change that is highly risky and costly from the perspective of nonprofit and voluntary groups.

2. There has been a marked shift away from a “core” funding model to a “project-based”/ “contract” funding model.

One of the difficulties in mounting a project of this scope is to settle on a common language. The language of funding predictably varies across the country from jurisdiction to jurisdiction. While many organizations did not speak about “core funding” *per se*, everyone spoke about the impact of

the shift from funding organizations to pursue their mission through mechanisms such as grants, to contracting with organizations to provide specific programs or services. With this change in focus, funders are increasingly narrowing the range of organizational activities that they are willing to fund; specifically, they are narrowing their focus exclusively to costs related to a given project or program and extending greater financial control and administrative oversight through new funding mechanisms. The impact of this shift has been profound for nonprofit and voluntary organizations and their capacity to pursue their goals. This trend graphically illustrates that it is not just the level of funding that is critical to financial and organizational capacity, but the way in which funding is delivered.

Generally speaking, there are three key distinctions drawn between “core” funding models and “project-based” funding models, the terms we have used in our study. The first is that “core” funding refers to financial support that covers basic “core” organizational and administrative costs in addition to program specific requirements. Providing funding to an organization to operate its own chosen programs is a clear example of core funding. By contrast, program or project funding tends to focus exclusively on project costs. An organization is typically allowed to include a portion of administrative costs such as phone or rent in a project budget, but there are strict terms and conditions detailing what is an acceptable expenditure and what is not.

The second important distinction between a core and project-based funding model is the degree of autonomy that the organization exercises. Nonprofit and voluntary organizations under a core funding arrangement retain a significant degree of independence in selecting and implementing program and organizational objectives. Within a project-based funding model, the control of the content generally lies with the funder. This is why earned income and private donations are usually referred to as core funding; because once the dollars are in hand – no mean feat – the organization is at liberty to use those funds as they wish to pursue their mission. Similarly, grant income is usually considered to be a form of core funding. Lastly, core funding tends to be of longer duration, and is considered a more predictable form of funding. Project funding is anything but secure and is invariably short-term. Organizations find themselves gearing up on a project only to conclude, then starting over again with yet another activity.

The language of core and project funding, then, is shorthand for a complex set of changes – arguably the most important – that are coming together under a new funding regime. It is not surprising that there is often some confusion in describing the differences between these two competing funding models and the implications of each for nonprofit and voluntary organizations. We will discuss the three dimensions of the project-based funding model below. It is important to note that these changes obviously affect those nonprofit and voluntary organizations that apply for and receive funds from governments, granting agencies, and/or public or private foundations. Thus, this is a trend that does not directly affect all nonprofit and voluntary organizations equally. That being said, however, the shift to “project thinking” – and all that is implied with this reorientation on the part of the dominant funders of the nonprofit and voluntary sector – speaks to the broader forces driving change in the sector: the privatization of risk; the erosion of social cohesion/ civic engagement/ community-mindedness; and the marketization of social and economic relations. The hegemony of project or contract funding at the very least changes how all organizations go about securing and balancing the funding sources and resources necessary to foster and sustain operations.

2 (a) Funders are now very reluctant to fund organizational administrative costs that cannot be directly tied to a project or program.

“Five years ago, the money we got to deliver these government programs actually covered the costs – now I’m not nearly covering the cost of operating the building. In reality, we’re subsidizing the government programs” (FG: CS-NB).

From a funder’s perspective, the shift from core to project-based funding is driven by the desire for greater control over the activities of nonprofit and voluntary organizations, reduced risk of failure, and enhanced accountability for the expenditure of public dollars. Under a core or organizational funding model, funders typically provide funds to support the work of the group as a whole, secure in the knowledge that these organizations are pursuing important social objectives. It is a model that respects the boundary between the nonprofit and voluntary sector, state and market, where the unique “value-added” of nonprofit and voluntary organizations is recognized, particularly its role in fostering social capital (Putnam, 1993). Funders are interested in the impact of the whole organization in its community.

By contrast, a project-based model shifts the focus of attention to specific programs or activities and away from the whole organization. It effectively turns the adage “the whole is greater than the sum of its parts” on its head. Funders are interested in a specific set of outputs or outcomes – only one part of the whole. Funds are provided for the single activity or program in keeping with funding priorities established by the funder – very commonly at funding levels that do not actually cover the program costs. Strict conditions are typically established that govern the conduct of the project and restrict the use of funds for selected purposes. Expenditures and program outcomes are then closely monitored through frequent project and financial reports to the funder.

It is no surprise that nonprofit and voluntary organizations are having increasing difficulty in providing the infrastructure necessary for effective program delivery under this myopic approach to organizational funding. It would be one thing if nonprofit and voluntary groups entered into funding agreements where non-direct program costs were built into the pricing structure of the contract. But funders take a narrow view of allowable expenses and many don’t allow organizations to charge an administrative fee at all.⁷ The reasonable idea that nonprofit and voluntary groups should devote as much of their resources as possible to their varied programs has turned into the unreasonable demand that they commit almost everything.⁸ As a result, non-program functions are underfunded. This include things as basic to survival as organizational management, human resources management and volunteer coordination, board governance, research and evaluation, and costs related to maintaining financial reserves for salaries and wage liabilities, capital replacement or other contingencies (for example, when project funding is late and staff have already been hired). Similarly, there is no understanding or room on cash flow reports to include activities related to staying connected to clients and beneficiaries, community members or other nonprofit and voluntary organizations. There is certainly no room to participate in policy development discussions at the request of funders – most frequently governments. These activities cannot be easily itemized and directly attributed to specific programs.

From the perspective of the funder, there are real issues related to how non-program costs are defined and allocated across the various program activities of nonprofit and voluntary sector

organizations. Yet focus group participants felt that the current state of affairs now verges on paranoia. One participant likened the current approach to non-program cost funding to playing musical chairs. Funders are desperate not to be the last one standing, not to be seen to be funding administrative or infrastructure costs. Administration has become a “dirty word” in the world of nonprofit and voluntary sector financing.

One key informant to this project recalled hearing a story about the length of time it had taken for the majority of businesses operating in the World Trade Centre to resume business following the devastation of September 11th: approximately eight hours. This was because many of these businesses had duplicate resources off-site and the ability to mobilize these resources quickly. “Redundancy” is an important principle for successful businesses precisely for this reason. Private business would never consider applying for a service contract without factoring in the costs of running their organization, including the need for reserves to weather the ups and downs of the business cycle. Yet nonprofit and voluntary sector organizations are expected to do so.

Comparison of Voluntary and Private Sector Contractual Arrangements

Not-for-profit – Voluntary Sector Practice	For-profit – Business Practice
<p>Fixed price contract (no profit allowance) -cost overruns are the organization’s responsibility -under-spending is recovered by the funder</p> <p>Implications – The organization cannot build up reserves to cover program deficits. Every dollar overspent on a program puts an organization in debt. The organization has decreased resiliency and organizational capacity.</p>	<p>Fixed price contract includes profit (ranging from 7-20%) -cost overruns are the organization’s responsibility -under-spending is retained by the organization (profit)</p> <p>Implications – For-profits can build up retained earnings out of surplus or profit. They can use these funds to cover program overruns in other areas. Organizational resiliency and capacity are built into funding structure.</p>
<p>Non-direct program costs (all costs except frontline staff salaries are limited to 10% or similar figure, depending on the program and regardless of actual cost.) Funders expect the organization to cover the shortfall with a “contribution.” Most overhead costs are not considered for funding.</p>	<p>Non-direct costs and overhead are negotiated into the pricing structure of the program with a profit margin.</p> <p>Funders expect and allow the business to cover its costs in the pricing structure.</p>
<p>Contract renewals do not necessarily include a review of the costs of a program. Contracts are often renewed for a pre-determined fixed amount. Actual increases in operating costs and staff compensation are often not considered when determining the renewal budget.</p> <p>Implications – Organizations may have difficulty meeting legislated obligations such as pay equity. Staff are hired on short-term contracts to keep compensation low, increasing staff turnover. The organization must spend time searching for donors to support under-funded contracts. The organization may have limited ability to absorb additional costs internally.</p>	<p>Contract renewals must keep pace with expenses or the business will withdraw from the program. The profit allowance gives the business more capacity to cover funding shortfalls until contracts can be adjusted.</p> <p>Implications – For-profit businesses have more capacity to absorb losses in the short term. Indeed, when competing against the voluntary sector, operating at a loss in the near term is one way of gaining market share.</p>
<p>Commitment to Mission Voluntary sector organizations are committed to the mission and tend to be reluctant to abandon a service, notwithstanding inadequate funding. Funders have benefited from this commitment.</p>	<p>Commitment to Profit Funders understand and accept that for-profit businesses need to make a reasonable profit or they will stop providing the service. Funders respect this approach.</p>

Source: Lynn Eakin, *Supporting Organizational Infrastructure in the Voluntary Sector*, Background Paper Commissioned by VSI Secretariat, May 2002: 11.

There are funders who understand and take seriously the importance of funding infrastructure. CIDA has had an “overhead rate policy” that recognizes indirect costs as a necessary part of the organization’s operation or business. It is understood that organizations will have unique overhead costs depending on their operating environment or organizational structure, and that an acceptable overhead rate will not reward inefficient operations, nor will it punish efficient operations (Eakin, 2002: 3). This policy is currently under review, however. The United Way of Greater Toronto is one of many United Ways/ Centraides that will also fund the infrastructure or non-program costs of its member agencies. The Muttart Foundation in Alberta provides multi-year grants to assist health charities with a range of organizational development activities. To this end, the Foundation provides core funding where deemed necessary to support efforts to become “more effective.” However, to date, most nonprofit and voluntary organizations continue to have difficulty securing funding for

their core activities, activities that are critical to the success and long-term sustainability of their organizations.¹⁰

2 (b) Requirements for funding and conditions on the receipt and expenditure of funds have increased substantially with the shift to contract funding. There are more strings attached.

“It’s not even about more money. Just give us more discretion” (FG: E).

In the push to “rethink” government through the 1980s and 1990s, much has been written about the drive to contract out public services to for-profit and nonprofit providers.¹¹ In Canada, there is now an extensive literature on the impact of contracting out, certainly for the workers involved, but also for the Canadian public in terms of the access and quality of service (see Browne, 1996; Armstrong, 1997; Jenson and Phillips, 1996; Evans and Shields, 2000). Contracting out has been a key strategy for reducing the size of the state and for introducing market principles into areas of service delivery previously confined to the public sector.

However, governments have not only been contracting out public services, but also “contracting in” selected services. In this instance, services once provided by independent nonprofit and voluntary organizations are increasingly being “standardized, more narrowly specified, and brought under tighter government control and supervision through the vehicle of purchase-of-service contracts replacing grants-in-aid” (Nowland-Foreman, 1998: 115). The purchase-of-service contract – or similar variations such as federal contribution agreements – is certainly not new in Canada, however, the scale of their use today is new. Josephine Rekart, in a study of social service agencies in British Columbia, found that the use of contracts more than doubled between 1982 and 1989, displacing grant income (Rekart, 1993).¹² Similarly, Reed and Howe find greater reliance on contracts (or purchase-of-service agreements) than on grants in their Ontario study (Reed and Howe, 1999a).¹³

Garth Nowland-Foreman, writing about New Zealand, outlines what he calls “funding technologies” that change over time:

1. donations to worthwhile organizations (list approach);
2. program grants in response to submissions (submission model);
3. program grants allocated on the basis of some form of service planning (needs-based planning);
4. tendering for contracts to undertake specified services (purchase-of-service contracting); and
5. funding to individuals to purchase services from accredited providers (vouchers) or the markets (cash allowances) (Nowland-Foreman, 1998: 113).

This continuum of funding mechanisms helps put the debate about contract funding into perspective. Nowland-Foreman argues that each mechanism offers advantages and disadvantages from the perspective of both funder and recipient. Private donors are certainly at liberty to choose worthy organizations to support. Problems arise, however, when governments or other public funding bodies such as foundations behave like private donors. Competition for grants addresses the problems related to discretion, which is the hallmark of the donation model; it ensures due process and greater fairness to organizations – particularly new groups – appealing for funds. But it may not be the best way to determine the greatest need. Thus, needs-based regimes evolved particularly in

areas such as health and social services. These funding models identified and supported many emerging social issues, such as women's shelters, community development organizations and social housing through the 1970s and 1980s in Canada. However, as Nowland-Foreman points out, it is only a small step between a needs-based funding regime to one where the same funders identify and define the types of service responses that they consider most appropriate – the dominant funding model today. Funders are moving beyond their role as project developers to “arms-length” purchasers of service.

Not all nonprofit and voluntary organizations will follow this sequence outlined by Nowland-Foreman. Indeed, organizations – individually and within their various fields – may rely on a number of these funding mechanisms at any one time. Arts organizations, for example, still have access to very important granting agencies. But it is fair to say, supported by evidence gathered for this report, that there is a critical shift underway and gathering momentum around contractual funding. Far from reducing the presence of government or other funders in the activities of the nonprofit and voluntary sector, “contracting in” extends greater control and administrative oversight (Smith and Lipsky, 1993).¹⁴

Certainly, focus group participants agreed that appropriate controls over the allocation and expenditure of funds were absolutely necessary. Accountability – to funders, members, clients and beneficiaries – was considered essential to the success of any organization. Groups did not question the need for effective accountability mechanisms. They did, however, question the disproportionate emphasis on accountability to funders – increasingly at the expense of accountability to organizational members and the people they serve – through onerous and time-consuming administrative and programmatic conditions. The prohibition of moving funds between one item in a project and another as the project evolves was just one of countless examples of funders becoming increasingly involved in the day-to-day operations of nonprofit and voluntary groups, while maintaining an artificial distance through the contract mechanism. Other examples included: requests for staff salary records and time sheets; setting out the educational requirements of program staff in program contracts; insisting on separate program or project accounting systems; and requiring specific types of acknowledgement (i.e., displaying the corporate logo of the program funder in the offices of the recipient organization). Jennifer Wolsh has likened this process to the creation of a “shadow state” – “autonomous” nonprofit and voluntary sector organizations may be on the front line, but funders are calling the shots behind the scenes (Wolsh, 1990).

We will take up the question of accountability in greater detail below. Suffice to say at this point that it is the nature and weight of contractual requirements – more often than not, established without input from nonprofit and voluntary organizations – that are challenging the ability of nonprofit and voluntary organizations to define and react to the unique needs of their community, and that create a divide in the sector between organizations that are able to operate within the confines of this emerging contracting regime and those that cannot. The one-sided nature of contractual arrangements between organizations and their funders is a source of huge frustration. The impact of project or program funding may well assist selected nonprofit and voluntary organizations to become successful – inexpensive – businesses and/or contractors. It is debatable whether these same organizations will achieve the same success in carrying out their role as nonprofit and voluntary organizations – a role that is purportedly valued and respected by funders themselves.

2 (c) At the same time, funders are providing funding for shorter periods of time. The funding that is available is increasingly unpredictable.

“There are dollars out there that we’re not going after because we don’t have the resources to go after them but also because we can’t even use them in the time periods that are actually required” (FG: CS-N).

Above, we discussed the implications of shifting from a core funding model to one that is project-based. Under the emerging funding regime, dollars are increasingly tied to discrete projects, and organizations are prohibited from using project dollars to cover their essential administrative functions. Moreover, there are more terms and conditions on the receipt and expenditures of funds than in the past, extending the control of funders still further into the day-to-day operations of the organization. Lastly, the shift to project-based funding has also been associated with shorter funding time frames and greater unpredictability regarding initial project funding – that is, whether a project will be funded or not and at what level – and its subsequent renewal.

There are many patterns of funding evident under a project-based funding model. For instance, an organization can be reliant on one project or many; they can be fairly certain of contract renewal under purchase-of-service agreements or locked in a cycle of short-term contracts. Our own typology of funding profiles, discussed in the next chapter, outlines the diversity of arrangements available among the organizations surveyed. Yet regardless of funding pattern, they all expressed concerns about the inherent instability of the project funding model. Project funding typically does not come with guarantees of renewal. More often than not, funding is awarded for a specified period of time, usually with the proviso to seek alternative sources to sustain the program over time. Even as an organization gears up to deliver new services or programs, or to mount another season of theatre, for example, it has to be looking down the road – a few months, or perhaps a year – for new sources of support. Nonprofit and voluntary organizations cannot afford to focus on the present; their survival depends on being ever forward-looking.

The stress introduced with this funding model, especially for organizations reliant on a single source of funding, affects virtually every aspect of the organization. First and foremost, there is the fear that the organization will shut down when the project funding comes to an end. Certainly, many organizations in our focus groups spoke about organizations they knew had closed when alternative funding sources could not be located. Others spoke about scaling back services or programs – often despite demonstrated community need – due to cuts in funding from one or more funders. As a result, energy is continually diverted from program activities as managers attempt to “[attract] new projects, [to roll] completed projects into new ones, or [to convince] funders to extend existing projects” (Brown and Trout, 2000: 9-10). The shorter the funding term, the more intense this cycle of activity becomes, creating higher levels of stress, diverting even greater amounts of time away from the basic work of the nonprofit and voluntary organization.

Living on project funding is a very fractured and stressful existence for all involved. The short-term nature of project funding simply creates insurmountable barriers. There are serious implications for staff and volunteers, including increased workloads related to seeking out, applying for, and administering project funding, as well as the stresses related to staffing up and staffing down projects. There are also critical impacts for clients or beneficiaries. Many groups spoke about the

difficulties related to initiating a much needed program, only to have the project funding discontinued. Project funding is a “stop-go” funding mechanism that wreaks havoc with community expectations and needs. The constant churning of short-term projects seriously undermines the ability of the organization to meet day-to-day responsibilities and to plan for the future. Ideally, nonprofit and voluntary organizations attempt to seek out longer-term funding arrangements for activities central to their mission. Yet these types of funding opportunities are few and far between. It has come to the point when many focus group participants indicated that they would rather scale back their activity than take on short-term project funding, even if funding is available for an activity that would clearly benefit the organization and the community.

3. Reporting requirements have also increased with the shift to project-based, contract funding and as part of new thinking about accountability and efficiency.

“There are contradictions between accountability to your funder and the great deal of energy it takes that distracts from accountability to your beneficiaries” (FG: CS-N).

All of the focus group participants commented about the increase in reporting requirements that has accompanied the shift to a project-based funding model. Not only was the process for securing funding more onerous and complicated, reporting on the progress of selected activities and on the expenditure of allocated funds has increased as well. Fulfilling such reporting requirements is now one of the key terms and conditions of both private and public sector funders. The work involved in producing program and financial reports to various funders can impose a high burden on nonprofit and voluntary organizations that often struggle to meet these funding requirements with few resources – either financial or professional – to commit to the task.

The increase in reporting demands is part of a broader process of rethinking organizational accountability and efficiency. Whether you are a soccer club, choral group or centre for newcomers, nonprofit and voluntary organizations are being asked by funders and the general public to demonstrate the effectiveness of their programs and the efficiency of the organization itself as the “delivery agent.” This trend is tied into the shift to a more competitive, contract-based funding regime, one that has had an enormous impact on the nonprofit and voluntary sector, not just in terms of the physical work involved in producing numerous and weighty reports for competing funders, but also through the imposition of a new accountability/ management model that influences all aspects of the organization.

Concerns with the accountability of nonprofit and voluntary organizations have followed fast on the heels of concerns about public accountability more generally. The nonprofit and voluntary sector has been swept up in efforts to “reinvent” government. It was a short step from governments reinventing themselves to demands that nonprofit and voluntary organizations should likewise reinvent themselves. The shift to “outcomes” thinking has been generally welcomed in the nonprofit and voluntary sector. The issue at hand, however, is *how* “outcomes” thinking has been manifested through concrete accountability mechanisms. It is no coincidence that funders have embraced project-based funding to introduce more extensive monitoring and evaluation in the pursuit of “value for money.” The contract affords funders greater control over the work of an organization in the name of enhanced accountability by explicitly tying financial support to specified outcomes and establishing consequences for “non-compliance.” Evidence gathered for this report suggests that the

use of contract funding mechanisms has exacted a very high price on nonprofit and voluntary organizations, while adding little to what we know about the contribution of nonprofit and voluntary organizations generally or the success of individual organizations or initiatives in particular.

Nonprofit and voluntary sector organizations are constantly being accused of being “unaccountable.” The charge is clearly false. All voluntary organizations are accountable to governments, funders, staff, members and volunteers, the media, partner organizations, and most certainly, beneficiaries. The problem for many nonprofit and voluntary sector organizations “is not a lack of accountability, but *balancing* accountabilities and keeping the ultimate impact of their work at the top of the agenda” (Smillie, 1999a: 21). And while nonprofit and voluntary organizations rightly claim that their primary accountability is to their beneficiaries, in reality, the greatest effort is now expended on reporting to funders.

The roots of this problem are complex. The experience of international development agencies is instructive in this regard, revealing the contradictions inherent in the new accountability regime.¹⁵ During the last decade, there has been a push within international development toward address what has come to be known as “strengthening aid effectiveness” in response to a host of concerns, one of the most important being whether aid organizations have been, or are currently, effective in actually promoting development. This may seem an obvious focus of attention, yet until recently the scope of non-governmental organization (NGO) activity was relatively small. Aid was often as political as it was developmental. With a huge increase in the demand for aid dollars in the 1990s, and as importantly, the increasing reliance by governments on external organizations for the delivery of service, many are now questioning what had been accomplished in the first three “Decades of Development” in order to point the way ahead.

Concerns about aid effectiveness have been raised in Canada as well, at the Canadian International Development Agency (CIDA). In a highly influential 1993 report, the federal Auditor General was very critical of the management and accountability frameworks used by CIDA to assess the impact of international assistance programming. In response to the Auditor’s Report, CIDA began to develop new models of management and accountability in keeping with the “reinventing government” approach being promoted in the United States at the time.¹⁶ In 1996, CIDA adopted its own policy on “Results-Based Management” (RBM) which is still in use today. The policy framework states that:

Results-based management is integral to the Agency’s management philosophy and practice. CIDA will systematically focus on results to ensure that it employs management practices which optimize value for money and the prudent use of its human and financial resources. CIDA will report on its results in order to inform Parliament and Canadians of its development achievements.¹⁷

Thus, the primary focus of the framework is to identify the “results” or “outcomes” of development programming, that is, “describable or measurable change[s] resulting from a cause-and-effect relationship.” To this end, CIDA states that it will:

- define realistic expected results, based on appropriate analyses;
- clearly identify program beneficiaries and design programs to meet their needs;
- monitor progress towards results and resources consumed, with the use of appropriate indicators;

- identify and manage risks, while bearing in mind expected results and the necessary resources;
- increase knowledge by learning lessons and integrate them into decisions; and
- report on results achieved and the resources involved.

In theory, the goal of results-based management is to learn from the past in order to be successful in the future.

Initially, Canadian development organizations were positive about the new focus on results and evaluation embodied in CIDA's results-based management framework. However, the way in which CIDA has implemented results-based management, despite piloting RBM in different countries before adopting it wholeheartedly, has posed difficulties for Canadian organizations attempting to understand and operate within the confines of the new framework.¹⁸ These difficulties arise from the inherent contradiction embedded in results-based management between its function as an accountability system and its function as a management improvement system. In the absence of a clear understanding of how to measure success or failure, coupled with the demands on funders to answer to their own stakeholders (in this instance, to Parliament and thus Canadians), the overarching goal of results-based management is compromised, as funders attempt to exert greater control over contracting organizations through increased monitoring and verification activities. The critical boundary between evaluation and monitoring is thus broken down, resulting in what Michael Power has called an "audit explosion" (Power, 1994: 34, cited in Smillie, 1999a: 31).

The experience of international development organizations dealing with the audit explosion is similar across nonprofit and voluntary groups. Participants in the focus groups spoke about two interrelated concerns with the implementation of results-based management and accountability systems: issues touching process and content. First, while supporting the goal of enhanced accountability to all stakeholders, nonprofit and voluntary organizations expressed extreme frustration with the intensity of funder scrutiny. Many spoke about increasingly intrusive program officers calling throughout a project, asking about lunch receipts for a meeting, or whether the receptionist at the organization was actually contributing to the project in a meaningful way. They understood – and supported – the move of funders, and governments in particular, to establish and link standards to project contracts to guide program delivery. Yet they drew a line at what many described as the direct challenge to their authority to conduct the program or project independently – all in the name of enhanced accountability.

Of equal importance were frustrations related to attempts to successfully balance competing reporting requirements of various funding programs. Stress was particularly high where organizations were struggling to fill out different performance and financial reports for different funders, at different times. Not only were reporting formats and schedules inconsistent – even for the same funder – many groups also complained that there was no real sense of proportionality in reporting. "One-size-fits-all accountability is what it is" (FG: E). Small organizations with contracts worth \$10,000 were required to provide the same kind of information as organizations with contracts worth a million dollars. (Organizations also reported frustration with the application process, again where applications for relatively small sums of money required the same level of documentation as applications for much larger amounts.) This problem was compounded by the

perception that funders simply didn't care about the organizations' other responsibilities and obligations as long as their reports were submitted on time.

The second concern was about what exactly government and other funders were actually monitoring. Results-based management is intended to shift the focus from thinking about outputs to considering outcomes (medium-term) and impacts (long-term). The central idea is to identify a direct causal relationship between individual projects or programs and the resultant change over time. But how to do so? First, there is the problem of focusing on "the project," a problem that has emerged with the large-scale shift to a project funding model. "In return for clear aims and objectives and a discrete set of inputs – money, technical assistance, equipment – the implementer expects to achieve clear, quantifiable results within a designated period of time" (Smillie, 1999a: 29). But projects don't exist in isolation and project activities aren't always reducible to discrete measurable units. Certainly, project "outcomes" are not always immediately evident within the timeframes set out in funding agreements.

Thus, nonprofit and voluntary organizations and funders are caught up in an exercise of quantifying results. This difficulty is especially acute in social services and the like, where measuring social development outcomes can be very difficult. In Reed and Howe's study of social service agencies in Ontario, they noted that many executive directors were frustrated.

Most ... did not object to the time expended as much as to the nature of the performance measures which were increasingly being demanded. Most Directors told us that they found the measures and records which were called for were very much of an accounting nature. While they recognize and support the importance of maintaining standards of accountability to the public in terms of dollars spent, many felt that other elements of their services and of clients' needs also warranted measurement and study. Executive Directors maintained that the data, reduced to 'units' and costs, told little about their agency's true effectiveness in addressing clients' needs. Executive Directors spoke of the widget model and of the frustration of being forced to consider treatment units as comparable which they believe are not comparable. In spite of all the record-keeping and reporting, some feel that governments and other funders are not getting the real information that is needed to gauge effectiveness. (Reed and Howe, 1999: 36-37)

One participant in our environment focus group expressed the same frustration: "I see it as the government having adopted a commerce model where groups are having to prove their market relevance all the time – so you are not justifying yourself in terms of output or quality – but by simple denominators of dollars or numbers of people – which are crude indicators" (FG: E). To summarize, evaluation is reduced to project monitoring, which in turn, focuses disproportionately on project expenditures and achieving cost efficiencies – not project outcomes.

Ian Smillie makes the point that measuring social development or sustainability or social capital or community involvement in no mean feat (Smillie, 1999a: 23). It is not surprising that the very difficulty in quantifying these kinds of results under a results-based management framework has tended to force funders to push for even greater reporting at the project level. Looking at the experience of development organizations, the Canadian Council for International Cooperation has argued that RBM is "submerging strategic goals for many CSOs [civil society organizations] in a maze of artificial and reductionist identification of 'results'."¹⁹ The elevation of monitoring and

verification creates an “audit/accountability mentality” concerned with outputs and “fault finding rather than being forward looking.”²⁰

Focus group participants from various fields of the nonprofit and voluntary sector all raised concerns about monitoring and evaluation. Despite the rhetoric of the results-based management framework, very little evaluation is actually being done in the sector – either on the part of funders or, as importantly, on the part of the organizations themselves.²¹ This is a real problem. Many organizations are cautious, even resistant, about evaluation of any kind.²² They fear, with some justification, that evaluations done will not be used to improve their service, but rather will serve as a rationale for funding cuts. The organizational profile presented in Chapter 7 clearly demonstrates the consequences of failing to meet expectations set out in a performance contract. This organization lost a significant portion of its funding because it was unable to meet an outcome measure that it had been asked to identify at the beginning of an innovative project. The organization was not allowed to transfer funds to more promising areas of the project, and staff were laid off. Long-term outcomes were sacrificed because the groups was not able to meet the strict terms set out in its contract.

It would be one thing if failure for taking risks in implementing a new service or program was tolerated. But focus group participants report that funders today – despite the rhetoric about the importance of innovation – are very unwilling to take risks or to tolerate failure. “Overall, we see much less risk-taking, groups are stripped right back as all money is devoted to programs and productions” (FG: A). Moreover, there is little if any support for organizations actually carrying out any type of evaluation. These types of “non-program” costs are regularly disallowed under available project funding programs. You have a situation in which groups are locked into an often intense competition for funds from the public and institutional donors. To win attention, organizations feel compelled to promise potential funders the sun and the moon in terms of project outcomes, only to run into trouble down the road when they cannot meet unrealistic expectations. According to Smillie:

The great expectation system is endemic in the financing of NGOs throughout the OECD member countries. It creates a barrier between NGOs and the individuals and institutions that support them. It promises results that cannot be delivered, it buries problems, curtails any serious learning from failure, and can turn whatever evaluation there is into an adversarial control mechanism, rather than one that might promote better social development. It is, in fact, self-defeating. (Smillie, 1999a: 28)

Smillie is talking about international development organizations and the barriers that the current results-based management frameworks represent as they have been implemented in Canada and elsewhere. He could just as well be talking about the nonprofit and voluntary organizations that participated in our study. The almost exclusive focus on monitoring – in place of mutual evaluation efforts – seriously compromises the accountability of nonprofit and voluntary sector organizations to all of their constituencies and works to erode the capacity of organizations to meet mission.

4. Funders are increasing their emphasis on “partnerships,” both in their requests for proposals and their choice of funding mechanisms.

4 (a) Project Partners

“Building community is no longer seen as an important goal – the whole emphasis on partnership is leading to ‘friendraising’ ” (FG: A).

The introduction and proliferation of the project funding model is tied to a number of trends that define the emerging funding regime. One that has received a good deal of attention recently is the whole theme of “partnerships.” Increasingly, public and private funders are encouraging nonprofit and voluntary groups to form partnerships or coalitions to advance their work. Nonprofit and voluntary groups have always worked with a variety of partners – including community representatives, other nonprofit and voluntary organizations, local businesses and funders – to develop and implement programs. As well, nonprofit and voluntary organizations have a long history of joint advocacy, working with various communities of interest to promote change, such as alleviating child poverty or expanding public support for the arts. What is new is the call by funders to submit joint funding proposals in an increasingly wide range of areas.

Focus group participants were of two minds about this trend towards project partnerships. Most were very positive about the potential for partnerships and said they were currently involved in a host of partnerships, such as referring clients to other service providers, for example, or working with other community groups to raise funds for local conservation initiatives, or providing music workshops in local schools. There were other examples of partnership at work as well. One national organization provided space at a nominal fee to a smaller local group with limited resources. Another actually sought out funding on behalf of smaller groups that did not have the same capacity to secure funding. Another shared administrative supports with arts organizations located in the same building. Sports groups came together to set up their own charitable foundation to assist individual organizations with their fundraising. These examples show the sector’s willingness to partner. Indeed, partnership has been a defining feature of the nonprofit and nonprofit and voluntary sector, as each organization calls upon the support and energy of a number of partners to realize their mission.

Many nonprofit and voluntary groups, however, were worried about the recent trend of funders to impose partnerships on the sector. From the funder’s perspective, partnerships make sense on a number of levels. First, there is the belief that partnerships are the most effective way of developing and implementing programs and services to meet the needs of the community. Funders want to ensure that projects are well connected to their communities and that all the interested parties are brought together around the same table. The idea is to create critical mass behind a project, in order to enhance the likelihood of good project outcomes. There are other considerations at play as well. Insisting on partnership is a useful way for funders to manage the proliferation of demands for funding coming from the sector and to spread the available funds more broadly across a range of organizations. At the same time, insisting on partnerships narrows the number of demands for the time and resources of funders.

As stated earlier, nonprofit and voluntary sector groups are used to working in partnerships, but there is a critical difference between the examples noted above and this new emphasis from funders on partnering. In the first case, organizations are willingly choosing to forge partnerships to pursue their goals and objectives; in the second, partnership is imposed. Focus group members made the point that partnering simply wasn't efficient or effective in all cases. This was particularly true when the scale of project funding was relatively small. In addition, considerable time and resources are needed to establish and sustain successful partnerships – everything from agreeing on the division of responsibilities, to the resource commitments in terms of staff, space and equipment, to decision-making and conflict resolution processes. Organizations are expected to undertake this work, drawing on their own financial and human resources. Funding is rarely available to develop and sustain program partnerships. One group noted that a great deal of time and energy was necessary to initially establish partnerships with selected organizations, but once the details were worked out, it was easier to craft project proposals as new funding opportunities arose. The key, this executive director said, was building trust with potential project partners over time, and through a variety of forums. Problems arise when partnering is forced or imposed by the funder; potential benefits are lost for program users as well as for participating groups.

In an increasingly competitive funding environment, partnership can become another funding hurdle as groups seek out “paper” partners to meet the terms of the funding competition. Ethnocultural organizations complained about this in particular. In the absence of supports to foster and sustain partnerships, organizations don't always have the time to develop the trust necessary in order to create truly effective programming. Within the project funding model, there is little room for this kind of developmental work. In effect, it privileges groups with established connections over newer organizations, often working in newer fields.

Moreover, the increasingly competitive funding environment can work against developing these types of relationships because groups may be reluctant to cooperate with their competitors. Focus group participants varied in their responses on this point. Participants from Nova Scotia emphasized that competition was not an issue for them in their rural community. Partnership was a key organizing strategy because there were comparatively few nonprofit and voluntary groups in the area; working in partnership helped to bridge the gaps. This wasn't true, however, for social service, environmental, or arts and cultural groups, whose representatives spoke about the sometimes corrosive impact of competition on partnerships in their various fields. As with accountability, what may well look good in theory can be undone in practice.

4 (b) Matching Contribution Funding

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

The other dimension of partnership that demands attention is the increasing requirement by funders that nonprofit and voluntary sector organizations applying for project support seek out multiple funding sources under matching funding agreements. Matching funding agreements are mechanisms designed to provide a portion of the funds necessary to mount a project. These mechanisms are not new. CIDA, for example, has used matching grants to fund international development organizations since the 1960s. Development organizations were encouraged to

approach CIDA with program proposals for matching funds. CIDA, in turn, would provide a portion of funding, the level of which was determined by the content and location of the project. The Canadian Partnership Branch, NGO Division, still uses matching grants; indeed, it remains the most common funding vehicle for Canadian NGOs reliant on government funding. Similarly, Environment Canada uses matching contribution funding under its EcoAction Funding Program, the most important federal funding window for environmental organizations. The program clearly stipulates that the federal government will only provide up to 50 per cent of the project costs. The expectation of funders is that the nonprofit and voluntary organizations will seek out the additional resources necessary – both financial and in-kind – to realize the project objectives.

What is new is that matching contribution agreements are becoming more common across the nonprofit and voluntary sector. They are a key part of the broader trend towards “partnership” being emphasized by both public and private sector funders. The idea is to line up a number of potential funders. In some instances, a lead funder commits to support the project with a specific contribution. One or more groups use this initial contribution to leverage additional support – either financial or in-kind. In other instances, groups are asked to line up all of the project partners in advance of making an application for a matching contribution from a public or private funder.

Overall, focus group participants viewed the increase in these types of funding arrangements with ambivalence. Most agreed that “collaboration and partnerships with other stakeholders is advantageous and can yield some excellent work” (#21). Yet the amount of work involved in putting funding packages together, and the instability of these arrangements, can pose real problems for voluntary organizations. As one participant stated, “This approach is great as long as there is one who funds for 60% at least, otherwise it is timely and lacks security” (#31).

Participants in matching funding arrangements have likened the experience to building a house of cards. The requirement to build a partnership in support of a funding application is positive. These partnerships can foster community engagement in endeavours such as environmental preservation. Many smaller contributions can result in a project or program with far-reaching impact. From the funders’ perspective, they see the positive value of spreading limited dollars across a broader range of groups and issues. Yet like any house of cards, the structure is inherently fragile. If one card is shifted or removed, the house can come tumbling down. This is especially true in situations where funders – often governments – require that organizations applying for funds have all of the development work done “up front,” that is to say, all of the other contributions of cash, time or materials have to be committed before a matching contribution is considered. The burden on nonprofit and voluntary organizations, especially the small groups, to line up partners, cash sponsors and in-kind donations is huge, not to mention the time and complexity involved in managing these types of projects. This requirement, in effect, works against the promise of matching funding arrangements: that is, the power of leveraging. While the promise of funding may leverage project support, it can certainly not be considered as a “sure thing.” And the lead time involved in developing the partnerships and contributions can be a real problem if a corporate partner, for instance, pulls out because of time delays. And without a firm commitment from a primary funder, it is difficult to get others to commit. There is a real sense, reported across the many focus groups, that each funder wants to be the last in: “no one wants to be first to the table” (#3).

In sum, matching contribution agreements can provide an opportunity to encourage partnerships and community involvement. But they can and do work to undermine the efforts of nonprofit and voluntary organizations. As a result of the structure of these funding programs, groups are not able to commit to continuing programs and services for people, and they cannot provide consistency in staffing. A great deal of energy – largely unpaid labour – is diverted into building and maintaining the partnerships, rather than being channelled into the delivery of programs. As a result, “the organization exists for projects, not mission” (#22).

Matching funding is all about leveraging and spreading the risk of project financing among potential project supporters. For nonprofit and voluntary groups, however, the protection afforded by multiple income sources and the benefits of working with diverse stakeholders is undermined by the risks and demands associated with managing complex projects of this type. One focus group participant concluded: “We have successfully developed a multi-stakeholder, multi-funder approach to projects and programs. This has helped lever funding, broaden the audiences for our work, strengthen critical review of our reports, and preserve independence for sole-source funders. At the same time, it is a very demanding model to run and we could really use more core funding” (#24).

5. Some things don’t change. Nonprofit and voluntary organizations continue to be seen as largely “voluntary” operations.

“We are taken for granted. Do they think we are all selfless miracle workers?” (FG: SS/E)

In considering what is new about the relationship between the nonprofit and voluntary sector and its funders, it is also important to consider what hasn’t changed. One of the constants, as reported by many focus group participants, was the sense that nonprofit and voluntary organizations continue to be viewed as largely “voluntary,” that is, primarily reliant on volunteer labour and contributions of members. These assumptions are an example of what many felt was a profound disconnect between nonprofit and voluntary groups and their funders.

Once dubbed “the invisible sector” (Hall, 1997: 74), one only has to consider the extent of the nonprofit and voluntary sector’s involvement in the delivery of public services, ranging from social and health services to arts and recreation, to appreciate how central voluntary organizations have become in the lives of Canadians. The nonprofit and voluntary sector has expanded considerably over the past decade, according to available statistical evidence. Greater formalization, bureaucratization and standardization within the sector is evident as groups have evolved over time from grassroots organizations, drawing largely on volunteer labour, to established, professional organizations. Nonprofit and voluntary sector organizations have responded to the call to become “more professional,” to do more evaluation, to work more with the private sector, to do more capacity-building, ... to become more transparent, to learn more and disseminate more findings, ... to become more financially independent” (Smillie, 1999a: 14) – all demands that have intensified under contract funding.

Yet the notion persists that nonprofit and voluntary groups should be running hockey leagues, teaching French to newcomers, or advocating for the rights of persons with disabilities in the spirit of voluntarism and commitment that characterized nonprofit and voluntary activity decades ago. Nonprofit and voluntary sector activity is still largely seen as “voluntary” despite the changing

character of the groups themselves and the emergence of new funding relationships. Many focus group participants spoke about the pervasive myth that there is an army of volunteers and well-wishers, with in-kind contributions in hand, supporting and sustaining nonprofit and voluntary sector activity in Canada. This myth compounds the difficulty of securing adequate funding to sustain the work of the organization as a whole.

The myth of voluntarism challenges the sustainability of organizations in many ways. The issue of overhead and administrative costs is a case in point. As we discussed earlier, funders have been very reluctant to negotiate funding for non-program costs that are critical to an organization's ability to meet its responsibilities. There is a residual notion – clearly evident in matching contribution agreements – that organizations should at least be contributing their basic overhead costs to project implementation in the form of in-kind contributions. Similarly, nonprofit and voluntary organizations are expected to provide services at a lower rate than those of comparable private sector firms. This again is due in part to the perception by funders – and the general public – that there is a ready supply of volunteers available to carry out this important work for no compensation, that nonprofit and voluntary groups enjoy a cost advantage over other types of providers. The rationale is that if there are volunteers available to do work for an organization or specific project, it is not necessary to allocate funds to such tasks or to fund the group or project in its entirety. Volunteers and community goodwill are the key resources that nonprofit and voluntary groups bring to the table. Hence, it is not necessary to fund services or programs at a level equivalent to “market value.” Indeed, by limiting contributions to projects or groups, the thinking goes, organizations are able to leverage additional financial and in-kind support, and thus generate broader commitment behind their cause. Succinctly stated, voluntary contributions – real or imagined – justify chronic underfunding.

This view is based on the erroneous assumption that there is a vast pool of financially secure, married women, living in male breadwinner families, who can undertake good works in the community. It is a 1950s view that did not reflect the reality of the 1950s, and certainly does not reflect the reality of the early 21st century.²³ One commentator in the arts community went so far as to say that it has been a real stumbling block in developing effective management in the sector. In this instance, he argued, it is cultural organizations that continue to pin their hopes on the charitable impulses of well-heeled patrons.

As well, focus group participants stressed the increasing difficulty in securing in-kind contributions – another sign of highly competitive times. There are no good estimates of in-kind support for nonprofit and voluntary groups in Canada due to the difficulty in assigning a dollar value to these types of contributions.²⁴ Certainly, groups spoke about a wide range of supports for their day-to-day operations and fundraising efforts, including: equipment and supplies; advertising; the use of space; subsidies of various kinds; and professional services such as accounting or consulting. Some businesses donate staff time to organizations to carry out specific activities (i.e., Days of Caring); others provide services like internet access for the organization and its clients. Still others subsidize the salary and benefits of their employees working on secondment with nonprofit and voluntary groups. In the zero-sum world of nonprofit and voluntary sector financing, in-kind contributions can and do make the difference for organizations in successfully pursuing mission. But it is also a form of organizational support that can be very unstable, reflecting the ups and downs of the economy as well as the charitable impulses of potential donors and volunteers. Higher charges for meeting

spaces and sports facilities, for example, have hit the sport and recreation sector particularly hard. From the perspective of nonprofit and voluntary groups, in-kind contributions in no way take the place of secure funding. There are no secret stores of in-kind support. Organizations will try to do less with less. Lack of stable, core funding is the issue.

6. The model of the competitive market increasingly influences the structure and activities of nonprofit and voluntary organizations.

“The pressure to become market-oriented is relentless. Society seems to expect all of its citizens to become self-sufficient participants in the labour market and all of the organizations in the voluntary sector to become self-sufficient participants in the fundraising marketplace.” (FG: CS-N)

The emerging funding regime is organized around a number of key themes. Certainly, accountability and efficiency are central, as we have discussed above. So too are the ideas of competition and self-sufficiency, ideas embodied in the model of the private marketplace. Increasingly, nonprofit and voluntary organizations find themselves in competition for all manner of resources, from financial resources to in-kind donations, to public support. Within this context, organizations are called upon to act more like “businesses,” to be self-sufficient, keep their eye firmly on the financial bottom line, to be nimble and lean. The language of the competitive marketplace is now pervasive, influencing all aspects of the nonprofit and voluntary sector, and in particular, the ways in which value and success are defined and measured (Hosli, 2001). An increasingly competitive funding environment is transforming the “calculus of sustainability.”

Organizations engaged in commercial activity provide the clearest evidence of this trend towards greater commercialization and competition. Within these organizations, the impact of commercialization – defined as “the mode of thinking derived from for-profit businesses” (Dart and Zimmerman, 2000: 145) – is widespread, according to the findings of a study of charitable commercial ventures. According to researchers, there is no rigid dichotomy between nonprofit/ for-profit or commercial/ charitable modes of organizing. Rather, commercialization touches all aspects of the organization. At the same time, the researchers found that the sources or origins of commercialization did not exclusively stem from the presence of commercial activities. In several instances, the nonprofit, mission-based programs seemed more commercialized than the nonprofit enterprise activities themselves. In one example, a counselling organization, under the direction of a new executive director, adopted a “brief therapy” model for its clinical services programs, resulting in productivity gains and other administrative efficiencies. These changes did not spring from the introduction of new commercial activities, but were related to public sector funding cuts, changes in social work practice, and more broadly, the application of a “commercial mindset” to the organization of social services. The introduction of commercial activities, in effect, served to reinforce the forces of commercialization already at work in this particular organization.

Pressures to become more “business-like” both in the operations of nonprofit and voluntary organizations and the pursuit of financial resources is also reflected in and reinforced through growing competition for human and financial resources. Competition is not a new theme for the nonprofit and voluntary sector. In the past, groups were certainly in competition for donations and in-kind supports, although generally various organizations or subsectors tended to draw unique

bases of support. Today, reduced levels of funding from public and private funders throughout the 1990s and increased demands for programs and services, as well as changes in the types of funding available have led to a more intense competition for funds with other nonprofit and voluntary organizations, and more recently, with other governments or para-public institutions such as hospitals, municipalities or public foundations. Some nonprofit and voluntary sector groups are now competing with for-profit service providers as well, adopting the modes of operation of the organizations against which they have been forced to compete (Tindale and MacLachlan, 2001).

Competition takes many forms in the lives of nonprofit and voluntary sector organizations today. The competition for dollars and human resources – and ultimately, public support – is not new. What is new, many focus group participants noted, is the intensity of the competition and the pressure to adopt “market” models of operation. On the one hand, participants argued that these pressures and expectations represent the failure of the public and funders to understand the difficulties that nonprofit and voluntary sector organizations face in pursuing their respective missions. Not all organizations have the ability to compete for dollars in the funding market place, nor to be self-supporting without recourse to government funding. On the other hand, there was a belief that the nonprofit and voluntary sector and the work that it does is taken for granted. All organizations were interested in being effective and efficient in their respective tasks. But many focus group participants believed that the expectation that all nonprofit and voluntary organizations can – or should – operate like lean and mean self-sufficient businesses obscured the unique value of nonprofit and voluntary programs and services. The language of self-sufficiency makes invisible the role of the nonprofit and voluntary sector in promoting active citizenship, caring for individuals and families, supporting economic and community development, and advocating on behalf of diverse communities and causes. “The right thing to do for society no longer seems to be the primary focus” (FG: E).

Generally, study participants had mixed opinions about the forces of commercialization at work in the sector.²⁵ Most were persuaded that nonprofit and voluntary organizations could learn a great deal from market models and principles of operation in their own efforts to become more efficient and responsive. Many organizations, however, were conscious of the dangers inherent in pursuing commercialization and increased competition within the nonprofit and voluntary sector. Writing about the United States, William Ryan comments that “the greatest peril is not that nonprofits may ultimately be driven out of the social service marketplace [from competition with for-profit firms]. Rather, the danger is that in their struggle to become more viable competitors, nonprofit organizations will be forced to compromise the very assets that made them so vital to society in the first place” (Ryan 1999: 126). Commercialization may yet prove to be a Faustian bargain in which the nonprofit and voluntary sector will lose its most desirable and distinctive features in the pursuit of the resources and funding sources necessary to realize their goals (Brooks, 2001: 168).

Conclusion

Valerie Howe and Paul Reed summarize the pressures being brought to bear on the nonprofit and voluntary sector in Canada in the following passage. They argue:

Many features of the voluntary sector situation today have existed for a very long time: the ever-present difficulty of insufficient resources; the heavy, seemingly ever-expanding

workload and concern about unmet needs; the challenge of finding volunteers and utilising them effectively; the sense of organizational vulnerability. But there are elements in the situation today that appear to be distinctive: the shift from grants to contracts for services; the growth of inter-agency competition – for funds, volunteers and public support; the burden of responding to frequently-changing government policies and the increasing demands of funders for formal accountability; the growing concerns about liability; and fundamental changes in the social conditions within which voluntary organizations operate, such as increased social diversity, rising social and economic polarisation, and the growing incidence of multi-need individuals and families. (Reed and Howe, 1999a: 51)

Writing in the late 1990s from the vantage point of a more positive economy, Reed and Howe questioned whether their findings about the turbulence of the mid-90s revealed a sector in crisis, or just in transition. In response, we would argue that the pressures of Canada's emerging funding regime have certainly persisted and are affecting organizations today in profound and often contradictory ways. Taken together, these pressures have the potential to irrevocably influence the basic character and threaten the long-term sustainability of nonprofit and voluntary organizations. In the next three chapters, we look at the impact of the emerging funding regime, and the ways in which nonprofit and voluntary organizations are struggling to remain true to their mission.

Endnotes

¹ We conducted a content analysis of our focus group transcripts to identify key themes of the changing funding landscape. The following themes were identified and the proportion of responses for each theme is included in parentheses: competition pressures (20.7%); increased targeted funding (17.0%); increased terms and conditions of funding (14.8%); duration and predictability of funding (14.8%); shift away from core funding model to project-based funding model (14.0%); increased reporting requirements (9.6%); and partnerships (9.0%) (N = 458). Together, these themes define Canada's emerging funding regime.

² Throughout this report, we use quotations from the focus group participants and from the written surveys. The quotations from the focus groups are marked as "FG," followed by the group code. The list of focus group abbreviations is provided in the Methodology note in Appendix A. Quotations from the written surveys are referred to by the organizational number of each survey.

³ The evolution of the Canadian government's relationship with development NGOs clearly illustrates this trend. In 1968, CIDA created the NGO Division within its Partnership Branch, which was responsible for funding NGOs directly. During these early days of CIDA involvement, funding for NGOs was provided on a "responsive basis." Canadian NGOs with their local partners in recipient countries were encouraged to present their project proposals to CIDA for matching funds. CIDA would then provide additional resources to projects and in certain cases, would provide higher levels of support depending on the individual project and its location. The budget for NGO division grew significantly for the next 15 years, as did the absorptive capacity of Canadian NGOs

and their ability to deliver programming in areas of the world where they had not previously been involved.

CIDA began to move away from “response programming” mechanisms in the early 1990s, as it faced its own human resource constraints in the 1990s and began to establish alternative mechanisms for funding Canadian NGOs. One avenue taken was to develop core funding programs for Canadian NGOs which it deemed to be eligible for ongoing institutional support. By 1992, 44 NGOs had program support and an additional 22 had project support. This move targeted a select group of NGOs for core funding, creating a significant divide in the NGO community.

Other funding mechanism alternatives were organized around CIDA’s funding priorities. Within Partnership Branch, CIDA’s Bilateral/Country Programs began to see the possibilities of contracting NGOs to implement projects within their own Country Development Frameworks. One advantage for Bilateral programs of using NGOs was that the contracting process for what were called ‘Country Focus’ projects could be done much more quickly than any other contracting mechanism. Initially, many of these projects were ‘responsive’ projects based upon proposals which fit into Bilateral Country Development Frameworks, but with the passing of time, CIDA began to more narrowly circumscribe funding priorities. Increasingly, projects started to fall outside the traditional mandate of NGOs and contributed to the view that “NGOs are for hire.” (See Smillie 1999). In sum, there has been a slow but steady evolution away from NGO determined projects presented to CIDA for joint financing and towards projects which fit into individual Bilateral Program Country Development Frameworks and other funder-driven program areas. (This summary is taken from Christie Gombay, *Canadian Civil Society and CIDA: Whither Canadian NGOs?* Background Paper prepared for CCSD’s “Funding Matters” project, July 2002.)

⁴ Ian Smillie, “Canada,” in *Stakeholders: Government – NGO Partnerships for International Development*, Ian Smillie and Henny Helmich (eds.), London: Earthscan Publications: 1999: 82.

⁵ See Sylvia Bashevkin, “Losing Common Ground: Feminists, Conservatives and Public Policy in Canada during the Mulroney Years,” in *Canadian Journal of Political Science*, 29(2), 1996, pp. 211-42.

⁶ A clear example of targeting occurred under Program Review in 1994 and 1995. Through this process, the federal government applied four criteria in its evaluation of existing programming, criteria that clearly targeted nonprofit and voluntary organizations: larger public benefit; ability to access alternative funds; service provision as a priority over advocacy; and a match between group activities and government priorities (Cardozo, 1996: 317).

⁷ Typically, nonprofit and voluntary organizations peg administrative fees at roughly 15% of a program or project budget. It is worth pointing out that this administrative fee pales in comparison to those charged by for-profit firms, which include a profit margin ranging up to 20% of the value of any contract.

⁸ The assumption on the part of many funders would appear to be that most nonprofit and voluntary sector groups have a bottomless well of unrestricted funds that can be applied to overheads (Smillie, 1999: 12).

¹⁰ One might well wonder why institutional donors such as governments or public funding

bodies are able to cover their own overheads from the original funding source, that is, the taxpayer, then refuse to cover legitimate costs of organizations that are delivering programs and services on the ground, often on their behalf.

¹¹ The book by David Osborne and Teb Gaebler, *Reinventing Government* (1993), has been credited with popularizing new ideas of governance and alternative service delivery.

¹² Looking at the 1980s, Rekart documents the large scale shift in the form of government funding for provincial social services. Whereas the level of funding remained relatively constant over the 1980s, the nature of government funding changed: of total agency funding, 52.2 percentage points came from provincial contracts in 1989, compared to just 39.4 percentage points in 1982 (Rekart, 1993: 68).

¹³ Reed and Howe found that two-thirds of the Ontario social service agencies in their study lost revenues between 1992 and 1997, with median grant income falling by 25% (Howe and Reed, 1999a: 26).

¹⁴ Steven Rathgeb Smith and Michael Lipsky make this argument in their important work, *Nonprofits for Hire: The Welfare State in the Age of Contracting* (1993). This book analyzes the large-scale trend of contracting out public services in the United States. They examine in detail the contractual mechanisms that are used to exert greater control over contracting parties, while distancing funders – government, in this case – from the results of programs and services.

¹⁵ The following discussion is based on a background paper on international development organizations that was prepared by Christie Gombay for this current study, *Canadian Civil Society and CIDA: Whither Canadian NGOs?* July 2002.

¹⁶ The United States Agency for International Development (USAID) became the first bilateral agency to develop a new management framework for dealing with its official development assistance, and the new management approach quickly spread to other bilateral and multilateral donors, including CIDA.

¹⁷ CIDA. Results-based Management in CIDA. 1996. <http://www.acdi-cida.gc.ca/cidapo-e.htm>.

¹⁸ In their study of the Manitoba voluntary sector, Laura Brown and Elizabeth Troutt found that organizations welcomed new accountability measures introduced by government. The stress and tension related from increased accountability arose in situations where reporting requirements of various funders were not coordinated, where the reporting requirements were excessive, or they were not effective as an evaluative tool (Brown and Troutt, 2000: 25).

¹⁹ CCIC. *Strengthening CIDA Partnerships with Canadian Civil Society Organizations*, CCIC/ CIDA Consultations, April 17 – 18, 2002. A CCIC Background Paper, page 7. Available at <http://www.ccic.ca/devpolicy.htm>.

²⁰ OECD, Development Assistance Committee. *Results Based Management in the Development Co-operation Agencies: A Review of the Experience – Executive Summary*. Paris: November 2001: 16.

²¹ The Voluntary Sector Evaluation Research Project (VSERP) has been launched to assess and address the evaluation needs of the nonprofit and voluntary sector in Canada. It is a three-year initiative to improve the capacity of voluntary organizations to evaluate their work and communicate their effectiveness to their funders, stakeholders and the public. The VSERP is a joint initiative of the Canadian Centre for Philanthropy, Carleton University, United Way/Centraide Canada, YMCA Canada, Volunteer Canada, Max Bell Foundation, and CCAF Canada (formerly the Canadian Comprehensive Auditing Foundation). Project findings are expected to be released in 2003. See www.vserp.ca.

²² Ian Smillie argues that fear of evaluation is endemic to international development groups. He argues that “by resisting urgent calls for evaluation over at least two decades, by mistaking simple monitoring and reporting for something more substantive, by dodging judgment and questions of impact, and by shrouding evaluations in a fog of complexity and jargon, NGOs have actually encouraged the onslaught of external evaluation, much of it the very sort they most fear.” The critique of the standard, time-bound external evaluation is certainly partly right. But he believes that there is a much more serious problem at work in NGOs’ fear of evaluation that threatens what NGOs have accomplished and places their independence in jeopardy. If groups don’t engage in evaluation and honestly catalogue their successes and failures, they leave themselves open to the kinds of attacks by the media and by politicians such as John Bryden who are ready to challenge their importance at every turn. This problem is made no easier by external constraints, most notably the lack of any kind of support – financial or other support from funders – for organizations to carry out evaluations and to learn from their successes and failures.

²³ Overall, there has been a decline in the number of volunteer hours between 1997 and 2000. Many of the organizations surveyed relied on volunteers (see Chapter 5). However, respondents stressed that they faced considerable challenges in finding the volunteer labour that they needed, as well as the resources to use volunteers. Certainly, using volunteers in service or program delivery is not always an option.

²⁴ The *National Survey of Nonprofit and Voluntary Organizations*, expected in 2004, will provide estimates of in-kind contributions.

²⁵ Over half of social service groups, recreation, sports, arts and cultural organizations, and environmental groups viewed “commercialization” as positive, compared to health organizations, community benefit groups and organizations serving ethnocultural communities.