Weathering the Storm

Building Financial Health and Resilience in Canada's Nonprofit and Charitable Sector

BY LISA LALANDE & JOANNE CAVE

MOWAT NFP

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United Way Greater Toronto

Partnership with United Way Greater Toronto

This research series, Funding the Future, from Mowat NFP explores issues relating to the financial health and resilience of Canada's nonprofit and charitable sector. It is in partnership with United Way Greater Toronto and is intended to support policy discussions and developments on finance and funding issues in the sector. The papers will evaluate policy options and identify key recommendations to support the long-term financial sustainability of nonprofits and charities and to improved outcomes for Canadians.

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Mowat NFP undertakes collaborative policy research on the social sector, bringing a balanced perspective to examine the challenges facing today's sector and to support its future direction.

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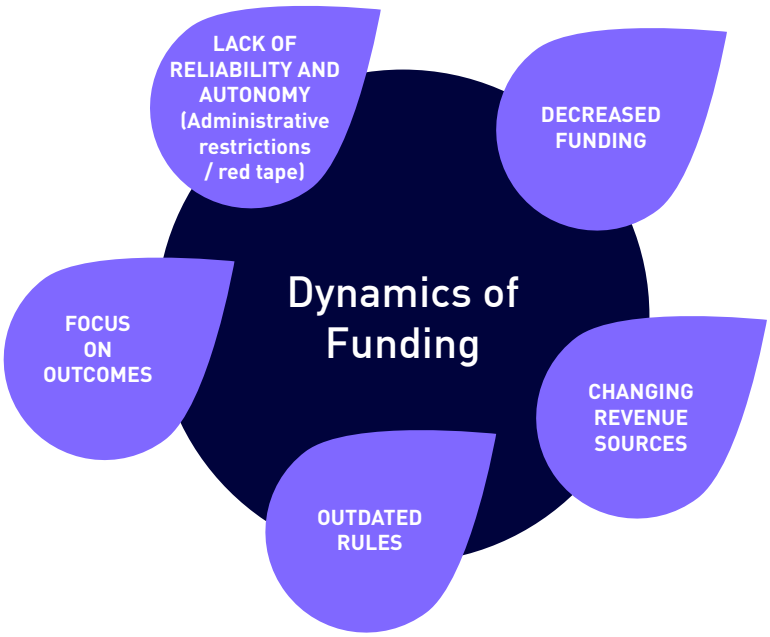
Introduction

Funding is the cornerstone of a vibrant, healthy nonprofit and charitable sector. Without stable, secure funding sources, organizations face serious challenges delivering effective programs and services, retaining high-performing staff and building the requisite organizational capacity to make a meaningful impact on pressing social, economic and environmental issues facing Canadians.

Nonprofit and charitable organizations in Canada are facing significant challenges with the current funding landscape - in the amount of funding available, where the funding is coming from and how the funding is being administered.



As demand for programs and services continues to grow, nonprofit and charitable organizations are experiencing a decline in the amount of available funding through government transfers and charitable giving. In Ontario, for example, the 2019 Budget introduced cuts to several ministries that allocate funding for service delivery to nonprofit and charitable organizations — the largest cut to Children, Community and Social Services at $375.7M.[1] A survey by the Ontario Nonprofit Network revealed that these budget changes resulted in deep cuts to some nonprofits. It also resulted in significance structural changes in sub-sectors like health, child care and employment leaving many organizations in flux and concerned about how these changes might impact their ability to serve their communities.[2]

At the same time, charitable giving is not keeping pace with Canada's population growth and charities have become increasingly reliant on fewer high-income donors.[3] [4]

Many organizations are considering new business models to tap less traditional revenue sources. "Earned income" is arguably seen as the next frontier for sector organizations, but outdated rules[5] make it challenging for organizations to pursue. Some are turning to new sources of capital through social impact bonds, social finance tools and impact investing, but these are not a panacea for the sector's broader funding challenges. Many sector organizations lack data literacy, measurement expertise and organizational capacity to participate.[6]

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[1] Ontario Nonprofit Network (2019). "Provincial Budget 2019." https://theonn.ca/our-work/our-financing/provincial-budget-2019/

[2] Ontario Nonprofit Network (2019). "Sector 360: Taking the pulse of Ontario's Nonprofit Sector." https://theonn.ca/wp-content/uploads/2019/11/Report.ONN-Sector-360-Survey.FINAL_.November-2019.pdf.

[3] CanadaHelps (2019). "The Giving Report 2018." https://www.canadahelps.org/media/The-Giving-Report-2018.pdf

[4] Lasby, D. & Barr, C. (2018). "30 Years of Giving. The Giving Behaviour of Canadians: Who gives, how, and why?" Rideau Hall Foundation and Imagine Canada. http://www.imaginecanada.ca/30years

[5] The Income Tax Act says a charitable organization or a public foundation may only run a business if the business qualifies as a related business. A business that is 90 per cent run by volunteers is one type of related business. Sizable businesses cannot run on 90% volunteer labour. The Charities Directorate says the only other type is a business linked and subordinate to the charity's purpose. Many charities want to increase earned revenues to bridge the gap between grants and donations and demand for services. The Directorate's linked and subordinate standard restricts business activities to small projects. Canada Revenue Agency. (2003b). "What is a related business?" https://www.canada.ca/en/revenue-agency/services/charities-giving/charities/policies-guidance/policy-statement-019-what-a-related-business.html

[6] Lalande, L. & Cave, J. (2017). "Measuring Outcomes in Practice: Fostering an Enabling Environment for Measurement in Canada." https://mowatnfp.ca/2017/10/measuring-outcomes-in-practice/

In addition to funding sources, how reliable the funding is (or is not) and the level of restrictions placed on the funding[7] play a significant role in how organizations make strategic decisions and the compromises they might have to make in the delivery of their missions.

"The way an organization handles decisions about funding sources sets in motion an ongoing chain of consequences, further decisions and compromises about what the organization will and will not agree to do. Throughout the history of nonprofits, major changes in size, direction, and strategy (and even new names and purposes) are more commonly due to shifts in revenue than to changed intent."[8]

Collectively, these changes are creating a perfect storm for the sector. Nonprofit and charitable organizations are expected to adapt to this changing funding environment by doing more with less.

While the drive for efficiency can result in short-term savings, the long-term consequences of underinvestment in the sector may be greater financial costs for governments and, ultimately, taxpayers. More importantly, organizations may be unable to meet the needs of Canadians through programs and services.

In such a volatile and uncertain funding environ-ment, an urgent question remains – how can nonprofit and charitable organizations find the path to financial health and resilience? This paper will:

- Identify key competencies and dimensions of financial health and resilience.
- Identify trends and issues influencing the financial health and resilience of the sector.
- Summarize past funding modernization efforts.
- Identify key recommendations for nonprofits, charities and funders to create a path to long-term financial sustainability for the nonprofit and charitable sector and to improved outcomes for Canadians.

[7] For example, short-term project-based funding, onerous application and reporting requirements, a focus on efficiency and linking funding to achievement of outcomes, competitive tendering, etc.

[8] Pratt, J. (2004). "Analyzing the Dynamics of Funding: Reliability and Autonomy." Nonprofit Quarterly. https://nonprofitquarterly.org/analyzing-the-dynamics-of-funding-reliability-and-autonomy/.

In such a volatile and uncertain funding environment, an urgent question remains – how can nonprofit and charitable organizations find the path to financial health and resilience?

Research Approach

This paper draws on statistical data, academic literature, non-academic literature and supplementary key informant interviews to identify emerging trends and reform efforts in the nonprofit and charitable sector funding landscape. This paper focuses on trends and reform efforts at the federal level and the provincial level in Ontario. Data and research from international jurisdictions (i.e. Australia, United Kingdom and United States) is used to expand on emerging trends that Canadian policymakers have expressed interest in exploring further.

This paper draws on the most recent national data from 2017, in which Statistics Canada and Imagine Canada partnered to update the Satellite Account of Nonprofit Institutions and Volunteering that was last conducted in 2007. Statistics Canada data referenced in this paper focuses on "community non-profit institutions," also known as "non-profit institutions serving households" (NPISH).[9] While this recent update to the Satellite Account is very valuable, it does not provide a comprehensive view of the state of sector funding. The most authoritative statistical data on broader trends in sector funding remain the 2003 National Survey of Non-profit and Voluntary Organizations (NSNVO) and the 2013 National Survey on Giving, Volunteering and Participating.

For the purposes of this paper, the term "nonprofit and charitable sector" corresponds to the Statistics Canada definition of "community non-profit institutions," which does not include social enterprises, hybrid corporate vehicles (e.g. community interest companies (CICs) or community contribution companies (C3s)), or hospitals, universities and colleges.

[9] "Community-nonprofit institutions" or "non-profit institutions serving households" are defined as "non-market producers with the primary purpose of providing goods and services free or at prices that are not economically significant to individual households or the community at large." See Statistics Canada (2015). "A focus on non-profit institutions serving households (NPISH)." https://www150.statcan.gc.ca/n1/pub/13-015-x/2009000/sect08-eng.htm.

"All nonprofit executives manage the tension between the pursuit of mission and the preservation of organizational and financial viability [...] in a healthy organization they always must be balanced." [10]

[10] Miller, C. (2003). "Hidden in Plain Sight: Understanding Nonprofit Capital Structure." The Nonprofit Quarterly. https://nonprofitquarterly.org/hidden-in-plain-sight-understanding-capital-structure/.

What is Financial Health and Resilience?

Financial health and resilience enables nonprofit and charitable organizations to have sufficient capacity to realize their mission, respond and adapt to financial risks, and plan for the future in a strategic, meaningful way.

Determining the financial health of an organi-zation involves analyzing their financial position (their Statement of Financial Position). Generally, a financially healthy organization produces surpluses, has a positive net worth and has cash on hand to support operations if needed.[11] In simple terms, financially healthy organizations can plan for more than one year at a time, have accessible cash for unexpected challenges and can invest in scaling processes and/or people as needed.

There are numerous measures that can be used to assess financial health. Some of these measures are outlined in Appendix A. These measures are often adapted to reflect the unique context of the nonprofit and charitable sector (e.g. accounting differently for restricted revenue sources that are tied to specific assets or programs).

Financially resilient organizations are defined as those that can withstand major shocks (like the loss of a significant funder) and adapt to changes in their environment.[12] How financially resilient an organization will be depends on their business model (e.g. funding diversification), organizational capacity and adaptive skills and competencies.

The following leadership competencies and orga-nizational characteristics emerged in our research as key determinants of financial resilience when nonprofit and charitable organizations experience uncertainty or instability in the funding environment:

- Adequate unrestricted funds and operating reserves in place to improvise and weather short-term financial volatility;[13]
- An established reputation to cultivate trust among community members, partner organizations and funders;[14]
- Reliable, recurring revenue sources that can cover both program and operational costs;[15]

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[11] Antonelli, A. (2016). "Best Practices for Nonprofit Financial Health, Part One: Top 3 Measures of Financial Health." Nonprofit Finance Fund. https://nff.org/blog/best-practices-nonprofit-financial-health-part-one-top-3-measures-financial-health.

[12] Chang, C.F. & Tuckman, H.P. (1991). "Financial Vulnerability and Attrition as Measures of Nonprofit Performance." Annals of Public and Cooperative Economics, 62(4), 655-672.

[13] S.D. Bechtel Jr. Foundation (2016). "Resiliency Guide." http://sdbjrfoundation.org/wp-content/uploads/2016/03/ResiliencyGuide.pdf.

[14] Witmer, H. & Mellinger, M.S. (2016). "Organizational resilience: Nonprofit organizations' response to change." Work 54, 255-265.

[15] S.D. Bechtel Jr. Foundation (2016).

- Strategic leadership to facilitate multi-year financial planning that is aligned with engaged leadership of board/governance body;[16]
- Clear, realistic understanding of changes to policy/funding environment and how the organization may be impacted by external threats and opportunities;[17]
- High degree of financial literacy and a track record of fiscal transparency, including methods of communicating financial decisions to key stakeholders and processes for reviewing programs that are no longer financially viable;[18]
- Data literacy, measurement and reporting expertise and capacity. Organizations able to select outcomes and set targets as part of an evaluation plan at the outset of a project are better positioned to respond to new funding opportunities and improve mission delivery;[19]
- The ability to recognize the nature and limits of their funding sources and the impact that can have on their operational decision-making;[20]
- An open, entrepreneurial organizational culture that is willing to embrace innovation and experimentation[21] and improvise as needed in response to changing circumstances (e.g. using existing resources, adapting physical space, sharing staff between programs).[22]

While nonprofits and charities cannot control government funding cuts, rates of inflation or the demand for their programs and services, they can control how they adapt — weathering the storms that do arise — by maintaining a continued focus on financial health and resilience.

[16] Coker, R., Pal, N. & Salinas, M. (2018). "Building Financially Resilient Nonprofits: Lessons from the Field". Stanford Social Innovation Review. https://ssir.org/articles/entry/building_financially_resilient_nonprofits_lessons_from_the_field.

[17] S.D. Bechtel Jr. Foundation (2016).

[18] Witmer, H. & Mellinger, M.S. (2016). "Organizational resilience: Nonprofit organizations' response to change." Work 54, at p. 262.

[19] Lalande, L. & Cave, J. (2017). "Measuring Outcomes in Practice: Fostering an Enabling Environment for Measurement in Canada." Mowat Centre. https://mowatnfp.ca/2017/10/measuring-outcomes-in-practice/

[20] Pratt, J. (2004). "Analyzing the Dynamics of Funding: Reliability and Autonomy." Nonprofit Quarterly. https://nonprofitquarterly.org/analyzing-the-dynamics-of-funding-reliability-and-autonomy/.

[21] Foster & Meinhard (2002) at p. 29, citing Light, P.C. (1998). Sustaining innovation: creating nonprofit and government organizations that innovate naturally. San Francisco: Jossey Bass.

[22] Witmer, H. & Mellinger, M.S. (2016). "Organizational resilience: Nonprofit organizations' response to change." Work 54, at p. 260.

Nonprofits and charities are facing significant challenges with the current funding land-scape - in the amount of funding available, where the funding is coming from and how the funding is being administered. This is having a profound impact on the future financial health and resilience of the sector.

Trends and Issues Influencing Financial Health and Resilience

The following trends and issues are having a profound impact on the future financial health and resilience of the nonprofit and charitable sector:

Increasing pressure to diversify or expand revenue sources

As funding cuts become the "new norm" in the sector, organizations feel increased pressure to diversify their revenue sources and embrace market-based funding as an alternative. However, this pressure alone is unlikely to increase an organization's funding stability because these efforts require a significant redirection of managerial time and expertise.[23] When organizations attempt to "over-diversify," the administrative burden can be significant — particularly if funders are not transparent about the organizational capacity required to fulfill their reporting obligations.[24] Appendix B illustrates how the proportion of revenue from various funding sources has shifted for Canadian nonprofit organizations (excluding hospitals, colleges and universities) from 1997 to 2017, based on Statistics Canada data.

Program and organization funding shifting to individualized funding models

Individualized funding models — often described as "passport," "direct" or "voucher" funding — are intended to promote flexibility, autonomy and choice for service users and are particularly prominent in the disability sector.[25] The Government of Ontario introduced the Passport Program as a direct funding model for individuals with developmental disabilities in 2006[26] and has recently demonstrated renewed interest in such an approach through "childhood budgets" for autism services. Childhood budgets provide a direct transfer of $20,000 per year to families with children under the age of five (and $5,000 per year thereafter).[27] In the United Kingdom, individualized funding models have been widely used for seniors, individuals with physical and/or developmental disabilities and individuals with mental health concerns.[28] [29]

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[23] Calabrese, T. (2012). "Running on Empty: The Operating Reserves of U.S. Nonprofit Organizations." Nonprofit Management & Leadership 23(3): 281-302 at p. 299.

[24] Eakin, L. (2007). "We Can't Afford to Keep Doing Business This Way: A Study of the Administrative Burden Resulting from Funder Accountability and Compliance Practices." Toronto: Wellesley Institute at p.43.

[25] Dew, A. et al. (2013). "Carer and service providers' experiences of individual funding models for children with a disability in rural and remote areas." Health and Social Care in the Community 21(4): 432-441 at p. 432.

[26] Government of Ontario (2017). "13,000 Adults with Developmental Disabilities Receiving Support." https://news.ontario.ca/mcys/en/2017/02/13000-adults-with-developmental-disabilities-receiving-support.html.

[27] Government of Ontario (2019). "Ontario Autism Program." http://www.children.gov.on.ca/htdocs/English/specialneeds/autism/ontario-autism-program.aspx. This policy reform has proven to be very controversial for families and service providers because the funding is not based on an individualized assessment of need and falls well below the average cost of autism services for families.

[28] Kelly, C. (2016). Disability Politics and Care: The Challenge of Direct Funding. Vancouver: UBC Press at p.15.

[29] For example, Social Care Wales and Care to Cooperate. They have a learning hub designed to assist people who want to set up care and support service in their communities.

Individualized funding models tend to shift service provision to private individual service providers, significantly impacting nonprofit and charitable organizations that provide community-based care. Such models can create significant risks and revenue uncertainty for service providers because they often have to sustain their own overhead and operational costs in anticipation of demand from individual service users. In the United Kingdom, individualized funding models led to significantly reduced utilization of seniors' day centres (largely attributed to the limited budgets and stringent referral criteria that were imposed, rather than decreased demand from service users), resulting in centre closures due to a lack of core funding.[30] Individualized funding models also often fail to account for the need for brokers or intermediary organizations to assist with managing funding, assessing individuals' needs and coordinating between multiple care providers.[31]

Growing interest in innovative approaches to government funding

Governments are increasingly exploring innovative funding models beyond traditional transfer payments. In 2017, the Government of Canada launched a five-year pilot on "generic terms and conditions" that allows government departments to explore experimental funding models, including low-risk micro-funding (grants up to $1,000), prizes/challenges and incentives-based funding.[32] The pilot project is intended to experiment with these approaches to determine what is most successful to roll out on a longer-term basis, drawing on key learnings from the United States, United Kingdom and Australia.

Consistent across these models is the expectation that nonprofit and charitable organizations bear some of the upfront costs or risks to determine if a particular program or intervention is successful — the opposite of "core funding" that was the hallmark of government funding programs in the 1990s.

Transitioning from transfer payments to commissioning

Procurement and commissioning models are also emerging as areas of interest for government funders, requiring nonprofit and charitable organizations to engage in competitive bidding on service delivery contracts based on pre-determined outcome thresholds.[33] These models are used in Australia and the United Kingdom and often privilege larger, more well-resourced organizations with in-house tendering expertise and the administrative capacity required to engage in sophisticated bidding practices.[34] Early research on these models has indicated that commissioning increases job precarity for staff and negatively impacts cooperative relationships between service providers.[35]

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[30] Needham, C. (2013). "Personalized commissioning, public spaces: the limits of the market in English social care services". BMC Health Services Research 13(Supp 1): 1-9.

[31] Laragy, C. and Ottmann, G. (2011). "Towards a Framework for Implementing Individual Funding Based on an Australian Case Study". Journal of Policy and Practice in Intellectual Disabilities 8(1): 18-27.

[32] Government of Canada (2017). "Enabling the innovative use of Transfer Payments." https://www.canada.ca/en/treasury-board-secretariat/services/innovation/enabling-innovative-use-transfer-payments.html.

[33] Stagnowski, M. & Macdonald, M. (2016). "Commissioning 101". https://theonn.ca/wp-content/uploads/2016/11/Nonprofit-Driven_Commissioning-101.pdf.

[34] Buckingham, H. (2009). "Competition and contracts in the voluntary sector: exploring the implications for homelessness service providers in Southampton". Policy & Politics 37(2): 25-254 at p. 244.

[35] Buckingham, H. (2009), 245-246.

In Ontario, this shift (often referred to as tendering) is also connected to ministries' efforts to reduce the number of transfer payment agreements with nonprofit and charitable organizations by creating "two-tiered" funding models. Under such an approach, governments will contract with large organizations, who then administer the funding through subcontracting relationships with other, smaller organizations in a decentralized or regional model.[36] An example of this type of contracting relationship is observable in Ontario's health care system reform, where the Local Health Integration Networks and a number of health agencies are being replaced by one agency, Ontario Health, which will oversee "Ontario Health Teams" responsible for delivering services.[37]

This approach has been described as a "prime provider" model in the UK and Australia and has raised several concerns, including the risk of creating a surveillance or accountability culture among organizations, relying on large organizations and preventing smaller organizations from building relationships directly with funders, and further removing governments from service delivery and impacting the development of evidence-based public policy.[38] This approach creates cash flow problems for smaller organizations, as they often provide the service and invoice the prime provider on the outcomes that were achieved.

Continued exploration — but limited implementation — of social impact bonds (SIBs) [39]

Despite significant interest in SIBs, there are only four active contracts in Canada (Sweet Dreams and Mother Theresa Middle School in Saskatchewan, the Essential Skills Social Finance Project in British Columbia, and the Heart and Stroke Foundation's Community Hypertension Prevention Initiative).[40] Manitoba will launch its first SIB, "Restoring the Sacred Bond," this Fall in partnership with the Southern First Nations Network of Care.[41] The Government of Ontario has explored potential investments in SIBs since 2014, but has not launched any provincially-funded pilot projects.[42] The delayed progress in implementation suggests that SIBs involve more technical complexity and organizational readiness than was initially anticipated. Nonprofit and charitable organizations interested in developing SIB concepts may require additional support in financial and economic modelling, data management and impact measurement to ensure that the terms of their contract are feasible.[43]

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[36] This approach has been adopted in Ontario in mental health services, employment and training, and health care delivery.

[37] Ontario Government (2019). "Backgrounder: Building a Connected Public Health Care System for the Patient." https://news.ontario.ca/mohltc/en/2019/02/building-a-connected-public-health-care-system-for-the-patient.html?_ga=2.94412636.1713803791.1566304307-2135357331.1566304307

[38] Gallet, W. et al. (2015). "The Promises and Pitfalls of Prime Provider Models in Service Delivery: The Next Phase of Reform in Australia?". Australian Journal of Public Administration 74(2): 239-348.

[39] Tzannidakis, A. (2019). ""Social Impact Bonds" on the Rise in Canada." Drache Aptowitzer LLP. https://drache.ca/articles/social-impact-bonds-rise-in-canada/.

[40] Khovrenkov, I. (2018). "Assessing Social Impact Bonds in Canada." Regina: Johnson Shoyama Graduate School of Public Policy. https://www.schoolofpublicpolicy.sk.ca/documents/research/policy-briefs/JSGS-policybriefs-Social-Impact-Bonds_FINAL.pdf.

[41] Restoring the Sacred Bond Initiative. (2019). "News Release: Manitoba's First Social Impact Bond Successfully Secures Investment." https://www.restoringthesacredbond.ca/site/blog-posts/2019/06/11/manitobas-first-social-impact-bond-successfully-secures-investment.

[42] Government of Ontario (2019). "Piloting social impact bonds in Ontario: the development path and lessons learned". https://www.ontario.ca/page/piloting-social-impact-bonds-ontario-development-path-and-lessons-learned.

[43] Ibid.

Changing nature of charitable giving

While receipted charitable giving in Canada is declining, informal public appeals for financial contributions (also described as "crowdfunding") are growing in popularity. Saskatchewan is currently the only province in Canada that has introduced legislation to govern the administration of informal public appeals, despite a recommendation from the Uniform Law Conference in 2012 that such legislation should be implemented nationwide.[44] Saskatchewan's Informal Public Appeals Act was used to successfully administer $15.2M that was raised for the families of victims in the Humboldt Broncos tragedy in 2018 through a GoFundMe campaign.[45] It is unclear whether charitable giving in the future will continue to shift away from formal, tax-receipted donations and if informal public appeals for specific projects or initiatives will become more frequent. Policymakers should move quickly to clarify the regulatory framework as these fundraising platforms become more commonplace.

New models for philanthropic giving

Public and private foundations in Canada are influential players in the sector's funding landscape - in 2016, over 10,000 foundations across Canada allocated $5.7B in total giving to Canadian charities.[46] Foundations are increasingly exploring innovative funding tools such as program related investments (PRIs), in which loans are provided to nonprofit organizations or charities at below-market rates of return.[47] However, similar to other market-based instruments, PRIs can pose challenges for nonprofit or charitable organizations that lack the capacity, readiness or financial literacy to utilize loan-based financial instruments effectively. Moreover, loans do not address the issue that the services must, in the end, be paid by someone.

Charitable giving through donor advised funds (DAFs) administered by financial institutions and community foundations is on the rise. Through DAFs, individual donors manage charitable contributions through a dedicated philanthropic fund rather than establishing their own charitable foundation. At the end of 2016, more than $3.2B in assets were held in Canadian DAFs, and this figure is expected to increase to $6.5B in 2023 with an aging population of high net-worth individuals.[48] While disbursements are being made from these instruments, some experts have identified a number of challenges with these accounts. These challenges include a lack of payout and oversight rules which could result in delays in the distribution of the funds to charities.[49]

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[44] Uniform Law Conference (2012). "Second Report of the Working Group on a Uniform Informal Public Appeals Act". https://www.ulcc.ca/en/civil-section/108-civil-section-current-topics/1321-second-report-of-the-working-group-on-a-uniform-informal-public-appeals-act.

[45] Macnab, A. (2018). "Saskatchewan court grants order regulating payouts for victims of Humboldt Broncos crash". Canadian Lawyer Magazine. https://www.canadianlawyermag.com/legalfeeds/author/aidan-macnab/saskatchewan-court-grants-order-regulating-payouts-for-victims-of-humboldt-broncos-crash-16087/.

[46] Philanthropic Foundations Canada (2018). "Brief from Philanthropic Foundations Canada to the Senate Special Committee on the Charitable Sector." https://sencanada.ca/content/sen/committee/421/CSSB/Briefs/CSSB_HilaryPearson(PFC)_e.pdf.

[47] Ibid.

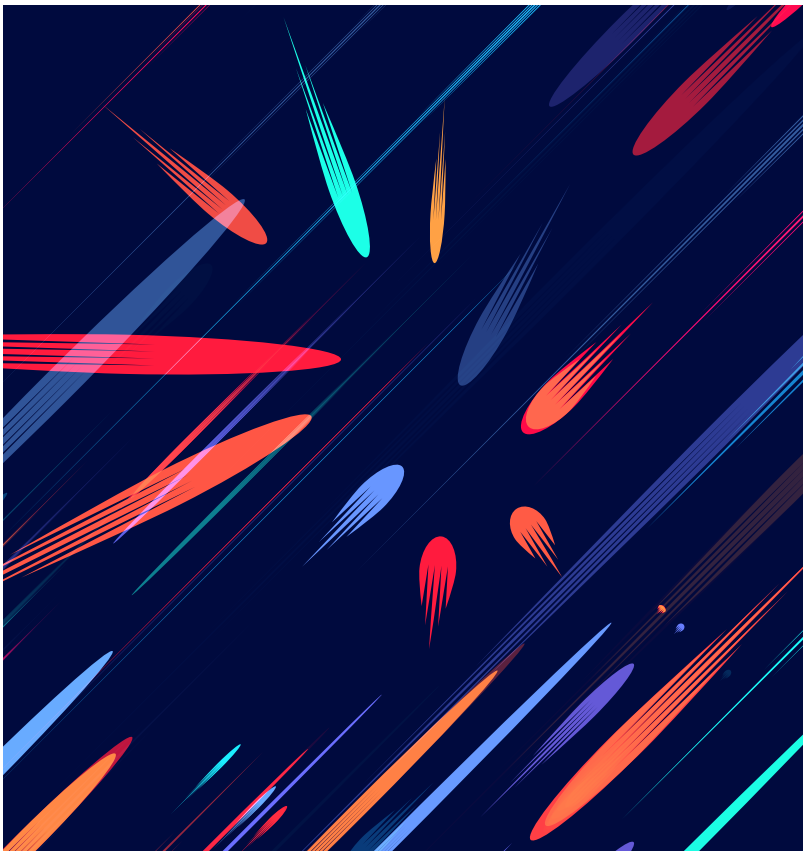
[48] Investor Economics (2018). "Donor-Advised Funds." https://www.investoreconomics.com/thought-leadership/donor-advised-funds/.

[49] Special Senate Committee on Charitable Sector (2019). "Catalyst for Change: A Roadmap to a Stronger Charitable Sector." See pages 110- 112. https://sencanada.ca/content/sen/committee/421/CSSB/Reports/CSSB_Report_Final_e.pdf

Impact of Previous Funding Modernization Initiatives

After decades of sector advocacy and supporting research at the provincial and national level, funding modernization remains largely unaddressed by policymakers. Ontario has made incremental changes to this file, but numerous issues remain unresolved (e.g. modernizing transfer payments).[50] The Government of Ontario has also signaled several significant policy reforms in the future, including the consolidation of transfer payments across ministries and the increased use of direct funding models for individuals rather than program-wide funding.[51]

At the national level, there has been limited traction on finance and funding modernization since the conclusion of the Voluntary Sector Initiative and the Independent Blue Ribbon Panel on Grants and Contribution Programs. Since its release in 2006, the Blue Ribbon Panel's recommendations have slowly been incorporated in the Treasury Board's funding practices, but there has not been a systematic effort to modernize the government-sector relationship on funding issues.[52] Currently, the Government of Canada's funding modernization efforts for the sector largely focus on expanding Canada's social finance marketplace, as demonstrated by its $755M commitment over 10 years to establish a National Social Finance Fund.[53]



[50] Ontario Nonprofit Network (2019). "Provincial Budget 2019." https://theonn.ca/our-work/our-financing/provincial-budget-2019/; Ontario Nonprofit Network. "Transfer Payment Administration Modernization." https://theonn.ca/our-work/our-financing/government-investment-funding-reform/transfer-payment-administration-modernization/.

[51] Ontario Nonprofit Network (2019). "Provincial Budget 2019". https://theonn.ca/our-work/our-financing/provincial-budget-2019/. Direct funding is sometimes referred to as individual budgets, voucher funding or micro-commissioning.

[52] Treasury Board of Canada Secretariat (2018). "Plan to Reform the Administration of Grant and Contribution Programs: 2017 Results Report". https://www.canada.ca/en/treasury-board-secretariat/corporate/reports/second-assessment-reform-administration-grant-contribution-programs-2017-results-report.html; Special Senate Committee on the Charitable Sector, Issue 6 - Evidence (18 September 2018), testimony of Michael Lionais. https://sencanada.ca/en/Content/SEN/Committee/421/cssb/06ev-54210-e.

[53] Government of Canada (2018). "Backgrounder: The Social Finance Fund". https://www.canada.ca/en/employment-social-development/news/2018/11/backgrounder-the-social-finance-fund.htm.

Provincial and National Sector-Wide Changes to Funding [54]

The figure below and right outlines key milestones in finance and funding modernization at the provincial level in Ontario and the federal level since the early 2000s.

GOVERNMENT OF ONTARIO

Milestone	Impact
Partnership Project (2010)	• Introduced a government-wide system for administering grant applications (intention for this process to be implemented across ministries) • Created an Office for Social Enterprise to provide dedicated support to social entrepreneurs and impact investors (now defunct) [55]
Open for Business (2012)	• Launched the Nonprofit Registry for Public Benefit Lands, allowing nonprofit organizations to access surplus government lands before they are on the open market • Allowed provincially funded nonprofit organizations and charities to participate in the Vendor of Record program (procurement process for government goods and services) • Started discussions about expanding the Infrastructure Ontario Loan Program to nonprofit organizations, charities and cooperatives [56]
Joint Funding Reform Forum (JFRF) (2015 - 2017)	• Created a joint table for government and the sector to work collaboratively on funding reform [57]
Release of Transfer Payment Accountability Directive (2017)	• Provided a framework for how transfer payments would be administered across the Government of Ontario • First time Government of Ontario distributed an internal directive for comment from the nonprofit sector before it was released [58]
Release of Transfer Payment Operational Policy (2018)	• Created template funding agreements to provide some standardization across ministries and programs (note, however, that these templates are voluntary for certain types of organizations) [59] • Introduced framework for how an organization's level of risk is assessed and how that impacts accountability measures

[54] Note that this table summarizes funding initiatives that were broadly introduced to the nonprofit and charitable sector. It does not include changes or initiatives that were specific to a subsector (e.g. childcare, education, immigration).

[55] Government of Ontario (2013). "Partnership Project Progress Report (2013)". https://www.ontario.ca/page/partnership-project-progress-report-2013.

[56] Ontario Nonprofit Network (2014). "The Legacy of Open for Business". https://theonn.ca/legacy-open-business/.

[57] Ontario Nonprofit Network (2015). "Joint Funding Reform Forum Terms of Reference". https://theonn.ca/wp-content/uploads/2015/05/JFRF-Terms-of-Reference-FINAL.pdf.

[58] Government of Ontario (2017). "Transfer Payment Accountability Directive". https://www.ontario.ca/page/transfer-payment-accountability-directive.

[59] Government of Ontario (2018). "Transfer Payment Operations Policy." https://www.ontario.ca/page/transfer-payment-operational-policy.

GOVERNMENT OF CANADA

Milestone	Impact
Voluntary Sector Initiative (2001)	• Introduced Code of Good Practice on Funding (principles and practices for productive funding relationships between government and sector) • Provided recommendations on funding data collection, donation tax incentives, consistent accountability requirements and non-restricted multi-year granting [60]
Blue Ribbon Panel on Grants and Contributions (2006)	• Developed principles to inform grants and contributions modernization • Proposed that transfer payments be aligned to the type of program being funded • Proposed a "single view of the client" approach by promoting greater horizontal coordination across departments • Proposed simplifying transfer payment process and increasing transparency [61]
Innovation in Transfer Payments Pilot Project (2017)	• Introduced incentives-based funding, prizes/challenges (open-ended funding competitions to address a particular problem or challenge) and micro-funding models (up to $1,000) in a five-year pilot project [62]
Social Finance Fund (2018)	• Invests $755M over 10 years to provide financing to social purpose organizations • Invests an additional $50M over 2 years to build capacity for social purpose organizations to participate in the social finance market [63]

[60] Voluntary Sector Initiative (2002). "Setting the Agenda: Moving Forward on Financing." http://www.vsi-isbc.org/eng/funding/pdf/moving_forward.pdf.
[61] Treasury Board of Canada Secretariat (2006). "From Red Tape to Clear Results: The Report of the Independent Blue Ribbon Panel on Grants and Contributions Programs." http://publications.gc.ca/collections/Collection/BT22-109-2007E.pdf.
[62] Government of Canada (2017). "Enabling the innovative use of Transfer Payments." https://www.canada.ca/en/treasury-board-secretariat/services/innovation/enabling-innovative-use-transfer-payments.html.
[63] Government of Canada (2018). "Backgrounder: The Social Finance Fund". https://www.canada.ca/en/employment-social-development/news/2018/11/backgrounder-the-social-finance-fund.html.

These initiatives have introduced significant changes to the funding landscape, but they have largely failed to respond to emerging trends and issues in a timely manner. This has resulted in mixed messages for many organizations as they try to navigate the funding environment and anticipate how funding models will change in the future.

The figure below illustrates these emerging trends in the funding environment, demonstrating the need for policymakers and sector leaders to take a "future-oriented" perspective when proposing reforms to the sector's funding landscape.

EVOLUTION OF GOVERNMENT FUNDING MODELS

1990s	2000s	2010s	Current State	Future State
Core/ contribution funding and growing interest in diversification [64] Growing interest in New Public Management [65]	Shift from core funding to short-term program-specific funding [66]	Growing emphasis on performance and outcomes funding models (e.g. social impact bonds) [67]	Increased variation in funding models (e.g. individualized funding, procurement, commissioning) [68]	Increased competition from for-profit organizations; increased emphasis on investments in technology (vs place-based programs and services) [69]

[64] Eakin, L. (2001). "An Overview of the Funding of Canada's Voluntary Sector." Voluntary Sector Initiative Working Group Initiative on Financing at p.3.
[65] Evans, B. M. & Shields, J. (2000). "Neoliberal Restructuring and the Third Sector: Reshaping Governance, Civil Society and Local Relations." Ryerson University Centre for Voluntary Sector Studies Working Paper No. 13. https://www.ryerson.ca/~cvss/WP13.pdf.
[66] Scott, K. (2003). "Funding Matters: The Impact of Canada's New Funding Regime on Nonprofit and Voluntary Organizations." Ottawa: Canadian Council on Social Development at p. 35. https://www.ccsd.ca/images/research/FundingMatters/PDF/FM_Chapter3.pdf.
[67] Gold, J., Mendelsohn, M. (2014). "Better Outcomes for Public Services: Achieving Social Impact Through Outcomes Based Funding." Mowat Centre. https://munkschool.utoronto.ca/mowatcentre/wp-content/uploads/publications/91_better_outcomes_for_public_services.pdf.
[68] Special Senate Committee on Charitable Sector (2019). "Catalyst for Change: A Roadmap to a Stronger Charitable Sector." At p.49. https://sencanada.ca/content/sen/committee/421/CSSB/Reports/CSSB_Report_Final_e.pdf.
[69] Description of future state derived from key informant interviews.

Notably, a Special Senate Committee on the Char-itable Sector (CSSB) was established in January 2018 to examine the impact of federal and provincial laws on the sector and examine the impact of the voluntary sector in Canada. The CSSB's final report[70] outlined 42 recommendations for comprehensive and meaningful modernization, of which seven related specifically to sector funding. These included reviewing tax measures available to donors, changing grants and contribution timelines, application and reporting requirements, supporting full cost recovery of services delivered, supporting innovation in the sector, and developing a standard set of reporting categories and online-tools.

The recent Senate Committee study and corre-sponding report offer a rare opportunity to realize lasting change on sector modernization. Given the sheer number and diversity of recommendations, the key challenge for the federal government and the sector now is determining which of the 42 recommendations should be prioritized and who should be responsible for implementing them.

[70] Special Senate Committee on Charitable Sector (2019). "Catalyst for Change: A Roadmap to a Stronger Charitable Sector. "https://sencanada.ca/content/sen/committee/421/CSSB/Reports/CSSB_Report_Final_e.pdf.

“It is time to recognize that precarious, restrictive and limited funding equals precarious, restrictive and limited mission fulfillment. Enabling the nonprofit sector, rather than limiting it, will allow nonprofits to better address the issues, challenges and opportunities our communities are experiencing.”

- Betty Ferreira,
Foresight and Impact Strategist and Speaker

Recommendations

Across Canada, the nonprofit and charitable sec-tor is facing significant funding pressures in the form of changes in the amount of funding available, where the sector must source the funding and how the funding is being administered. Together, these changes will have a long-term impact on nonprofits and charities and the people they serve.

The sector is often positioned as the "shock ab-sorber" when demand for programs and services increases in periods of government fiscal restraint. If organizations experience periods of financial distress, the impact is a ripple effect — staff face increasing job precarity and the needs of the community remain unmet.

Similar to the late 1990s in Ontario,[71] nonprofit and charitable organizations will likely respond to changes in the funding environment by increasing competition for limited funding, laying off staff and increasing reliance on volunteer labour, eliminating programs and services, introducing user fees, relocating, downsizing or consolidating their management structures.[72] If organizations fail to adapt quickly, bankruptcy, receivership and organizational closures remain real risks.[73]

Federal and provincial governments and other funders should consider the following strategic recommendations to better understand and enable the financial health and resilience of the nonprofit and charitable sector:

1) Invest in financial literacy training of nonprofits and charities.

Nonprofit and charitable sector organizations are best positioned to weather changes in the funding environment when they have the organizational capacity, support and expertise to do so. Training and learning opportunities are critical for building thriving organizations. There are significant opportunities to engage with professional associations and higher education institutions about their curriculum and course offerings.

TEACHING FINANCIAL LEADERSHIP

CPA Ontario hosts a five-day program that provides professionals with the knowledge and tools needed to integrate finance and strategy in a nonprofit organization. Through practical exercises, group discussions, and case simulations, the program aims to help participants understand the role of finance at the organizational level and equip them with the know-how needed to improve processes and identify risks. Examples of topics covered by the program include audited financial statement analysis and accounting standards for nonprofit organizations.[74]

[71] Of 40 Ontario organizations participating in a Statistics Canada study, almost 66% of organizations reported operating with lower revenues in 1997 than in 1992. 85% of participating organizations reported greater financial vulnerability. See Reed, P. & Howe, V. (2000). "Voluntary Organizations in Ontario in the 1990s". Ottawa: Statistics Canada and Carleton University at p.7. http://publications.gc.ca/collections/Collection/CS75-0048-2E.pdf.

[72] Foster, M. & Meinhard, A. (2002). "A Contingency View of the Responses of Voluntary Social Service Organizations in Ontario to Government Cutbacks". Canadian Journal of Administrative Sciences 19(1): 27-41 at p. 30.

[73] Human Services Council. "New York Nonprofits in the Aftermath of FEGS: A Call to Action." Human Services Council: New York, US. http://www.nysba.org/LessonsFromtheFEGSCollapse/

[74] CPA Ontario (2019). "Certificate in Not-for-Profit and Charity Finance Leadership." https://portal.cpaontario.ca/Pages/en_US/Forms/Public/Events/EventDescription.aspx?eid=3ea201d5-c0dd-e611-8f8b-0050568e53f0

2) Invest in umbrella organizations, venture philanthropy and other nonprofit intermediaries.

Governments and other funders should prioritize investments in umbrella organizations, think tanks, venture philanthropy organizations[75] and other nonprofit intermediaries so that they can:

- Share best practices and key learnings on issues related to finance and funding.
- Undertake independent applied research on issues impacting nonprofits and charities.
- Support capacity building and training in measurement and data literacy.

Through this work, they can help nonprofits and charities develop the skills, competencies, and experience needed to improve mission delivery, scale innovations and respond to new funding opportunities. These organizations make an important contribution to supporting nonprofits and charities on their path to long-term financial sustainability and impact.

3) Advance the Special Senate Committee on the Charitable Sector's (CSSB) recommendations for a stronger sector.

Federal government departments and sector stakeholders have an important role in advancing the CSSB's recommendations and providing a clear case to move forward. In August 2019, Mowat NFP released a report[76] that offered a practical framework for prioritization and agenda-setting, drawing on lessons from past reform efforts. It also identified five specific CSSB recommendations that could deliver meaningful change while building momentum and laying the groundwork for deeper, more transformative sector modernization in the future. Two of those CSSB recommendations relate specifically to funding:

- **Recommendation 10** - Creating ministerial policies to require departments and agencies to compensate nonprofit and charitable organizations for the full administrative cost of program delivery.

- **Recommendation 12** - Mandating the Treasury Board Secretariat to ensure that grants and contributions agreements provide for a minimum of two years of funding (renewable as appropriate) and the level of reporting is proportionate with the complexity of the funding agreement.

[75] "Venture philanthropy is a method of investing skills, expertise and funding in not-for-profit organizations to improve their capacity to deliver greater social impact." https://www.liftpartners.ca/blog/what-is-venture-philanthropy/.

[76] Lalande, L. & Cave, J. (2019). "Navigating the Roadmap for Change: Advancing the Senate Committee's Recommendations for a Stronger Social Sector."

Failing to account for the administrative cost of program delivery has caused various issues, including the absence of "decent work" conditions for staff, a lack of organizational capacity for measurement and fund development and a lack of stability in programs and service offerings for beneficiaries.[77] The sector has also experienced significant challenges with the short timeframes for grants and contributions agreements and the resulting reporting burden.[78] These recommendations will help to consolidate decades of reform efforts and provide consistency and predictability for the sector in the future.

[77] Scott, K. (2003). "Funding Matters: The Impact of Canada's New Funding Regime on Nonprofit and Voluntary Organizations." Ottawa: Canadian Council on Social Development.

[78] Voluntary Sector Initiative (2002). Setting the Agenda: Moving Forward on Financing. Ottawa: Voluntary Sector Secretariat. http://www.vsi-isbc.org/eng/funding/pdf/moving_forward.pdf at p. 4; Treasury Board of Canada Secretariat. (2006). "From Red Tape to Clear Results: The Report of the Independent Blue Ribbon Panel on Grants and Contributions Programs." http://publications.gc.ca/collections/Collection/BT22-109-2007E.pdf

4) Fund research about financial health and resiliency.

To understand how the funding landscape impacts the financial health and resiliency of nonprofits and charities, high-quality data and research are needed. However, there are significant gaps in the available statistical data about sector funding in Canada. Numerous umbrella organizations have raised concerns about the implications this has for effective research and policymaking.[79]

The table below identifies critical data priorities and research questions that can help governments and the sector determine the path to long-term financial sustainability for nonprofits and charities. These should be prioritized and funded to realize meaningful policy and funding modernization.

DATA PRIORITIES

- Short- and long-term impact of funding cuts on nonprofit and charitable organizations and research institutions/policy thinktanks.
- Rates of bankruptcy, insolvency and organizational closure by size of organization, sub-sector and funding source.
- Prevalence of organizational consolidations and mergers due to funding pressures.
- Changes in the size and number of funding contracts per organization over time
- Proportion of sector exploring social enterprise, social finance or impact investing models as a revenue diversification strategy
- Canadians' participation in non-traditional forms of unreceipted charitable giving behaviour (e.g. crowdfunding campaigns).
- Efficacy of core funding for impact and financial sustainability

RESEARCH QUESTIONS

- How do nonprofits and charitable organizations adapt when their revenue sources change? What diversification strategies do they use, and how does the process of revenue diversification impact their organization?
- How will the shift from organization and program-specific funding to individualized funding[80] affect nonprofits and charitable organizations as service providers and employers? How are organizations adapting to this policy change?
- Under what conditions are organizations able to generate more earned income? For what types of organizations is earned income most appropriate?
- What subsectors and size of nonprofits and charitable organizations are most appropriate or best positioned to participate in the new opportunity of the federal Social Finance Fund? How will this Fund change the funding landscape in the sector over the long-term?
- How does increased competition between nonprofit and charitable organizations and with the private sector affect the nonprofit and charitable sector?

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[79] Calgary Chamber of Voluntary Organizations (2018). "CCVO Submission to the Special Senate Committee on the Charitable Sector". https://www.calgarycvo.org/news/statistics-canada-releases-nonprofit-economic-data; Goertzen, J. (2017). "Getting to know Canada's nonprofit sector: why we need better data". Ottawa: Imagine Canada. http://www.imaginecanada.ca/blog/getting-know-canadas-nonprofit-sector-why-we-need-better-data.

[80] Often described as "passport," "direct" or "voucher" funding.

Rigorous, continuous data and sense-making about sector funding issues will provide policy-makers and sector leaders with the evidence they require to move beyond anecdotal observations and build a case for meaningful, future-oriented funding modernization.

Changes in the funding landscape are inevitable, but a financially healthy and resilient nonprofit and charitable sector will be able to adapt to these changes more effectively. This paper is the first in a series that Mowat NFP is producing on the financial health and resilience of Canada's nonprofit and charitable sector. The series will explore these data gaps and research questions and provide concrete recommendations to build a more financially resilient sector.

Appendices

Appendix A:

Measures of Organizational Financial Health

ORGANIZATION-SPECIFIC MEASURES

Measure(s)	Description	Source
Revenue reliance ratios [Income source / Total income = Reliance ratio]	Reliance on sources of income; implies that diversification of revenue sources promotes financial resilience	Barr (2008)
Liquidity ratios (assets as a proportion of organizational liabilities)	Focuses on organization's ability to meet short-term financial demands; does not provide a long-term perspective	Business Development Bank of Canada (2019)
Debt ratio [Total liabilities / Total unrestricted net assets = Debt ratio]	Evaluates the extent to which organization is dependent on funding from others (e.g. loans; payables)	Barr (2008)
Sustainability ratios ((total revenue - total expenses)/total revenues)	Evaluates extent to which organization builds reserves from current revenue sources; presumes that organizational reserves are required for financial resilience	Tuckman & Chang (1991)
Changes in Unrestricted Net Assets (CUNA) [Changes in unrestricted net assets / Total unrestricted income = CUNA ratio]	Percentage of income available to build reserves, invest in infrastructure, etc.; assumes that organization is growth-oriented	Barr (2008)

Notably, the overhead or efficiency ratio[81] is another measure sometimes used by stakeholders and funders. Researchers argue that it is an inappropriate measure of efficiency as it only considers the resources an organization uses to meet the needs of beneficiaries and not the benefit an organization provides/produces for the community.[82] Informants indicated it is a contentious issue in the sector. For this reason, we have not included it in the table.

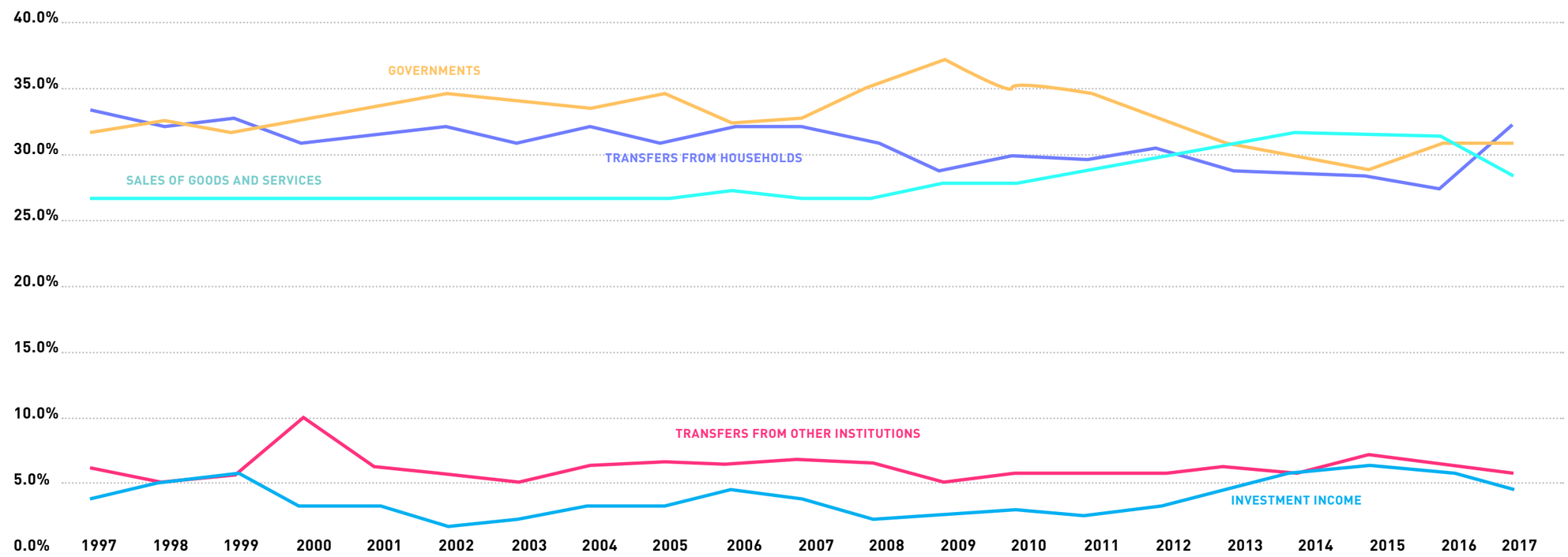
[81] Administration, program and fundraising expense ratios and cost of fundraising per $1 of funds raised.

[82] Coupet, J. and Barrett, J.L. (2017). "Toward a Valid Approach to Nonprofit Efficiency Measurement." Nonprofit Management and Leadership. Wiley Periodicals, Inc. https://onlinelibrary.wiley.com/doi/epdf/10.1002/nml.21336.

Appendix B:

Change in Revenue Sources Over Time

The figure on the right illustrates how the proportion of revenue from various funding sources has shifted for Canadian nonprofit and charitable organizations from 1997 to 2017, based on Statistics Canada data.[83] This data does not reflect the differences in revenue source based on the size, type and location of the organization.



	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
SALES OF GOODS AND SERVICES	26.3%	26.8%	26.2%	24.6%	26.6%	27.3%	28.2%	25.9%	26.0%	26.6%	26.2%	26.4%	27.4%	27.7%	28.8%	29.7%	30.5%	31.1%	31.0%	30.9%	27.8%
INVESTMENT INCOME	3.5%	4.7%	5.3%	2.8%	2.8%	1.5%	1.9%	3.0%	3.1%	3.9%	3.6%	1.9%	2.3%	2.5%	2.3%	2.8%	4.3%	5.5%	6.0%	5.4%	4.2%
TRANSFERS FROM HOUSE-HOLDS	33.1%	31.8%	32.2%	30.7%	31.3%	31.8%	30.9%	31.7%	30.8%	31.6%	31.7%	30.5%	28.5%	29.5%	29.5%	30.2%	28.9%	28.3%	28.1%	27.1%	31.9%
TRANSFERS FROM OTHER INSTITUTIONS	5.8%	4.8%	5.0%	9.6%	5.8%	5.1%	5.0%	5.9%	6.2%	6.0%	6.3%	6.1%	5.0%	5.4%	5.1%	5.2%	5.7%	5.6%	6.5%	6.0%	5.3%
GOVERNMENTS	31.3%	32.0%	31.3%	32.3%	33.5%	34.3%	34.0%	33.5%	34.0%	31.9%	32.2%	35.1%	36.8%	35.0%	34.3%	32.2%	30.6%	29.5%	28.4%	30.6%	30.8%

[83] Statistics Canada (2019). "Production, income and outlay accounts of non-profit institutions (x 1,000,000)." https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=3610061301. The data presented are for "community non-profit institutions" only. "Government" includes transfers from all three levels (i.e. local, provincial, and federal). "Transfers from households" includes donations and membership fees. "Transfers from other institutions" includes transfers from businesses, other non-profits, and non-residents.

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