

Financing Voluntary and Nonprofit Organizations in Alberta

**A Report on the Alberta Regional Finance Action Group
February 2006**



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Executive Summary

In November 2005, the Calgary Chamber of Voluntary Organizations (CCVO) hosted an Alberta Finance Action Group meeting that brought together representatives from the voluntary sector; the municipal, provincial and federal governments; and funding organizations to engage in dialogue and explore solutions to the funding issues experienced by the voluntary sector.

The meeting focused on the discussion of four topics: the role of government in funding the voluntary sector; perceptions of duplication and proliferation of non-profit and charitable organizations; funding of overhead and administrative costs; and project funding and core funding. This report provides a detailed summary of each of the topics explored during this session, as well as recommendations for further action on these issues.

Key Findings:

Knowledge and understanding about funding issues are leading to change.

- Recognition that increased awareness of funding challenges, stimulated by some excellent research and reports in recent years, has resulted in some changes to funding practices, increased collaboration and more discussions about capacity issues.

Everyone involved has a different role to play.

- Government funding should be the major source of core funding for community-based services, with other sources of funds supporting innovation, new initiatives and emerging needs.
- The need for greater clarity of roles and improved communications within and between governments, and with the voluntary sector.

There are no simple explanations for perceived duplication and proliferation issues.

- Growth in the number of charities and nonprofit organizations is driven by various factors, including changing (and growing) community needs and expectations, funding policy and practices, and is a sign of a healthy civil society. There is a need for a better understanding of why organizations emerge and die, and of the factors that maximize the effective use of resources.

Funding practices should be an appropriate match, holistic and take overhead costs into account.

- There is a role for both project and core funding, and a need for a broader understanding by funders and organizations as to which form of funding works best for which type of activity.
- Funders should take a more holistic view of the health of an agency when making funding decisions, so that they do not inadvertently contribute to de-stabilizing the organizations they invest in through their funding practices.

- Lack of funding for administration and overhead costs reflects unrealistic expectations by many funders and is undermining the sustainability of organizations.

Recommended Actions:

- Develop a clear research agenda that will help build a better understanding of the funding issues so we can move towards solutions.
- Increase the level of dialogue and connection between voluntary sector organizations and funders, particularly government funders.
- Support and build an infrastructure for the voluntary sector to work together on common issues and articulate common positions.
- Develop a proactive communications strategy to increase awareness and understanding of the role and contribution of the voluntary sector to healthy, vibrant communities.
- Explore new approaches to the funding related issues of the sector.

Next Steps:

The participants in this session valued the opportunity to discuss the issues and recommended that CCVO and the Edmonton Chamber of Voluntary Organizations continue to sustain this dialogue and extend it to others in the Alberta community.

CCVO will distribute this report widely to stimulate further discussion and action on these issues. It also plans to convene an Alberta Finance Action Group on an annual basis and will collaborate with other organizations to extend understanding and awareness of funding issues through research and dialogue.

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1. INTRODUCTION

The Calgary Chamber of Voluntary Organizations (CCVO) hosted an Alberta Finance Action Group meeting on November 17 and 18, 2005 that brought together representatives from the voluntary sector, governments and funding organizations to engage in dialogue and explore solutions to the funding issues experienced by the voluntary sector.

The concept of regional Finance Action Groups was developed by the Voluntary Sector Forum (VSF) as a means to achieving better and more strategic financing for the sector. Over the past few years there has been a growing awareness and understanding of the funding issues that challenge charities and nonprofit organizations across Canada, fueled by reports, such as *Funding Matters*, published by the Canadian Council on Social Development in 2003. While this research was essential to identifying the extent and systemic nature of financing issues nationally, there was a growing sense that solutions to these issues would require the involvement of provincial and/or territorial governments and other funding organizations on a regional level.

The VSF obtained funding support from the J.W. McConnell Family Foundation in 2004 to initiate Finance Action Groups in six regions of Canada. The first Finance Action Group was organized by PolicyLink NB in June 2005. CCVO's proposal for an Alberta Finance Action Group became the second such initiative in Canada.

This report describes the approach to initiating the Alberta Finance Action Group and summarizes the dialogue and strategic directions from the November meeting. This was an exciting session that built new connections and expanded the dialogue on this subject within the province. The report from this session will be shared widely and will contribute to other initiatives in Alberta. There is a clear desire to use this initial Finance Action Group meeting as a base for further work and broader engagement on funding issues affecting the voluntary sector in Alberta.

On behalf of the Finance Action Group participants, the CCVO would like to thank the Voluntary Sector Forum for its leadership in this initiative, the J.W. McConnell Family Foundation and Enbridge Inc. for their financial support which made this session possible, and Alberta Community Development for the assistance of Duna Bayley in planning and facilitating the meeting.

CCVO would also like to thank the project steering committee – Punch Jackson, Karen Lynch, Val Mayes, Dan O'Grady and Martha Parker – for their advice and assistance in planning this event. Rick Hutchins from PolicyLink NB was a great resource, generously sharing materials and experience from the New Brunswick action group. Our appreciation goes to the United Way of Calgary and Area for sharing a draft document for background to the discussion on perceived proliferation of organizations in the sector, to Katherine Scott for her opening comments and serving as a resource throughout the session, and to the participants who made this such a valuable session.

2. ALBERTA FINANCE ACTION GROUP

Over the past couple of years, there has been a fair amount of dialogue in Alberta on funding issues affecting the sector. In Calgary, funding issues have been a major focus for CCVO since its launch in 2004. The focus of our work has been on sharing information with the sector in Calgary about funding issues and promoting dialogue, both within the sector and with governments, business and funding organizations.

In September, 2004, Katherine Scott was the keynote speaker at a CCVO workshop on “Funding our Future” which was attended by about 125 people from the Calgary area. Another CCVO workshop on “The Implications of Funding Practices on Nonprofit Organizations” with Lynn Eakin, in March, 2005 drew more than 100 participants – 20% of whom were from funding organizations, including all three levels of government, foundations and corporations. In the spring of 2005, CCVO launched a “funder working group” that brings together representatives from funding organizations, including governments and foundations.

Through these various initiatives, CCVO has been able to further the discussion, in the Calgary area, about the funding issues affecting the sector. During the course of this work, we have found different funding partners, whether government, corporations or foundations, articulating the limitations on their ability to meet the financial needs of the sector. There is often the expectation that the solution is the responsibility of some other group, generally government or the corporate sector. At the same time, there is a sense that, in part, the funding challenges are due to a proliferation of voluntary sector organizations competing for a finite pool of funds.

The proposal for the Alberta Finance Action Group was based on the belief that it would be useful to delve further into these issues, clarifying limitations and identifying opportunities for positive action. Since there was already a general awareness of the funding issues affecting the sector, the purpose of the Finance Action Group would be to deepen the understanding and begin looking for solutions from a variety of perspectives.

At the same time that the VSF was promoting the idea of regional action on financing issues, the Voluntary Sector Framework for Action (VSFA) initiative was emerging in Alberta. Led by Alberta Community Development, the VSFA brought together representatives of a number of capacity building organizations in Alberta, including CCVO, the Edmonton Chamber of Voluntary organizations, Volunteer Alberta, Volunteer Calgary, the Muttart Foundation, the Wild Rose Foundation, as well as voluntary sector leaders who had been closely involved with the federal Voluntary Sector Initiative – Martha Parker and Liz O’Neill. The VSFA group provided a broader network within the province with which to develop a Finance Action Group. Although the Finance Action Group is a separate initiative, a number of the members of the VSFA joined the Finance Action Group planning committee, building an important connection between these two initiatives.

The Finance Action Group's planning committee was instrumental in approving the approach to the session and developed the invitation list for the Finance Action Group. In the end, the 29 session participants represented all levels of government, voluntary sector leaders, corporate community investment and other funding agencies. The full participant list is included in Appendix A.

To ensure that the perspective of small organizations was also represented in the Finance Action Group session, CCVO organized a focus group with five small Calgary-based organizations and brought their feedback to the larger meeting. The same questions were used as for the Finance Action Group, and one of the focus group participants also attended the November session.

The objectives for the Finance Action Group session were to explore the issues related to:

- the role of government in funding the voluntary sector;
- perceptions of duplication and proliferation of non-profit and charitable organizations;
- funding of overhead and administrative costs; and
- project funding and core funding.

These topics were chosen because they are frequently raised as major problems and the focus for the session was to identify potential opportunities and solutions in each area and an action plan to move ahead.

Participants received a pre-session reading list that included the *Funding Matters* report, and a selection from a draft report by the United Way of Calgary and Area as background for the discussion on perceived proliferation and duplication of non-profits.

The Finance Action Group session was held on November 17 and 18 in Calgary and was facilitated by Duna Bayley, a Community Development Officer with Alberta Community Development. Most of the discussion was structured and occurred in small groups. At the end of the session, the recommended actions were sorted by the group at large.

What follows is a summary of the main themes that emerged during session, as well as recommended actions and next steps.

3. MEETING SUMMARY

3.1 Framing the Session

Katherine Scott, Vice President of Research with the Canadian Council on Social Development (CCSD) delivered the opening address, “Funding What Matters: Directions for Change.” She provided an update on the information that has emerged from CCSD’s funding consultations in the two years since the release of their “Funding Matters” report. The major theme that emerged from these consultations was the need to build an enabling financial environment involving continued innovation by organizations, collaboration with funders to develop effective funding practices and exploring/developing new financing vehicles for the sector. *The Code of Good Practice on Funding* provides an excellent framework for developing an improved relationship with funders. On the financing side, there is a need for new financing instruments, especially to meet the needs of social purpose ventures. There is also a need to provide enhanced support to develop organizational capacity, especially technical support for small and medium-sized organizations. Evaluation should be “meaningful”, providing useful information to funders and organizations alike, rather than adding administrative burdens. What is needed is a rich array of strategies to fit the diverse needs of the sector; there is no one perfect solution for all organizations.

Katherine also discussed two reform initiatives occurring at the federal level: the HRSDC/Service Canada initiative aimed at addressing issues with its Call for Proposal process and the administrative burden it puts on organizations, and the Task Force on Community Investment. These initiatives hold potential not only for making substantial changes in how the federal government relates to voluntary organizations, but also as models for other organizations to follow.

Katherine’s presentation set a broad national context for the discussions that followed.

3.2 Emerging Changes

Various studies about financing-related issues in the voluntary sector have helped create awareness and understanding which, in turn, have had an impact on funders and nonprofit and charitable organizations. Participants identified that both funders and organizations in the sector were responding to funding issues in various ways. One of the strongest trends is towards increased collaboration and dialogue, among funders, or among nonprofit organizations, and between the two groups.

The emerging changes in attitudes or behaviours observed in funding agencies and voluntary organization are summarized below.

Funding Organizations

- More opportunities for dialogue between funders and the voluntary sector.
- Increased collaboration among funders, e.g. sharing information; considering common online application processes and common accounting / reporting standards.
- Community-based processes involving multiple funders addressing a common issue; use of community advisory boards to direct investment on an issue, e.g. funding for homeless initiatives in Calgary.
- Government – move to more horizontal (between departments) and vertical (between levels of government) collaboration to simplify procedures for the voluntary sector.
- Some funders are helping connect organizations to other funders who might better meet their needs; some smaller funders are looking at new ways in which they can support nonprofits; willingness to work in “relationship” for a common purpose.
- Corporate funders – some are beginning to look at the issue of core funding; trend to developing integrated relationships with selected charities.

Voluntary Sector

- Increasing collaboration among organizations, e.g. best practices; working together to fill service gaps; mergers of organizations, etc.
- Sector has a stronger, unified voice; emerging umbrella organizations like CCVO and the Edmonton Chamber of Voluntary Organizations are a place for diverse organizations to work together.
- There is a change in attitude – a growing confidence – emerging within the sector. Nonprofits are seeing themselves as partners in community development and essential contributors to healthy communities, and moving away from a “hat in hand” attitude. Publication of research on the size and contribution of the sector to Canadian society has been important in supporting this change.
- Nonprofits are being more proactive in exploring new ways of planning for financial sustainability and stability. Talking and thinking more strategically about funding patterns and common funding issues.
- Some organizations are seeing increased availability of core funding.
- More conversations around capacity building, training needs and the distribution of resources. Growing recognition of HR and governance capacity challenges, such as the need for more professional development for staff, increasing skill sets required in nonprofit organizations and the availability of skilled board members to meet the demand.
- More dialogue with some funders about outcomes measurement and the impact on agencies, with a shifting focus to meaningful outcomes for the community.

- More emphasis on the “social economy”, but it is not well understood. Is it about job creation? Revenue generation?

3.3 ISSUE: The Role of Government in Funding the Voluntary Sector

3.3.1 Funding Role for Government

Participants were asked what the role of government (all levels of government) should be in funding the voluntary sector, compared to other sources of funding, including foundations, corporations and individual donors. The following were the major themes that emerged in this discussion.

- **Government should be the major core funder for community-based services.** The basic premise is that there should be a better match between the financial capacity of different sources of funding and the expectations of what each should contribute. Governments have the greatest financial capacity through their taxation powers and should be responsible for the financial support for basic community needs. The role for foundations, corporations and individual donors should be consistent with their more limited financial resources. These other sources of funds are best suited to support innovation, new initiatives, emerging needs, and other programs that supplement the core operations of voluntary organizations and that may be more attractive to donors.

Because of their financial capacity, government funding is an essential foundation to address major issues and they can have the greatest impact by focusing on the root causes of social issues, rather than the symptoms. For example, focus on the root causes of poverty or increase the availability of affordable housing, in tandem with funding crisis or emergency services such as food banks that provide temporary relief.

The nature of government funding should reflect this role, with more emphasis on core funding for community-based services. Core funding provides more stability and flexibility for organizations, improving their sustainability and ability to serve the community. With more a stable core funding base, organizations can use project funding for new initiatives, program enhancements, etc.

- **The need for greater clarity of roles and expectations for all sectors** was an over-riding theme. Jurisdictional issues and the lack of clarity about the roles and responsibilities of different levels of governments pose challenges within government as well as for the sector.

Beyond issues of jurisdiction, there is “a lack of shared understanding of mission” on the part of governments and the voluntary sector. There was a strong sense that politicians and government administrators do not understand the voluntary sector. Its breadth, structure and contribution to community well-being and the economy is not generally recognized. This problem is compounded by language – the term “voluntary sector” is often misunderstood as “volunteer sector.” This in turn often leads to expectations on the part of government that voluntary organizations should be able to deliver services for a much lower cost than government, not recognizing the human resources costs in the sector, nor the staffing difficulties posed by substantial salary inequities between government or quasi-governmental organizations (i.e. educational and health organizations), and nonprofits. This is a significant factor that contributes to funding practices, such as not recognizing the “real cost” of delivering services and the resulting consequences for organizations.

The emerging body of national, provincial and local research on the sector is valuable in providing a solid information base about the sector and documentation about the issues and challenges faced by charities and nonprofit organizations which should contribute to greater understanding and better decision making.

Other examples of the need for more clarity of roles and expectations relate to the increasing administrative burden on organizations due to increased accountability requirements, and the emphasis on financial accountability by government, rather than on community outcomes. The point was also made that many organizations seeking funding seem to have a sense of “entitlement,” expecting funding support to continue indefinitely, without having to demonstrate the value of their services to the community.

- **Government funding would be more effective with better communication and collaboration between different levels of government and different government departments.** Although there are examples of cross-departmental (horizontal) and cross-jurisdictional (vertical) collaboration on initiatives, they are still the exception. The fragmented, or “silo” approach to funding, combined with the propensity for project funding also makes it more difficult for governments to evaluate the overall effectiveness of the agencies they fund. When agencies report to separate departments about discrete projects, how can the government evaluate the agency’s work as a whole? Improved communication and collaboration can contribute to both improved funding effectiveness and accountability.

Participants identified a need for more partnerships and collaboration to address issues that cut across departments or levels of government. Another suggestion was that governments develop “master funding plans” to provide a framework for voluntary sector funding. This would provide a mechanism to monitor funding for the sector across all departments and to ensure that funding was consistent with overall government priorities.

- **Government should view itself as an active partner with the voluntary sector and other organizations in meeting community needs.** There was a strong sense that governments do not generally see themselves as partners with the voluntary sector in meeting community needs, which is quite different from the relationship, for example with the business community. One of the ways that this attitude is reflected is in the lack of opportunity for dialogue with the sector before decisions are made on policy issues, funding priorities and community needs.

There was a strong sense that governments could improve the quality of decisions and reduce the negative impact on charities and nonprofit organizations, and their client groups, if there was more meaningful consultation with the voluntary sector. Organizations have a wealth of information about community and client needs that would be valuable in setting priorities and shaping programs; however, this knowledge base is under-utilized by government. Organizations often feel that many “consultation” processes are optical illusions, creating the impression that there is an opportunity for input, but in reality the decisions have already been made. Unfortunately this means that insights from the sector that could help shape programs or funding approaches to maximize their impact is often not taken into consideration. The end result may be programs that are less effective than they could be, or problems for organizations that result from funding practices, accountability measures, etc. that could have been mitigated with more input at the front end.

3.3.2 Impediments to Change

Participants discussed the factors that are obstacles to achieving the desired funding role for government described above.

Obstacles for the Voluntary Sector:

- **Lack of a unified voice on broad common issues.** A clearer sector consensus on major issues would enable government to respond more effectively to the voluntary sector. Politicians and administrators often receive different recommendations for action from charities and nonprofit organizations, making it difficult to determine the extent of support for a particular position or how to respond to potentially contradictory advice. This undermines the impact that the sector could have in dealing with government on issues. A related issue is the need to get broader support on issues from across the breadth of the voluntary sector. This sector is about more than social services and it would be more powerful if consistent messages came from across the sector.
- **Changing government priorities.** Voluntary sector organizations are often challenged by changes in government programs and priorities resulting from elections, changing political priorities or responses to crises. These changes

contribute to a constantly changing funding and policy environment. Organizations may experience “mission drift” as they strive to access funding sources that are not aligned with their programs or purpose, or struggle to replace funding that is no longer available due to changed priorities. The political imperative to introduce “new” programs or policies is not conducive to the sustained commitment that is often required to plan and deliver programs and services that address basic community needs.

- **No single access point in government.** Voluntary organizations identified the challenge they experience in trying to identify where the best points of contact are in dealing with governments at all levels. It is difficult and time consuming to identify appropriate contacts, and then to build and maintain relationships often involving multiple departments of one level of government. Frequent staff changes in government make this task even more difficult. Most voluntary organizations lack the capacity (staff or volunteer) to be able to find their way through the administrative maze or to develop and maintain relationships with decision makers in government. A single access point in each level of government would make it easier for organizations to enter the system and be directed appropriately to the areas or individuals they need to deal with.
- **Competition among organizations.** Competition amongst organizations for funding contributes to the difficulty in working together on a common purpose.

Obstacles for Governments:

- **Different attitudes and understanding of the voluntary sector within different government departments.** There is quite a range of attitudes and understanding of the sector in different areas of government. The lack of a common understanding of what the sector contributes to society or the importance of its role in vibrant communities makes it difficult for departments to work together effectively on issues that cut across departments.
- **The nature of the political system.** Changing political priorities are a reality of government. Bureaucrats respond to political direction. There is often a lack of political will to address the issues affecting the voluntary sector, or priorities and directions change in response to crises.

3.3.3 Factors Supporting the Desired Outcomes

Participants identified the following factors as helping to achieve the desired changes to the role of government in funding:

- The positive impact of the Voluntary Sector Initiative on the federal government, e.g. the Accord and Codes of Good Practice on Funding and Policy Dialogue, and increased awareness of the voluntary sector in government.

- Alberta initiative (Voluntary Sector Framework for Action) which is bringing together Government departments to discuss their relations with the Voluntary Sector.
- The role of the Federal Council to promote increased horizontal activity across federal departments operating in Alberta.
 - The establishment of Service Canada.

3.4 ISSUE: The Perceived Duplication and Proliferation of Nonprofit and Charitable Organizations

One of the comments that is heard from many sources - funders, politicians, business and the public - is that there are too many charities and nonprofit organizations seeking funding support, and that they are duplicating services. The underlying assumption is that if there were fewer organizations and less duplication, then perhaps the available level of funding would be sufficient to meet the needs of the community.

Participants agreed that there is a fairly wide **perception** in Alberta that organizations are proliferating and duplicating services, but questioned some of the underlying causes and assumptions. They distinguished between “proliferation” and “duplication.” Some of the major points raised were:

Proliferation

- **Response to changing community needs and expectations.** There has been an overall increase in the number of voluntary organizations. Based on data from the Canada Revenue Agency, the number of registered charities in Canada grew by 25.8 %, or 15,878 organizations during the 1990’s. These figures do not reflect the increase in other types of nonprofit organizations, i.e. those that are not federally registered charities.

While more than 80% of this increase occurred in the first half of the decade, during the period of government cutbacks, the growth of organizations is in part due to growing community needs and a changing awareness and attitude in society towards certain issues. For example, increased medical knowledge and a more open attitude towards the discussion of certain conditions has resulted in the emergence of organizations that address medical conditions that were either unknown or not publicly discussed in previous generations. The fact that there are now more organizations that address subjects such as literacy, domestic violence, immigrant needs, homelessness, among other issues, reflects the changing awareness of these needs in our communities.

- **Healthy civil society.** Community-based organizations need to be recognized as places for democratic participation and action. Rather than being a negative development, they are the sign of a flourishing democracy and vibrant community life.

- **Downside of too many nonprofits.** The expansion in the number of nonprofits increases competition for funding and human resources. There are many groups that are struggling to survive and donors and funders are exhibiting fatigue. There are also systemic challenges in meeting the demand for board members for a growing number of organizations, and concerns that clients face a confusing array of service organizations.
- **Nonprofit lifecycle.** While at the one end of the spectrum new organizations emerge to meet new and changing community needs, there also needs to be an acceptance that organizations may not live forever and are not entitled to perpetual support. There is a need for research on organizational lifespan in the sector, why organizations come and go, as well as a “dying with dignity” program and palliative care for organizations that are at the end of their lifecycle.
- **Impact of funding policy and practices.** Government and other funders may unintentionally contribute to the increase in the number of organizations through their funding practices. For example, the availability of funding for new initiatives or “start-up funds” may encourage the emergence of new organizations to meet the criteria. There may be more interest and recognition for funding a new group or initiative, rather than for providing sustained funding for an existing organization that could meet the same need. Narrow funding parameters also promote fragmentation of programs in order to meet funding conditions.
- **Fundraising pressures.** Changing funding practices and increased competition for funds has resulted in more organizations employing professional fund developers, engaging in public fundraising activities, as well as increased numbers of applications for support from corporate, governmental and other funders. This has increased the visibility of organizations with funders and donors in the general public.

Duplication

- **What is “duplication” and is it necessarily bad?** Participants challenged the assumption that if there are a number of different organizations that appear to have a similar purpose, they must be duplicating effort. It was pointed out that there are often important differences between organizations that are not apparent to “outsiders.” Not all agencies are able to articulate their “niche” and distinguish themselves from others. For example, different approaches to meeting the needs of victims of domestic violence or of different groups of immigrants. Rather than constituting duplication, this actually provides greater choice and recognition that one approach does not suit everyone.

Another perspective was that even when there are several organizations serving the same purpose, it does not necessarily mean that there is any duplication of service. For example, community associations serve specific geographic

communities. The fact that there are a large number of them does not mean that there is any actual overlap or duplication in what they do for the population they serve. Similarly, if there are several organizations with a similar purpose, e.g. women's shelters, and collectively they can not meet the demand for shelter services, is it even relevant to talk about duplication?

- **Efficiency – Small versus large organizations.** There is a need to understand effectiveness and efficiency versus duplication. Mergers and consolidations of organizations may result in stronger, more efficient and effective organizations, but it may also build mega organizations with their own disadvantages, such as increased bureaucracy or being out of touch with the community.

In summary, participants agreed that the situation is much more complex than it appears on the surface. There are many factors that contribute to the growth in the number of voluntary organizations and assumptions about how many organizations are too many or whether multiple organizations are evidence of duplication of service, deserve further consideration.

Implicit in the terms “proliferation” and “duplication” are the questions of whether the sector is as effective and efficient as it could be and whether resources are being used to best benefit.

3.4.1 Maximizing Effective Use of Resources

Impediments to change:

- **Innovation and cost effectiveness are the hallmarks of many organizations in the voluntary sector, but this is not well communicated,** either within the sector or beyond. As well, the lack of communication about the value of the sector's contribution to community may leave the impressions of duplication and lack of efficiency unchallenged.
- **Organizations find it difficult to not respond to needs in the community even when they do not have the time or resources required.** There is a tendency in the voluntary sector to “do the right thing.” This can contribute to the impression that there is slack within the system, rather than reflecting the lengths to which organizations will go to meet community needs.
- **Funding programs with narrow parameters may prompt mission drift and duplication of services** within the community. One example cited was similar programs, such as Parent Link, Healthy Families and Neighbourhood Place.
- **Challenges of developing partnerships.** Partnerships between organizations may result in more effective or efficient use of resources or provision of services to clients, but the development of partnerships take time and human resources that nonprofits rarely have. This is a capacity and funding issue.

- **Negative effects of increased accountability reporting.** Outcomes measurements and reporting requirements are mechanisms that aim to ensure that organizations are accountable for the funds they receive and that their activities produce the desired results; however, in recent years the sector has been subject to increased standards, often the result of spillover from problems in government or the corporate sector, such as the Enron scandal. The increased reporting requirements and outcomes measurement may increase administrative burdens without necessarily resulting in better or more useful information.

Factors favouring change:

- **Growing collective voice.** There is a growing trend for organizations to come together to address common issues and present collective voices. The emergence of the CCVO and Edmonton Chamber of Voluntary Organizations (ECVO), along with other alliances such as the Alberta Healthy Living Network, and Public Interest Alberta are positive signs of increased capacity and interest in working together on policy issues. CCVO and ECVO are also emerging champions for the broad voluntary sector in Alberta, as well as vehicles for convening dialogue and disseminating information.
- **Relationship between the sector and government.** The Accord and Codes of Good Conduct on Financing and Policy Development between the Federal Government and the voluntary sector provide a model for more positive relations between government and the sector. This can provide a model for the development of a provincial equivalent in Alberta.
- **Increased opportunities for honest dialogue and information sharing,** such as this meeting. This helps increase understanding of issues on all sides – the voluntary sector, governments and other funders.
- **Growing recognition for true cost accounting.** There is growing recognition of the need to identify the true costs of delivering programs and to communicate that information to donors and funders.

3.5 ISSUE: Project Funding versus Core Funding

One of the major funding issues identified in recent studies has been the preference by funders for funding projects, rather than supporting organizations through core funding. Participants discussed the concerns related to the different types of funding and the appropriate role for each.

“Core funding” is defined as direct support to organizations to allow them to pursue their missions and cover basic organizational and administrative costs.

“Project or program funding” is tied to a specific project or program. It is often, although not necessarily, short term in nature and may not cover the full costs for delivering the program, for example, the fair share of overhead expense.

3.5.1 Conclusions

The following are the major conclusions and proposals for change that emerged from the discussions.

- **There is a role for both project/program and core funding** and there is a need for a common understanding among funders and voluntary organizations as to which form of funding works best for which type of activity. For example, project/program funding is appropriate if it is used for projects with an “end product”, a clear end point or if there is built-in sustainability beyond the end of the project funding. It is also appropriate when support is for a particular program, in which case the funding may extend over many years; however, project/program funding should reflect the full cost of the project, program or service.

Another voiced perspective considered funding focus: is the emphasis on “results” or on “mission”? If the primary focus is on results, i.e. service delivered, measurable outcomes, then project funding may be appropriate. On the other hand, if the focus is on the mission of the organization, the core funding is a better funding vehicle as it better recognizes the inter-relationship between various organizational activities in pursuit of a broader purpose.

- **All funders need to take a holistic view of an agency’s health in making their funding decisions.** Even if they are providing project funds, they should be aware of how their funding practice affects the overall health of the organization. The basic premise is that funders should be interested in the longer term viability of organizations in which they invest, recognizing that too narrow a perspective on what they will support financially may undermine the ability of the organization to continue to serve the community. Examples included:
 - Funder practice of requiring organizations to pay back surplus funds, rather than rewarding good management with the opportunity to contribute to a reserve fund for unexpected future contingencies.
 - Government funding “silos.”
 - Individual funders not covering the full cost of a program which often results in the agency being under increased stress to find additional funding support, drawing resources away from the mission and purpose of the organization to survival, or imposing greater costs on other funders who will fund the deficit in order to sustain a valued community service.
 - Suggestion that funders discuss with each other if they are considering changes to the manner in which they provide funds, because those changes could have broader consequences.

- **The lack of consistent reporting requirements and funding criteria contribute to this issue.** Funders expressed concerns that there is no common basis for reporting financial information, raising concerns that multiple funders may be covering the same administrative costs. It was also suggested that it would be useful to have a set standard to be used for administration costs, i.e. a set % for admin to be recognized by all funders.
- **The current funding environment is very complex, requiring a certain degree of sophistication on the part of voluntary organizations to maneuver through the funding challenges.** Smaller organizations may lack the financial capacity at the Board and/or staff level to accurately present true costs of programs. Are funders prepared to recognize how they contribute to the administrative burden of these organizations and are they prepared to support the level of expertise required to operate in this environment?

3.5.2 Proposals for Positive Change

Finance Action Group participants identified the following changes that would reflect positive movement in addressing this issue.

- All funding is based on true program costs.
- There is a common understanding on the part of funders and the sector of which funding approach is best suited for various activities and the right funding approach is matched to the right need.
- More creative and flexible funding formulas that recognize that the right approach may vary by sub-sector, e.g. arts organizations may require quite a different funding approach from recreational programs.
- Good information exchange between funders. They know each other and are proactive in identifying the potential impacts of funding changes.
- Voluntary sector organizations are proactive in communicating that there are core costs required to sustain their organizations.
- Funders become advocates for funding change.

3.6 ISSUE: Funding Overhead and Administrative Costs

One of the main funding challenges identified by nonprofit organizations is the lack of recognition by funders of administration or overhead in funding formulas. “Administration” or “overhead costs” are core organizational costs related to executive and financial management (e.g. Executive Director, finance, HR functions) and related operating costs (office space, supplies, equipment); reception; information technology, data collection, record keeping, insurance, audit, shared building space (entrance, reception, washrooms, meeting rooms, Board support, etc.).

3.6.1 Concerns

The following are the highlights from discussions on this issue.

- **Funder preference for project funding.** Some funders will not include administration or overhead when funding a project; many do not recognize a fair portion of administrative costs in their funding formulas. As a result, organizations frequently need to raise funds from other sources, including donations and earned revenues, to cover administration costs that are not supported by project funding.
- **This funding practice fundamentally undermines the capacity of organizations to do good work,** often consigning them to operate in what was described as “survival mode.” Organizational energy is focused on meeting the challenge of sustainability, rather than being able to concentrate on meeting community needs as effectively as possible.
- **Funders often have contradictory perspectives, requiring first rate results, but funding less than first rate structures.** They may recognize, and sometimes require, certain infrastructure capacity such as financial reporting systems or outcomes measurement processes, but not provide the funding to support this capacity. Many funders do not seem to realize that this funding practice puts their own investment in the organization or program at risk, making it more difficult to recruit and retain board members, staff and volunteers.
- **At the core of the issue are unrealistic expectations and a lack of understanding of the nature of many nonprofit and charitable organizations.** Many donors and funders, including governments, want their funding to go directly to the people or clients served by a program. There still seems to be a perception that “administration is the purview of volunteers”. While this may be true in small organizations, 42% of organizations in Alberta have paid staff and the administration/overhead costs described above are essential to their operations.
- **The sector tends to report “minimal” overhead costs, contributing to the lack of understanding about the true level of these costs for many organizations.** This could be due to perceived public pressure to report low administration costs, or to a lack of knowledge of the full cost of services and programs.

- **The demand for funding exceeds the available supply of funds.** To recognize the full cost of programs or services will effectively reduce the number of organizations that are funded. So the question which should be asked is whether it is better to ensure that funding covers the full cost of delivering a program and that funded organizations are sustainable, at the expense of funding fewer organizations.

3.6.2 What Would Progress Look Like?

- Governments and other funders would understand the issue and change their funding practices to recognize administrative costs.
- Good data generated through research activity would provide the rationale for changes to funding formulae.
- There would be a champion for the principle of full cost recovery; the corporate voice would help make the case.
- There would be a broader awareness of the capacity issues challenging the sector and a commitment to building capacity, for example, targeted capacity building funds.
- More staff transfers between the voluntary sector, government and the corporate sector would occur as a means of building capacity and increased understanding of the sector.
- Voluntary sector organizations would speak up about the issues and stop agreeing to take on work that is not adequately funded.

3.6.3 Impediments to Change

In considering challenges to achieving the desired changes, the Finance Action Group participants focused primarily on challenges within the voluntary sector. This is not to suggest that government and other funders embrace these changes, but rather points to the reality that this is an urgent issue for the sector and pressure for change will have to come from there.

The voluntary sector will need courage and will to address this issue. Fear of political backlash for challenging government practices was cited as a concern for many organizations. In addition, most organizations lack the human and financial resources required to gather the data and make the case for adequate funding of administrative costs. Participants suggested stronger action on the part of the sector, for example, evaluating funders and issuing a report card on their funding practices or taking a tough stance and providing only the services for which they receive funding. To be effective, both options require broad support and unity of action which is not a simple matter for organizations that are struggling to survive and are competing for funding.

4. RECOMMENDATIONS FOR ACTION

The Finance Action Group session concluded with considering how best to move ahead on the issues that were the focus of this meeting. They recommended that future work focus on five strategic directions.

4.1 Research – Understanding and Application

Although there is a fair amount of agreement around some of the issues challenging the sector, there is a real need for a sound information base and better documentation and understanding of the issues. There are a lot of perceptions about the issues, but not a lot of solid information to back them up. Research should contribute to the understanding of the issues and also focus on the application of learnings.

Suggested research activities were:

- Development of a critical research agenda and data collection needs.
- Investigate the scale, scope and contribution of the voluntary sector in Alberta.
- Explore the question of perceived proliferation and/or duplication within the sector; explore concepts around organizational life cycle and related policy questions.
- More Alberta-specific research on funding issues.
- Development of toolkit to help organizations undertake true cost analysis.

4.2 Increased Dialogue and Connections

The focus of this direction is primarily on the relationships between the voluntary sector and governments. Success in this area will require increased connectedness and collaboration across the voluntary sector in order to have greater impact.

Recommended activities:

- Continued dialogue with all levels of government – local, provincial and federal in order to increase understanding and awareness of issues, promote sector input into policy development and build relations with policy makers.
- An Alberta provincial initiative to strengthen the relationship between the Province and the sector.
- Development of a longer-term strategic agenda for the voluntary sector with government and other stakeholders related to policy development, funding issues, etc.
- That sustained dialogue with government and the sector receive appropriate financial support.

- Support for internal government reviews (Alberta and Federal), to increase clarity of roles and identify what is working well in the relationship with the sector and what needs improvement.
- Increased connections and dialogue between funders to improve their effectiveness.

4.3 Support and Build Infrastructure for a Unified Voice for the Voluntary Sector

For the voluntary sector to have greater impact on addressing common issues, it needs to speak with a unified voice. There needs to be a mechanism to facilitate the development of common positions for the voluntary sector as a whole, or for individual sub-sectors.

Recommended activities:

- Build the infrastructure within the sector required to support this activity. Use existing structures that can create “voice”, such as ECVO and CCVO, as well as looking at other promising models and best practices in other jurisdictions.
- Develop the framework (on-going operating structure) required to:
 - Speak in a common voice
 - Increase communication within the sector
 - Create a vision for the sector
 - Improve access to the sector for policy makers.

4.4 Proactive Communications and Awareness Strategy

Develop a proactive communications strategy to increase awareness and understanding of the contribution of the voluntary sector to communities in Alberta and build public support for the desired changes.

Recommended activities:

- Build a compelling case for the value of the sector.
- Raise public awareness of the funding challenges in a broad way, e.g. “report card” on funding practices, a letter to leaders, etc.

4.5 New Approaches

The voluntary sector will face increasing expectations to account for how it uses funds and the results it produces. The Finance Action Group recommended active exploration of new approaches, such as:

- Support for organizations to use results-based evaluation tools.
- New models of accountability

- Testing or piloting new approaches to reporting, funding formulae and capacity building.

5. NEXT STEPS: WHERE DO WE GO FROM HERE?

5.1 Continue the dialogue

There was enthusiastic support for the value of the Finance Action Group session and the opportunity it provided for discussion of some major issues, that this dialogue should be sustained and be extended to engage others in the Alberta community. This could occur in many different ways, ranging from local sessions to a provincial conference.

The report from this meeting will be made widely available to stimulate further discussion and action on the issues. CCVO will be working with the Steering Committee to discuss approaches for distributing this report and explore opportunities for further collaboration on these issues. CCVO will also be exploring opportunities to convene the Finance Action Group meeting on an annual basis.

5.2 Use existing umbrella organizations to champion this issue

Participants recommended that CCVO, ECVO and Volunteer Alberta take the lead role in extending this discussion at the community level throughout Alberta. This is essential to increasing awareness of the issues and building consensus and commitment throughout the province on a plan for action.

5.3 Voluntary Sector Framework for Action

This report will be shared with the Alberta Voluntary Sector Framework for Action as input to its work.

5.4 Federal Government follow-up

There are opportunities to work with Federal government agencies in Alberta through the task force on community investment and with Service Canada. This report can be used as a basis for further work on funding issues and relationships with the Federal Government.

5.5 Exemplary Funding Practices

There is a desire to connect the work that has begun on funding issues in Alberta with the Pan-Canadian research being lead by the Canadian Council on Social Development and opportunities to do so will be actively pursued.

Appendix A

Alberta Finance Action Group November 17 & 18, 2005

Participant List

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