

Funding Matters: A Warning and an Opportunity

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Today's Presentation

- explain the background of the project
- provide a definition of the nonprofit and voluntary sector
- examine where they get their funding
- examine how they get their funding
- examine the impacts of the changing funding environment on nonprofit and voluntary organizations
- begin to lay out next steps for funding reform

What is the nonprofit and voluntary sector?

- includes charities; registered nonprofits; grassroots organizations
- approximately 80,000 charities in Canada and another 100,000 nonprofits
- employs 900,000 Canadians, excluding MUSH sector (8% of all employees)
- represents an estimated 8% of GDP

Continued ...

- Canadians donate over one billion person hours a year to voluntary endeavors, the equivalent of 500,000 full-time jobs
- nonprofit and voluntary organizations work in a diverse number of areas, including: social services; environment; arts and culture; health; ethnocultural communities; recreation and sport; international development; faith communities

Change transforming the sector

- a decade of cutbacks and downloading
- changing role of scope and size of state – rise of contracting state
- embrace of new public management / new approaches to accountability
- increase in demand for service
- greater income polarization
- greater population diversity

Funding: A Window on Change

- the ways in which nonprofit and voluntary organizations secure resources to support their activities is changing as well
- our study looks at how the changing funding environment is affecting the ability of nonprofit organizations carry out their work

Financial Capacity

- financial capacity represents available organizational resources and relationships – both internal and external – that enable or hinder the ability of organizations to carry out their work
- includes the mix and types of funding sources and mechanisms
- no funding source or mechanism “unambiguous”
- each imposes opportunities and constraints, can and do influence all aspects of an organization’s activities, structure and decision-making

What are their sources of income? (1a)

Government

- government is the largest funder of the nonprofit and voluntary sector (estimated 61% of total revenues)
- provide support through grants, contributions, purchase of service agreements, competitively tendered contracts
- also provide indirect support through tax credits and other in-kind support (i.e., meeting space)

What are their sources of income? (1b)

Government

- different government funding mechanisms vary by degree of control over process and product
 - grants an “unrestricted” source of funds, not subject to monitoring, audit
 - contributions, purchase-of-service agreements tendered through open bidding, targeted project and program funding, designed to ensure stricter accountability and monitoring
 - contract reserved for process where there is competition designed to promote value for money, subject to audit

What are their sources of income? (2)

Earned Income

- depending upon the sector, earned income is another important source of income (estimated 21% of total revenues)
 - membership fees and dues
 - sale of goods and services
 - investments / rental income
 - commercial ventures
 - sponsorships
- earned income is not an option for everyone.

What are their sources of income? (3)

Private Giving

- nonprofit and voluntary organizations have historically relied on private giving for support
- in our survey, private giving was an estimated 19% of total revenues
- sources include:
 - donations from individuals, business and unions
 - foundations
 - United Ways - Centraides; other federated appeals
 - charitable gaming / other fundraising ventures
- inherently volatile, intensely competitive

Funding Trends (1)

- this is not just or even primarily a question about *level* of funding for nonprofit and voluntary organizations
- it is a question about the *type* of funding now available to nonprofit and voluntary organizations to sustain their work
- a *new funding regime* is emerging.

Funding Trends (2)

- funding regime characterized by:
 - increased targeting (i.e., donor designation)
 - shift from “core” funding model to a “project-based” funding model
 - reluctance to fund administrative, non-program costs
 - more strings attached
 - shorter funding time frames
 - increased reporting requirements, part of new thinking about results-based management

Funding Trends (3)

- doing “more with less”
- greater emphasis on partnership in request for proposals / choice of funding mechanism
- voluntary organizations continue to be seen as largely “voluntary”
- increasingly competitive funding environment, especially for donations, grants and contributions

A word about corporate support

- historically, corporate giving a small source of revenue for a select group of nonprofit organizations (approximately 1% of total revenues); in smaller centres, can be an important source of in-kind support
- overall, see shift away from corporate giving to sponsorships; business increasingly favour organizations that can provide a significant return in terms of community profile, exposure
- entails risks for nonprofit organizations

A word about United Ways

- origins as a federated appeal for a designated number of charities (approximately 9% of registered charities)
- revenue increases through 1960s to 1980s, accommodating growing demand; now flat
- move to reorient activities around role as “community builder”
- see increased targeting of funding; move to donor designation; embrace outcome evaluation

A word about gaming

- historically been an important means of raising “unrestricted” dollars for many
- now being overtaken – displaced – by provincially sponsored gambling
- questions about the range and focus of public foundations being set up; percentage of revenues actually going to charities
- concern about the ethics of relying on gambling revenues
- likely to grow in importance

A word about foundations

- public and private foundations relatively small source of sector funding; most are very small
- public foundations emerging a significant new player, displacing government in some areas
- generally serve as supplementary source of funding, provide short-term grants to leverage other resources
- reluctant to assist with ongoing costs of operation; increasing administrative burden
- recent interest in capacity building, very limited

Impact on Organizations (1a)

Financial Volatility

- clear pattern of income diversification over past five years (earned income, foundation funding); also significant increase in number of individual funding sources
- these trends are resulting in high levels of financial volatility related to growth of project dollars
- shift away from traditional sources of core support to project-based forms of funding
- 56% of organizations surveyed experienced income swings of more than 25% or more during period of study (1997 – 2001)

Impact on Organizations (1b)

Financial Climate of Uncertainty

- 96% of organizations reported that funding reliability and certainty was an issue for them
- 60% reported that current source of funding were not stable or reliable
- 53% noted that they were less certain about the renewal of funding today than 5 years ago
- groups that experienced greatest income swings more likely to report concern about funding instability than groups experiencing more moderate income shifts (67% vs. 57%)

Impact on Organizations (1c)

“We want to support people to make change, but we can’t commit to anyone. We never know if we will be around ... We would like to be proactive, to be moving forward, but we need consistent funding.”

Impact on Organizations (2a)

Loss of Infrastructure

- administration has become a “dirty” word in nonprofit and voluntary sector funding; enormous reluctance to factor in non-program costs.
- results in chronic underfunding; organizations forced to find funds from other budget line items.
- core activities cut back including such as management, volunteer coordination, board governance, community outreach, evaluation, reserves to cover salary and wage liabilities

Impact on Organizations (2b)

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

Impact on Organizations (3a)

“Administrative Difficulties”

- excessive time related to preparation, management of funding proposals / contracts (88% report an increase in costs of acquiring donations; 92% for grants and contributions)
- delays in processing, flowing funds creates enormous stress; two-thirds report cash flow problems related to new project funding regime
- growing uncertainty related to growth of matching funding arrangements

Impact on Organizations (3b)

“Nonprofits are virtually *expected* to cope with erratic revenues, underfunding and slashes to established budgets”

“The stress of this kind of financial brinksmanship is severe”

Impact on Organizations (4a)

Reporting Overload

- intensity of reporting requirements has increased, drawing energy and resources away from program work, especially for smaller organizations
- funders are tracking what is readily measurable, not outcomes which are often difficult to quantify and only apparent after a number of years
- skews accountability relationships, over-emphasis on funders; increases power / autonomy of managers / EDs

Impact on Organizations (4b)

“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 current indicators”

Impact on Organizations (5a)

Human Resource Fatigue

- stress, burnout, high turnover, no stability
- 94% report that they have experienced greater demands on staff and volunteers
- difficulty retaining skilled, experienced professionals / volunteers (train young graduates only to lose them to public and private sectors)
- pressure to hire / contract out fundraising and development

Impact on Organizations (5b)

“The deterioration of employee quality of life is a real concern”

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

Impact on Organizations (6a)

Advocacy Chill

- new funding regime having the effect of discouraging – indeed silencing – voices and views of nonprofits
- has followed on heels of significant cuts to advocacy organizations in 1990s
- promotion of corporate interests through registered lobbyists seen as legitimate whereas efforts by charities is construed as an abuse of their privileged tax status
- explicit threat to organizational autonomy

Impact on Organizations (6b)

“Due to unclear rules and fear of losing funding opportunities, we do not advocate. This risk is much too great.”

“You are always aware if you have a funding proposal sitting on the minister’s desk. You don’t want to have your name in the paper that day.”

Impact on Organizations (7a)

Mission Drift – “Whatever gets the money”

- 33% state that they have experienced mission drift over the past five years as a result of funding trends
- organizations bending themselves out of shape to conform to funding criteria
- concern among many that new focus on competition and for-profit modes of operation will affect the character and quality of services
- concern also that funding trends result in weaker ties to members and community

Impact on Organizations (7b)

“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.”

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

Impact on Organizations (8a)

The Growing Divide

- funding regime privileges larger organizations with strong administrative capacities, access to credit, that can weather funding roller coaster; smaller groups are more likely to fall off
- divide between service organizations and advocacy groups who can't even get onto the track
- problems evident for rural groups, those serving marginalized groups

What does it Matter ?

- While funding is not the only thing when it comes to organizational capacity, it matters a lot. The funding source matters, the funding mix matters, and the funding vehicle or mechanism matters.
- Combined stresses are threatening the capacity of nonprofit and voluntary sector organizations to pursue their missions, to sustain their activities over long term.

The Challenge

to achieve a balance between what all organizations need – stable, reasonably predictable and adequate funding that covers the cost of operations – and what funders need – assurances that money is being well spent on mutually agreed upon purposes by vibrant and relevant organizations

Organizations are struggling with change

- diversifying resources
 - 93.3% sought to diversify funding sources, yet persistent levels of funding uncertainty
- reducing expenditures
 - 82% report efforts to reduce costs
 - huge efforts to avoid cutting programming costs, pare administrative costs to bone. Undermines sustainability of organization; ability to meet mission
- organizational change
 - three-quarters of groups undertook moderate (43%) or extensive (32%) change

Funding Reform: Where To?

For Individual Organizations:

- forge alliances within and across the sector; encourage funders to collaborate as well
- create opportunities for dialogue among volunteers, staff, funders, clients / beneficiaries, media, community representatives
- tackle operational issues such as risk management; organizational funding that accounts for actual costs of running nonprofits, staying connected to community; streamlined RFPs and reporting
- encourage the development of collaborative evaluation models, realistic and meaningful outcome indicators

Funding Reform: Where To?

Organizations Working Together:

- communicate realities of nonprofit and voluntary organizations
- “render visible” the value of nonprofit / voluntary organizations, role in creating social capital, enhancing community social and economic health
- create more equitable working conditions in the sector (wages, benefits, etc.)
- address, validate critical role of nonprofits within Canadian democracy
- **Mobilize!**

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Summary and full report available at:

<http://www.ccsd.ca>