

**Getting Third Sector Financing Right in Canada?:
Quiet Incrementalism and Subversive Innovation toward Reform**

Susan D. Phillips
Professor and Director
School of Public Policy and Administration
Carleton University
Ottawa, Ontario
Canada
Susan_phillips@carleton.ca

Rachel Laforest
Assistant Professor
School of Policy Studies
Queen's University
Kingston, ON
Canada
Laforest@post.queensu.ca

Andrew Graham
Adjunct Professor
School of Policy Studies
Queen's University
Kingston, ON
Canada
Andrew.Graham@queensu.ca

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Susan Phillips, Rachel Laforest & Andrew Graham
Carleton University Queen's University
Canada

Federal grant and contribution programs are essential to building a healthy society and a competitive economy. They are too important to Canada to be strangled by red tape. . . . Only if these grant and contribution programs, in all their diversity, are seen as modern and useful instruments of public policy can the public interest be secured.

Blue Ribbon Panel, 2006, p. xii

Social entrepreneurship and venture philanthropy have captured the attention of the third sector and its scholarship in recent years, appropriately so given the potential for innovation and diversification of revenue sources that both represent. The mundane reality, however, is that governments remain important funders of the third sector and still rely heavily on the traditional instruments of contracts, grants and contributions (Gronbjerg, 1993; Salamon et al., 2003: 29). As governments seek to work in more collaborative ways with voluntary and nonprofit organizations and as they shake off the neo-liberal policies of the past decade, they have come to recognize the need to get their part of the funding relationship right. One dimension of the solution is to make the traditional funding instruments work more effectively. This involves finding the means to inject greater flexibility into these instruments, while adhering to the high standards of accountability that were established as part of the contract culture and that still dominate in risk averse political environments. Perhaps the more challenging task is to develop a broader array of government financing and investment instruments (Smith, 2006).

This paper explores the public policy and political challenges of reinventing the traditional public funding instruments and of developing new mechanisms of government financing in an environment in which accountability is the dominant preoccupation. Most of the literature on nonprofit finance either explores the finance issue from the perspective of the nonprofit (Young, 2007), examining for example the benefits and limitations of diversification, or considers the impact of levels of government funding on the sector as a whole, largely focusing on the question of whether public financing crowds out private donations (Brooks, 2000). In contrast, we examine public financing from the perspective of the state.

We begin by asking: why do governments fund the third sector at all? Borrowing, with modification, from Unwin's (2004) work on foundations, we suggest three general rationales: buying services; investing in relationships, capacity building or future return on investment; and innovating for the promotion of social change or development of citizenship. These purposes combined with particular instruments or means give rise to three distinct models of public financing which may co-exist as part of a government's stance in relationship building with the third sector. The charity model is based on the premise that the public not government should be the decision makers as to which organizations to fund for what kinds of purposes. It transfers this decision making to individual donors by enabling certified organizations – often called “charities” – to receive tax credits from government, thereby providing indirect support through tax expenditures. The more direct welfare state funding model is focused on procuring

services from nonprofits, although it may have a secondary interest in innovation and investment. The citizenship model uses public funding to support social change and more active citizenship. In recent years, all of these models have been under pressure to some degree, resulting in a wide range of reforms and experimentation with new approaches to public financing.

Our aim in this paper is first to highlight some of the dynamics surrounding each of these models, and to explore their usefulness for understanding the evolution of the financing landscape of nonprofits in Canada.

Canada is not a unique case as many other countries have been examining ways to diversify sources of funding. Yet, the tensions inherent in the evolution in financing models and the struggle to develop a broader, more flexible array of funding instruments have been felt acutely in Canada. Getting public financing right is particularly important in Canada because 51 percent of the revenues of the third sector come from governments (Hall et al., 2005). While Canada has had a long standing tradition of supporting the development of the sector, the scaling back of investment and the changes in both the welfare state and citizenship models of financing have been dramatic over the past two decades. In addition, the accountability requirements over grants and contributions have become so stringent in recent years that they are virtually unworkable as a core support for third sector organizations (Phillips and Levasseur, 2004). Indeed, a recent expert panel appointed by the federal government acknowledged that the current financing regime has come to a crisis point and must be fixed: “[T]here is a need for fundamental change in the way the federal government understands, designs, manages and accounts for its grant and contribution programs. . . . The current morass of rules and general red tape that envelops federal grant and contribution programs has served only to undermine accountability and hamper sensible reporting and evaluation” (Blue Ribbon Panel, 2006: vii).

Canada is an extreme example of a situation where the means, the choice of funding instruments, are defining – and constricting – the nature of the relationship between government and the third sector. The process is now underway to revamp the traditional instruments of public financing, and is making slow, incremental progress within the federal public service. At a political level, however, the federal government has been indifferent – indeed, resistant – to a comprehensive review of more sustainable ways to finance this sector even though a robust third sector would appear to be consistent with its ideology of smaller government. Although a layering in of change may occur within the bureaucracy, it is likely to be incremental, while more substantial change will need to be both incremental and subversive, succeeding only to the extent it can fly under the political radar. Drawing upon institutionalist theories of change, we explain why Canada has been unable to move in the direction of more radical reform by creating a broader toolkit of financing instruments as has occurred in the UK, United States and elsewhere.

In exploring this process of reform, the paper argues that governments need to develop a full menu of changes that deal with increasing access to current forms of support, improving systems to streamline decision-making, and increasing means for individuals and the private sector to support the third sector. All of this must be done in the context of a positive drive to fully integrate the third sector into the overall process of investment and funding decisions.

We begin with a brief introduction of existing models of public financing for the third sector. Next, we present the analytical frame and discuss the change factors identified by institutionalist theories of change. We then assess the changes that have occurred in the Canadian financing system and draw some conclusions for comparative purposes.

Models of Public Financing of the Third Sector

In virtually every country, the nonprofit and voluntary sector operates in a mixed economy of financing, drawing upon a mix of its own source revenues (e.g. memberships, sales of goods and services), philanthropic donations (from foundations, corporate and individual donors) and government support. International comparisons indicate that, although there are considerable regional and country specific variations in funding mixes, in most countries the public sector remains an important source of financing the nonprofit sector. As Salamon and colleagues (2003: 29) note in the comparison of 32 countries, on average, governments provide 35 percent of the revenues for civil society organizations, mainly through grants, contracts and fee-for-service payments. This figure masks considerable variation, however, as the impact of public sector financing depends not only on the mix of other funding sources, but on the types of the funding instruments used. Different instruments embody differing degrees of conditionality, accountability and reporting, varying time horizons and stability of funding, and differing levels of timeliness and efficiency in their application. In short, different instruments or funding styles are suitable to different purposes.

Rationales for Government Financing

Julia Unwin (2004) conceptualizes the connection between the means and ends of financing programs by identifying three distinct funding styles which are linked to different intended funding impacts. With a particular focus on foundations, Unwin argues that funders adopt funding styles that are akin to how individuals manage their finances: they can give, shop, or invest. These styles support three key underlying rationales – maintenance of services and programs, building organizational capacity, and promoting systems change – although there is often confusion on the part of recipients (and sometimes by funders) of the underlying intent and of the styles being adopted (Unwin, 2004: 3).

When applying these styles to public sector financing, we suggest a modification given the dominance of concerns over accountability in public spending. The reality is that governments, unlike foundations, can rarely adopt a style of giving. Like other funders, however, governments are under increasing pressure to support the equivalent of research and development (R & D) in the interests of social innovation. For the public sector, the primary funding styles might be better described as:

- *Shopping*: procurement of goods and services, using contracts and contract-like instruments. The nature of service-related or project-based funding means that the funding horizons are normally short, linked as they are to the production of a particular good, and may lead to quite standardized products as the nature of the deliverables need to be specified in the contract. Government procurement also emphasizes fairness of competition, risk management, and accountability, particularly the measurement of results.

- *Investing*: support aimed at building equity and capacity within voluntary organizations or the sector as a whole, developing relationships or creating assets against which other resources can be leveraged for returns over the longer term (see CCSD, 2006). The funding horizons are necessarily longer and the process may be more selective, identifying particular organizations that can provide an advantage for investment, rather than the open competition often involved in procurement decisions. The instruments used need to have relatively few conditions attached and the funder must be prepared to develop an ongoing relationship with the funded organizations as part of a broader strategy of capacity building.

- *Promoting innovation*: the public sector analogy of venture capital intended to enable and encourage innovation and community action in ways that alter patterns of service delivery, financing, public policy and engagement to allow for “an improvement in or transformation of intransigent and broadly based social problems” (McConnell Foundation, 2006). Given that a measure of risk is inherent in innovation, the funding instruments must be capable of embracing higher degrees of risk in ways that are politically defensible. The funding horizons may be relatively short or long term, and the scale variable from improvements in single organizations to promoting social change across entire sub-sectors.

The value of thinking about funding styles, as Unwin notes, is that it helps to illuminate whether the funding instruments are suitable to the task: governments may develop reliance on a particular style of funding, often because they are limited in the range of instruments available, even when that style is not suitable to the intended impact. In particular, Unwin argues that governments tend to follow shopping routines – developing standardized lists of products for open competition in short term horizons and maintaining an arms length distance from potential bidders in order to ensure fairness – when they are really seeking to invest in organizational or sectoral capacity or promote social change. They may not do so intentionally but are diverted into shopping mode because they rely too heavily on contracts as the funding instrument of choice in a risk adverse political environment and because the institutional locus within government channels relationships and instrument choices. To better understand these constraints, we need to look beyond funding styles to financing models that take into account institutional arrangements which may establish certain path dependencies.

Financing Models

Governments are not single funders that deploy only one style or approach and one set of institutional relationships. Rather, they normally develop several distinct patterns of financing that reflect different intended impacts, funding styles and instrument choice embedded in differing institutional arrangements.

The ‘Charity’ Financing Model

Although the organizations funded may not be called ‘charities,’ government financing through the indirect means of tax expenditures is widely used. In this model, governments do not make funding decisions directly but transfer this responsibility to individual and corporate donors. Government’s responsibilities are to establish the amount of the tax deduction (or credit), determine which types of organizations are eligible for access to the tax system, and register and monitor the activities of qualifying

organizations. Within government, the authority is normally highly centralized in the tax agency or independent commission and, once established, the political debate about funding occurs at the margins – the size of the tax credit and proposed increases. Given the common interests of both receiving charities and donors in maintaining liberal tax credits, the status quo is heavily entrenched and change occurs incrementally, normally in small upward adjustments in expanded credits. Although private donors may be interested in investing in organization capacity or promoting innovation, the evidence suggests that most charitable funding goes to the provision of services rather than social justice causes. This is reflective of both individual preferences and the historical, common law perspective on charitable objects.¹

The policy debate that occurs under this model – and there is a very lively debate occurring in many countries – does not play out as one of funding, but of regulation. What is the definition of ‘charity’ or ‘public benefit’ organization? How should this be determined: by common law or in legislation? What should be the role of a modern regulator, particularly if the regulator is also the tax collector? The extent to which such indirect funding can facilitate capacity building and constructive relationships between government and recipients depends to a large extent on the approach taken by the regulatory authority. If it has embraced an approach of responsive regulation (C. Scott, 2003; Hutter, 2006) that involves a large degree of guidance and interaction in implementing and monitoring, as the Charity Commission of England and Wales has undertaken, constructive relationships can be built through the charity funding approach. If the regulator adopts a more traditional rule-based compliance approach, as the tax agency in Canada has historically assumed, the potential for constructive relationship building is minimal.

Unless the charity model is underpinned by a broader *political vision* of the role of the third sector, funding decisions are likely to be inherently conservative because expanding the pool of organizations eligible to issue tax receipts will be seen within government primarily in terms of its impact on government revenues.

The emerging pressure on the charity model of funding will come from what Edwards (2008) calls ‘philanthrocapitalism’ – donations of big money by single philanthropists to specific causes (reducing HIV/AIDS in Africa, for example) with a preference for the use of social entrepreneurship methods. One consequence may be to force governments to revisit their determination of eligibility criteria for tax receipting privileges: is the historical notion of charity that is embedded in the tax system up to the challenges of modern philanthropy? Do the permissible ‘charitable’ activities, notably restrictions on advocacy and permissible business activities fit with new models of social entrepreneurship? Philanthrocapitalism may also encourage governments to reassess how their roles extend beyond the provision of tax credits, notably exploring more blended value investments (Emerson, 2007) and creative financing instruments. In countries in which the regulator of charities has been the tax agency, we are seeing exploration of whether the regulator needs to be independent, as has long been the case in the UK.

The Welfare State Financing Model

The welfare state model of funding is conducive to shopping – the purchase of services as part of a mixed economy of welfare. Accountability, defined and measurable outputs, and a focus on results emphasize a culture of performance dominated by the funder. As a result, the range of available funding instruments is quite limited, normally confined to

contracts (and contract-like instruments such as contribution agreements). Funding is short term, set up as competitive calls for project funding or purchase of service agreements. In some cases, governments may set highly standardized terms for the 'deliverables' and in others may allow the bidding organizations to come up with their own proposals for new projects.

As Unwin (2004) notes, governments are often very poor shoppers, however. They often assume existence of a competitive marketplace, which may not be the case for many of the services provided by voluntary organizations as their capacity for extended delivery of services may be limited. The process is purchaser centred with a focus on getting the results government desires on its timelines at a reasonable cost. As purchasers, governments often do not get to know those from whom they purchase: the strictures of accountability require that every bidding organization is treated as unknown and must provide extensive evidence of its ability to deliver the service. The due diligence required to vet the proposals often produces significant delays in approving funding. Funding horizons are short term with each bidding round treated as a discrete moment in time; thus, every round of project funding requires bidders to come up with 'new' ideas, meaning that they need to creatively repackage what they are already doing. While some new ideas may be welcome, the system is generally risk averse so that real innovation is constrained. This approach is also susceptible to promoting mission drift as organizations tailor their programs to the focus of project funding.

In order to be more effective, argues Unwin (2004), governments "that wish to 'shop' from well managed, high performing, innovative organisations need to attend to their relationships with these suppliers, and do so in a way that builds capacity rather than preventing it." In many cases, governments may actually be interested in investing in capacity in nonprofits, but the tools for doing so are so limited that they fall back upon the use of contracting instruments, and consequently investment gets confused with and forced into a purchasing mode. If investment is the real goal, however, capacity and innovation can seldom be realized through competitive contracting; rather, a much broader range of financing instruments is required, as is a rethinking of the associated accountabilities.

The dependency that is created by this contract culture has been well documented, particularly in the British literature on the third sector, and the dangers of mission drift and organizational vulnerability well articulated (Smith and Lipsky, 1993; Brown and Troutt, 2004; Scott, 2003). We know that organizations are increasingly devoting more time to chasing short-term sources of money at the expense of organizational mission and core activities. Research has also observed a growing volatility in the funding base as organizations struggle to diversify funding sources, experience a loss of infrastructure due to project funding models and restrictions on administrative costs, and risk mission drift as a result of increased financial pressure to win government contracts or prescribed program funding.

Within government, a welfare state model of funding both diffuses and concentrates funding decisions: while line departments control the actual spending decisions under their program authorities, the central treasury or management agency normally retains control over the requirements of contracting including which departments are given authority to make such transfers in the first place and the government-wide requirements on contracting and reporting. An independent auditor often has responsibility for overseeing the efficiency and value for money on such contracts. The nature of the

relationship with voluntary organizations is thus affected both by the stance of 'their' department and by the restrictions placed by the central agency. The degree of risk aversion inherent in the system normally emanates from the centre. Although line departments may entertain stable and enduring relationships with the constituencies in their policy community, the nature of the contracting regime is such that it also instils a great degree of competitiveness within these communities and may very well undermine the quality of those relationships in the long term.

In some countries, a market oriented welfare state model is giving way to a "social investment state" model. Under this new model attention has shifted from supposedly passive spending on social programs to 'investments' that will generate an active society and an active citizenship and proactively insure against the new social risks (Jenson and St Martin, 2003). As a response to new social risks, this policy perspective casts government spending differently than in the post-1945 years. The goal is not to increase the public sector spending but rather to redirect the current spending to create a more enabling and active environment, thereby improving the efficiency of program instruments. Income transfers and credits and income supplements, particularly directed at reducing child poverty and the intergenerational cycle of poverty, are seen as an 'investment' that will have future returns in increased human capital and reduced costs in ameliorative programs. In one respect, a social investment welfare state should put a premium on innovation and create an active and enabling environment for voluntary sector organizations. To the extent that the investment model has favoured the use of income transfer and tax credits, however, it actually reduces the opportunities for direct government funding of services and thus restricts public funding of voluntary organizations. They nevertheless remain essential in providing a broader and innovative array of services that support the development of human capital, but must secure financing through private sources. The push for social innovation is in part aimed at filling this space left by the increasingly tax-based instrumentalities of government social policy.

Achieving the balance between the requirements of the contracting regime and the constraints associated with the contracting instruments without crowding out investment and innovation is a difficult task. In the extreme, as in Canada, the rigid contracting and reporting requirements have resulted in such excessive risk aversion that there has been little real focus placed on results; financial reporting has over shadowed evaluation of results. In the UK, increased policy attention is being directed to the need to mitigate the vulnerabilities created by the market based contracting regime which is seen as stifling the entrepreneurial spirit of organizations. According to Rob McMilan (2006), "A new double-sided language appears to have taken hold, with notions of 'investment' and 'returns' on the one hand counter-posed against 'traditional' grants and, in some formulations, 'grant dependency' on the other." As a result, the UK government has focused on diversifying sources of funding, but also on improving its overall relationship with the sector. In June 2004, the Home Office published a document entitled *ChangeUp-Capacity Building and Infrastructure Framework* formulating a capacity building and infrastructure strategy to support voluntary sector infrastructure (Home Office 2004). As a result of this strategy, the UK Government introduced two programmes to help the sector rise to these challenges and increase its capacity and reach - FutureBuilders and ChangeUp. Both these programs are specifically tailored to provide funding for infrastructure development. Although they were launched by the UK government, the administration of the program and the setting of the funding priorities are left to the local councils which can better identify the infrastructure needs in their

respective communities. As a result, these funding programs create opportunities for innovation and flexibility.

The Citizenship Financing Model

The citizenship model is conducive of innovating for the promotion of social change and the development of citizenship. The prevailing philosophy of the citizenship model recognizes the right of every individual to enjoy the same benefits as do other citizens. Funding measures under this model are generally targeted towards supporting full inclusion of citizens in policy programs and activities. Funding instruments support core operations and advocacy/political representation activities with the goal of allowing, at least minimally, as many members of the community as possible to participate fully as active citizens. Because these funding initiatives are generally longer term and not necessarily attached to specific outputs, clarity of purpose and vision of common direction is important. The goals of funding involve some shared vision of the political rights and responsibilities of the members of a political community toward each other. Hence, developing this shared vision requires investing in relationship building with the intention of producing a longer term outcome. Here accountability is related to the outcomes that citizens achieve as members of the community, whether it be through greater social *or* economic inclusion: building community connections is a primary goal. A strengthened relationship then entails the development of a strong sense of rights and responsibilities as well as expectations of each other as members of the community. This vision is not fixed or immutable, it needs to be actively discussed and debated, and can be actively contested.

Trust is an important element in the relationship for along with funding comes recognition and legitimation. These funding instruments tend to be directed toward redressing some of the long standing power imbalances, the funding barriers and the discrimination that certain segments of society face to ensure that all citizens have equal opportunities to become active citizens. The funded organization is also recognized to have a part to play in preparing individuals for some elements of citizenship and for participation in civil society.

The distribution of funding is also generally more selective. It requires a common understanding of who we are aiming to support as a community. This selectivity has led to growing controversy in many countries around the validity of these instruments. In the Canadian case, the backlash has been a rise against “special interest groups.”

One of the main challenges facing the citizenship model has been the erosion of concern about rights and the recasting citizenship in terms of the obligations of citizens. The debates around *active citizenship* in the UK is a case in point. New funding mechanisms targeted at supporting infrastructure, capacity building and the development of broad generic organizational skills are put in place to provide support and advice to organizations. The burden here falls onto the organizations and the individuals to avail themselves of their diminishing entitlements and become active citizens – not onto the state.

The Value of a Mix of Instruments

We would expect to see a mix in funding instruments being used for a variety of purposes. Governments are subject to varying pressures, as well facing a diversity of stakeholders, which give rise to a mix of policy rationales and instruments. Moreover, given the diversity of needs and objectives of voluntary organizations, there is value in having a mix of instruments serving different purposes. Overall, the funding mix reflects how core ideas about voluntary organizations have evolved with fragments of old ideas (and associated funding instruments) often still present at the same time that experimentation with new instruments reflective of new policy paradigms has begun.

In the context of growing downloading of services to voluntary organizations, the funding mix has become an increasingly more important ingredient in the relationship between the state and the voluntary sector. Over time, we have seen the development of a complex set of funding mechanisms that have gradually modified the regulatory and organizational environment of the funding system. It is apparent that some countries have been able to plan and implement significant change in their financing models, while others, such as Canada, are mired in red tape of a contracting model that is not meeting the needs of social innovation, government or the third sector. How do we explain the ability to affect such change? Can we get to major change in financing models through incremental steps?

Explaining Change: The Merits and Limitations of Incrementalism

The path dependency model essentially argues that past policy decisions shape future decisions by setting policies on a determined path. Small, contingent and early events trigger a path dependent sequence which carves its own channel and is maintained over time through positive feedback and increasing returns. Change normally occurs through an exogenous shock that opens a critical juncture – a relatively short period of time in which the structural constraints on agency are significantly eased so that other agents can affect outcomes, new ideas and options can be considered, and new paths are opened (Hogan, 2006; Cappocia and Keleman, 2007; Lecours, 2005).

In recent years, many scholars have pointed to the need to incorporate agency and the importance of actors in the process of maintaining a path (see for example Jon Pierre 2006; Peters, Pierre and King, 2005). As Pierson has noted, along with the creation and then expansion of the many social policies and programs “have come dense interest-group networks and strong popular attachments to particular policies, which present considerable obstacles to reform” (Pierson, 1996, 146). While paths remain relatively stable, they are not fixed in time but rather evolve as a reflection of the articulation of social forces in society. The likelihood that various entrepreneurial agents of change will be successful in altering the status quo, however, is dependent on the degree of institutional rigidity. Institutional arrangements provide both defending and challenging actors with distinct resources to either impede or advance political change, and this varies considerably from one institutional context to another (Broschek, 2007; Harty, 2005: 64.; Sheingate, 2007: 15). Despite a relative stability then policy choices remain both contested and contradictory. While the values, norms, traditions, and meanings that constitute the normative underpinnings of path dependency are continuously reproduced and reaffirmed in public policy and policy choice at moments of critical junctures, it becomes possible to uncover the dynamic undercurrents of path dependency.

In addition to giving greater consideration to the role of agency, recent research within the institutional genre has proffered a variation on the path dependency model, process sequencing, that emphasizes structural fluidity and change through incremental, endogenously induced frictions (Thelen and Streeck, 2005; Thelen, 2003). Process sequencing suggests that historically established trajectories can be altered or even changed rather dramatically through small, relatively invisible means in which new practices are layered into existing ones or old models are slowly converted. Rather than focussing on the macroscopic level of the policy or political regime, as path dependency tends to do, the process sequencing approaches assume a multi-layered policy and political order and disaggregate analysis into institutional and policy sub-components (Broscheck, 2007: 3-4). As Hacker (2004: 244) argues. “the central implication is that there is not one single pattern of institutional change, whether it be the ‘big bangs’ of sudden transformation or the ‘silent revolutions’ of incremental adjustment. Rather, institutional change takes multiple forms, and strategies for institutional change systematically differ according to the character of institutions and the political settings in which they are situated.” The challenge in both models is to realistically take into account the varying degrees of institutional rigidity and understand the extent to which incremental, continuous change has transformative potential.

The study of funding instruments represents important tests for the logic of path dependency and process sequencing because they have impact on a large number of actors, and are also an important source of legitimation for actors. They signal behaviour and alter the tradeoffs that actors face, and so can have an important structuring effect on the nature of the relationships between state and civil society. Using the institutional argument, we can therefore better understand how a shift in financing mechanisms translates into organizational behavioral patterns. The instruments structure to a certain extent the forms of interaction between the actors by directly affecting the terms of access to policy making, the routes of political representation, and the forms of political expression through which claims are made. In such a way, they inform and shape the way collective actors organize themselves, delimiting the boundaries of what is acceptable and legitimate. By focusing on how funding resources, access, and political power are dispersed, we gain a better understanding of how social relations between the state and citizens are ordered. The standardisation of contracting practices has had an important steering effect on the issues and the claims put forward to the state on behalf of the voluntary sector as a whole.

The institutionalist approach also enables us to situate these dynamics within a structural context, given that the institutional locus of policy decisions channels relationships and instrument choices. Within government, different funding instruments have different institutional centres of power and authority, with differing degrees of institutional rigidity. Policy choices around funding models determine the mix of instruments and also have an impact on the balance of influence.

We argue that the federal government’s reaction to financing issues displays an incremental logic marked by slow, small and marginal changes based on existing institutional repertoires, combined with a radical departure from the citizenship model. The deconstruction of the citizenship model has been accompanied by the collapse of dense voluntary sector networks that had been the force of the voluntary sector on the political scene in the 1960s through the 1980s. As a result, the gradual shift in the welfare state financing model has been met with little resistance — and with very little infusion of new ideas. In response to pressure, the federal government has used familiar

mechanisms and procedures which have modified only marginally the funding infrastructure. The lack of vision for the role of the voluntary sector underpinning the citizenship model has meant that the federal government has failed to be forward thinking in its diversification of financing sources and mechanisms.

The current calls for the need for ‘fundamental reform’ in contracting instruments could be read as a critical juncture, and is being hyped as such. Although this set of reforms is still unfolding, our speculation is that this will not be a moment of new path carving, in large part due to the fact that the ability to affect change depends on relationships and institutional rigidities *within* government, rather than on relationships between government and the third sector.

Canada: Evolution of Financing Regimes

In Canada, we find traces of all three financing models – charity, welfare state and citizenship – although they have shifted in their dominance and relative importance over the last three decades. In understanding why the current times will likely fall short of being a critical juncture of fundamental change, we need to understand the evolution and status of each of the three primary models.

From Citizenship to Contracting

For quite a long time, the citizenship model was at the base of organizing funding arrangements for voluntary sector organizations at the federal level, so that core and intervener funding were widely distributed to organizations engaged in promoting social change. A financing regime was constructed in the 1940s and reinforced in the 1970s to support collective action efforts as a means to enable citizens to attain and practice skills of citizenship (Pal, 2005; Elson, forthcoming). Funding programs were established in order to achieve and ensure equity in political representation. By mobilizing disadvantaged segments of Canadian society, the federal government strongly believed it could promote the formation and maintenance of a Canadian identity. Not only was core funding made available to support advocacy groups, but access to the federal government was also reinforced through a variety of processes and institutionalized through the Secretariat of State programmes, such as the Citizenship Branch established in the 1940s, and the creation of Status of Women Canada in the 1970s (Pal, 1993; Jenson and Phillips, 1996) as well as through intervener funding provided for organizations to participate in environmental assessment hearings and other major policy consultations.

A pronounced characteristic of the Canadian citizenship model was the manner in which organizations gravitated towards the federal government despite the fact that social policy issues were the purview of provincial jurisdiction. Not surprisingly, following decades of opportunities for engagement at the national level, organizations began to mobilise and articulate their claims around broad national policy issues. The favourable social and political environment of the 1980s fostered not only the growth of the sector by facilitating the organization of various groups, but it also rendered them increasingly dependent on the federal government for their resources, at least for core funding. Contracting for services still occurred mainly at the provincial level. Nevertheless, because core funding, as opposed to contracts, enabled organizations to allot resources to advocacy activities and representation; it meant that representational activities and

collective identity building initiatives were tied in a significant way to federal government resources. Moreover, interactions with the state were frequently linked to a specific government department, such as Health Canada, Canadian Heritage or then Human Resources Development Canada. The key impact of this centrifugal force was to legitimise participation in national politics which led to the articulation of a dense structure of representation around the federal government composed of women's movement, visible minorities, aboriginal groups, antipoverty and other social justice groups. Voluntary organizations prospered as they gained not only institutional recognition but also wider access to formal and informal channels of policy making (Dobrowolsky 1998, Pal 1993).

By the mid 1990s, the rescaling of federal government activities, devolution of responsibilities, contracting out and downsizing of the public service had generated much opposition from social critics and advocacy organizations – who had benefited from funding from the federal government in the 1980s. And so, a radical break with the citizenship tradition occurred based on a questioning of the relevance of state in supporting some advocacy groups or “special interest groups” over others. The rhetoric used depicted social policy critics as impediments to social and economic development. The language of “special interest groups” depicted organizations as being preoccupied with a single issue or cause, thereby “representing at best a limited spectrum of public opinion” (Royal Commission on Electoral Reform and Party Financing 1991, p. 228). Carried by the work of the Royal Commission on Electoral Reform and Party Financing, this language was perpetuated by the media and politicians such as John Bryden, a Liberal backbench MP who issued a series of papers condemning the activities of these groups (Bryden 1996). The rise of populism in the early 1990s, which first became obvious with the electoral surge of the Reform Party in 1993, also contributed to this discursive shift (Laycock 1990, 2002, Sawyer 2004). When the federal government conducted a broad public consultation across Canada on the Social Security Review in 1994, the Reform Party of Canada in the final report all but accused “special interest groups” of lining up at the trough.² Moreover, faced with strong opposition from social critics during the Social Security Review, the federal government further sought to constrain these critical voices by significantly reducing available funding for advocacy (McKeen 2004; Jenson and Phillips 1996). Rather than develop a new rationale for engaging groups in policy making, the federal government began to look toward the “ordinary citizen” to engage directly in policy – bypassing any form of organized collective action.

This discourse gradually got picked up by the media and the general public who began attributing the paralysis of the policy system to the strong lobbying of the “special interest groups”. This shift was further exacerbated by the publication of a number of articles profiling cases of financial abuse and lack of transparency in voluntary organizations. Walter Stewart's book entitled *The Charity Game: Greed, Waste and Fraud in Canada's \$86 Billion-A-Year Compassion Industry* (a book which was withdrawn from publication under threatened law suits from voluntary organizations) and *MacLean's* magazine, for example, both featured cases of alleged abuse within the sector in the mid 1990s. As a result, scepticism spread to the general public who, while they still had relatively high levels of trust in the voluntary sector, were faced with a generalized climate of suspicion (Gibelman and Gelman 2000; Muttart, 2006). These shifts in political discourse meant that voluntary organizations were increasingly placed under the scrutiny of public examination and cast in a negative light. While this suggestive shift in discourse clashed with inherited institutional frameworks of interest mediation embedded in the citizenship

model of funding, the widespread concern for national deficit reduction opened the door to a tidal wave of massive funding cuts at the federal level in core funding programs. This proved to be a critical juncture in the citizenship model.

Expanding but Containing the Charity Model

Alongside this juncture in the citizenship model, more incremental, but no less insidious changes were occurring in the other financing models, which taken together had a huge impact on the articulation of social forces in civil society. The charity model has well established roots in Canada, dating to 1930 when the permanent recognition of charities for tax deductions (later credits) was created. Elson (forthcoming) argues that 1930 established a path dependent process in public financing for part of the voluntary sector, those that had access to the tax system as registered charities, in that it laid a benchmark of a minimum of 10 per cent of personal income that could be taken as a deduction and also linked eligibility to issue tax receipts to the Victorian definition of 'charity' (which had direct lineage from the 1601 Statute of Elizabeth). The requirement that charities must devote substantially all of their resources to charitable purposes, quite narrowly defined, also established limitations on the amount of advocacy and social change work that they could undertake; 'substantially' became entrenched in the late 1970s as 10 percent of all of a charity's resources.

This expansion of the charitable financing model can be seen as the converse of what was happening with the contraction of the citizenship model. In the late 1980s, the federal government began making a series of cuts to core funding, which became dramatic in the mid 1990s under Program Review – a system wide review of programs with the aim of expenditure reduction. Voluntary organizations, particularly national organizations, lost their financial security and in an instant were struggling to keep their operations above water. Though times were difficult, the combination of the shift towards more project based funding, further increased the volatility of their financial situation. With no other options for securing a core funding base, many organizations began to think about fundraising and fee for service as a more secure root in order to maintain independence from the state. Rather than resist the shift in the citizenship model, working to tweak the legislative and regulatory environment therefore seemed like a better, more realistic strategy for voluntary sector leaders. It was also believed to be a more rallying goal to bring together a wide variety of voluntary sector organizations' concerns.

Women's movements, anti-poverty groups, visible minority groups were effaced in the background as new leaders from larger, professionalized philanthropic organizations came to the fore in this period. In the mid 1990s, a group of twelve national organizations or coalitions came together under the name *Voluntary Sector Roundtable* to provide policy leadership and lobby for an increase in the tax credit (as well as to address the issues of accountability in the light of imported scandals). Naturally, this skewed the type of issues and claims that would be put forward in the name of the sector and propelled a revival of interest in the charitable model. Strong lobbying efforts on their part led to significant increases in the level of the tax credit: to 50 percent in 1995 and 75 percent in 1996. In addition, modifications have been made to enable the contribution of stocks to charities and in 2006 capital gains on donations of stock to charities and private foundations were made fully deductible. The cumulative result is that Canada has one of the world's most generous and flexible systems of tax receipting for donation to charities.

Although the amounts of the tax credits have grown to be very generous over the past decade, the aggregate impact of the charity financing model has also been contained by tying any expansion of the definition of 'charitable' to its fiscal impact. This link was made explicit by the Supreme Court in a 2007 case of the appeal of an amateur soccer association which had been denied eligibility to be registered as a charity [A.Y.S.A. Amateur Youth Soccer Association v. Canada (Revenue Agency), 2007 SCC 42]. In denying the appeal, the Court held that the "scheme of the ITA [Income Tax Act] does not support a wide expansion of the definition of charity," and that any reform through the courts has to be incremental in terms of its fiscal impact: registering amateur sports organizations would be closer to a wholesale reform and such a major policy change is better suited to Parliament than the courts. Although many jurisdictions are having such policy debates about the definition of 'charity,' Canada would not be among them. The strong political resistance to investing in infrastructure and advocacy was still very present and hindered any possibility of extending the definition of charity to encompass a broader range of actors or relaxing the limits on advocacy activity. The rapid demise of the citizenship model and the very public questioning of advocacy greatly constrained the discursive space and made it difficult to validate the use of any kind of funding instrument to support representational activities.

Because of the resistance to discuss possible extension of definition, the debates around charity model in Canada fell short of tackling the question of what type of relationship should be encouraged and fostered between government and the voluntary sector.

Welfare State Model: Mired in Red Tape

With the dismantlement of the citizenship regime, the end of core funding and the rigidity of the charity model of funding, the federal government had come to rely heavily on one main funding instrument, the grants and contributions programs, as opposed to a more mixed instrument choice. The aggregate of such federal transfers is substantial – nearly \$27 billion annually flows to voluntary organizations, aboriginal organizations and First Nations, small business and other service providers (BRP, 2006: vi).³ Grants and contributions were now used to purchase services, but also to invest in community projects and organizations, albeit with considerable difficulty.

The institutional locus of power within government had also shifted. This further transformed the political terrain in a fundamental way by slowly reshaping the institutional logics and the power relations between the actors. Given the widespread pressure for deficit reduction, Paul Martin, then Minister of Finance, came to exercise enormous power.

From a policy perspective, the fiscalization of social policy and the shift in institutional locus of the social policy agenda to the Minister of Finance had a significant impact on the welfare state model. For one, it led an erosion of concern for national standards and universality of programs and a shift toward more targeted approaches to social policy (McKeen 2007; Banting, 1996). The replacement of the federal cost-shared Canada Assistance Plan (which enabled some national 'standards') with the block-funded (relatively unconditional) Canada Health and Social Transfer in 1996 was associated with billions of dollars in cuts of federal transfers to provinces for social programs. It also marked the withdrawal of the federal government from its former role of enforcing at

least minimal national standards of social assistance provision (National Council on Welfare, 1997), and meant that the scope for discussion of social goals at the federal level was narrowing (Boismenu and Graefe). Increasingly, grants and contributions were to be managed under a market oriented model.

Given that the funding system of grants and contribution was now the main instrument to directly fund voluntary sector organizations, the centralization of the contracting instruments to the Minister of Finance and the Treasury Board Secretariat had the effect of creating more institutional rigidity. For one, because these centres do not entertain a direct relationship with voluntary sector organizations in their day to day operations, it disconnected the discussion of instrument choice from broader, external relationships. With the reduced involvement in direct service provision, the federal government took on a more managerial role. In the interest of improving transparency, accountability, effectiveness, and efficiency, along with greater reliance on contracting, the federal government slowly moved away from managing on the basis of inputs and activities to managing on the basis of outputs and outcomes. Yet, funding issues and instrument choice became framed in terms of their capacity to report, notably in terms of how the money was spent, rather than their effectiveness in meeting their objectives. Moreover, it limited any discussion around outcomes to the mechanics of outcome measurement. With very little on-going contact with the “suppliers” of services, building relationships with them was a low priority for government. It also meant that for these very suppliers who were feeling the burden of stringent requirements of accountability, generating understanding and support from central agencies was a difficult if not impossible task. Furthermore, it meant that funding issues were reframed around mechanical issues such as the nature of reporting and risk assessment measures – rather than around broader visions of outcomes and goals. With this important disconnection between the instrumentation/ tools and the policy rationales, the issue of diversification of funding instruments did not come on the political table.

Although Paul Martin during his time as Prime Minister had begun an initiative to develop the social economy (initially by promoting research through the federal granting councils), this funding was ended abruptly by the subsequent Harper government as part of its cleansing of all programs visibly branded with the Liberal stamp.⁴

The situation would only get worse as a couple of high profile mismanagement exercises in the early 2000s further brought attention to issues of accountability and risk management. In 2000, Canadian newspapers were headlining the “billion dollar boondoggle,” the story that the lead federal social policy department had supposedly lost track of and could not account for huge amounts of transfers to voluntary and private sector organizations in a job creation program. The stories were misleading, and in fact only a very small amount of funding could not be properly accounted for, but the consequences were very real as accountability requirements on contracting and contributions were tightened enormously (Good, 2003; Phillips and Levasseur, 2004). Another scandal a few years later in which funds from advertising contracts by private firms found their way to the Liberal Party of Quebec resulted in more contracting rules and oversight being layered on. Reaction to scandal tells part, but only part of the story of the current rationale and process of reform in Canada.

Taken from the broader context of the sustainability of the voluntary sector and applying it to the Canadian context, several trends are significant and have contributed to the current state of affairs. As noted earlier, the overall trend in government to improve

performance measurement, focus more clearly on results and also use third party delivery mechanisms, historically dubbed New Public Management, has nudged government out of the sustaining role for voluntary organizations and into an era of looking for deliverables. Suffice it to say that this has been an international phenomenon, one that certainly was felt in Canada over the past twenty years. What is significant about this trend is that it was not driven simply as a reaction to a specific scandal. What happened in Canada was the confluence of an increased trend to move away from outright grants of support towards more contracted services with clear (or otherwise) deliverables just at the time of the so-called 'billion dollar boondoggle' occurred. While the scandal provided much political theatre at the time, the cumulative effect of this scandal was to impose a virtual freeze on the grants and contributions programs that had been the lifeblood of the voluntary sector for several decades, The Treasury Board Secretariat, the central agency responsible for setting government wide standards and requirements for contracts and contribution agreements imposed more rules and heavier financial and activity reporting requirements. Many departments layered on additional accountability requirements and more steps in the initial vetting of contracts and contributions agreements, creating enormous delays and much greater transaction costs and huge externalities for the funded organizations. The eventual election of a Conservative government after the sponsorship scandal (not directly involving the voluntary sector) and the introduction of its *Accountability Act* also reinforced the preoccupation with risk avoidance at all costs and the imposition of major process constraints upon the system

This resulted in a slow incremental policy shift or "regulatory shift", further constraining the funding environment and rendering the system of grants and contributions highly ineffective as a funding mechanism. The amount of time required for organizations to fill out the application forms, the difficulty of framing the project goals and outcomes in accordance to the reporting requirements, meant that the contracting and accountability process had clearly become a barrier and a deterrent for organizations. Moreover, without diverse funding tools to draw from, voluntary sector organizations were faced with important gaps in skills and capacity. Part of the problem is that the federal government never anticipated a need for diversification of the funding base. Contrary to the UK, the response to the contracting regime has been more reactive than proactive and has not been articulated in a coherent vision of the framework for the voluntary sector.

As part of the new government's overall approach, it acknowledged that the defensive processes that had resulted from the reaction to this array of scandals had effectively shut down the effectiveness of many of these programs. This was well documented by the Auditor General of Canada when, in May, 2006, her report said, "Recipients of grants and contributions have told a parliamentary committee their concerns about the way departments apply the Treasury Board's Policy on Transfer Payments. They said that meeting various requirements including multiple audits, demonstrating eligibility for funding, and reporting on recipients' results, can impose a heavy financial and administrative burden. Our audit confirmed that departments have yet to streamline their management of grants and contributions in a way that would resolve those concerns."⁵

However, given that the main institutional locus for instrument choice is located in a central agency with very little actual relationships with the "suppliers" and little understanding and knowledge of the nature of the activities and services that were being supplied, it was all the more difficult to incorporate issues of efficiency and values, vision

into the debate. Moreover, because the Treasury Board Secretariat and the Minister of Finance were the main drivers of the contracting regime, it meant that debates about funding focused on the instrument, not the relationship. In effect, voluntary sector organizations had very little contact with these institutional centres and very little influence in the debates.

As for line departments, with vested interest in the state of the voluntary sector, they were stuck in issues of red tape. Although many are struggling to rebuild their relationship with voluntary sector organizations, encourage innovation in the policy realm, and maintain trust in an environment in which they have very little sway over the nature of the contracting arrangements, they had to navigate the political branch very carefully. Recognizing the impasse which existed in the flexibility/accountability tradeoff in financing, the Department of Human Resources and Social Development Canada, which has extensive relationships with voluntary sector organizations, launched a Task Force on Community Investments in 2005. Its purpose was to discuss new policy directions and instruments that would enable and support investments in multi-stakeholder, multi-sectoral and local initiatives. With its ties to community organizations, the Task Force understood the need for a diversification of funding sources and recognized the importance of investing in the sector and supporting innovation.

The main theme of the 2006 Task Force report was that federal departments need to build more sustainable relationships with their funded communities: it admonished that departments could do a better job 'up front' designing funding programs if they more actively engaged with their constituencies and if they adopted a risk management approach and had greater flexibility and ability to customize their funding instruments. Specifically, the Task Force provided three levels of recommendations: 1) administrative modifications that can be achieved within existing policies and without significant investment (such as setting umbrella terms and conditions for funding programs so as to streamline processes and considering more multi-year funding horizons); 2) Infrastructure improvements that would require reallocation of existing resources but would not entail changes in overall government policies (notably greater engagement with internal and external stakeholders in the initial design of the mandatory accountability and results-based frameworks so that both the department and stakeholders would have a understanding of risk factors and desired outcomes, and could manage accountability on a risk based continuum); 3) policy changes that could put the government-sector relationship on a more robust footing for future years (including restoring the possibility of using unconditional grants to a greater degree, clarifying policy, operational and legal distinctions between transfer payments and contracts, facilitating greater access by voluntary organizations access to the government procurement process, and exploring the use of alternatives, such as a government endowed foundation to enable investment in the sector).

Although the background work to the Task Force had considered an even broader array of financing instruments, including support for social enterprise and program-related investments, this discussion did not find its way into the final report, perhaps because the Blue Ribbon Panel process was already moving ahead with a much narrower mandate and perspective. Indeed, the work of the Task Force would soon take the back seat and be completely overshadowed by the Treasury Board's own initiative to set up an independent expert panel to recommend measures to make the delivery of grants and contribution programs more efficient, while ensuring accountability.

2008: Another Critical Juncture?

The Harper Conservatives were elected largely on a mandate of promoting greater accountability in government, having made good political use of the sponsorship scandal in the January 2006 election. The new government's first move has to introduce an Accountability Act and Action Plan. In this Action Plan, the Conservative Government acknowledged that something had to be done about the "web of rules" on grants and contributions that had grown in an inadvertent, uncoordinated manner. The Harper government followed its preferred way of seeking strategic advice which was to remove the issue from the bureaucracy for study by an independent, external panel of experts. In institutional terms, this would seem to have the ingredients to be a critical juncture in the financing of the third sector in which existing assumptions could be tested, practices assessed and ideas for new approaches identified. Had a critical juncture opened?

The Blue Ribbon Panel, created in 2006, was initially created to figure out what to do about the dysfunctional web of rules. It is perhaps significant that the three (later two) panel members worked on a voluntary basis, with no fee.⁶ Their mandate was impressive, targetting the full scope of government transfers to businesses, voluntary groups and aboriginal people.

Specifically the Panel's mandate was to:

- review the draft Policy on Transfer Payments, along with its directives and related departmental practices;
- identify barriers to access for applicants for government grant and contribution programs and recommend changes to government-wide and departmental policies and practices to ensure that the government delivers those programs in a fair, economical and efficient manner;
- give consideration to eliminating legislative barriers and constraints to the effective and efficient delivery of grant and contribution programs; and, assess whether instruments other than grants and contributions can better achieve policy outcomes for Canadians in receipt of government support.⁷

The consultation process with voluntary organizations quickly focused on the negative effects of the existing funding regime on the sector. The members of the Panel noted in several of these sessions that, although they had obviously realized there were problems in the grants and contributions system, they did not initially realize just how bad things were: they quickly came to understand the issues from the sector's perspective and this is communicated in the forceful language of the report which calls for fundamental reform. The consultation process also opened up issues, however, that pointed to some more fundamental philosophical concerns about the voluntary sector both as a provider of services and as a policy advocate for more or different services.

The primary submission from voluntary organizations, coordinated by Imagine Canada, stressed that the crisis in the administration of Gs and Cs flows directly from the lack of an overarching sector investment framework and long term vision, as exists for almost every other sector of the economy (Imagine Canada et al., 2006). The submission stressed that government must consider investment strategies both for the "delivery of federal programs *through* the sector" and "federal investment *in* the sector." Fixing the existing system of Gs and Cs would help with the first, and this would include making the terms and conditions more flexible and following the principle of full cost recovery. But,

the emphasis in the brief is that this would only be the first step to fixing financing: the government should not only implement the recommendations of the Task Force on Community Investments but go further in exploring a wide range of complementary investment instruments including business development banks, foundations, insurance guarantees, access to procurement, facilities maintenance, technical assistance, and support for infrastructure organizations. Clearly, the goal of the voluntary sector was to transform thinking about the rationale for funding from shopping to investment mode.

The Blue Ribbon Panel ultimately saw the larger task of developing a broader array of investment instruments as beyond its mandate. Instead, the Panel in its report, *From Red Tape to Clear Results*⁸, issued in early 2007, focused on some key elements to make the existing system of Gs and Cs work more effectively. It anticipated that, in doing so, it would address the principal concerns over the high opportunity costs for the granting process and reduce the level of risk aversion currently pervasive in the system. The Report itself provided a useful summary of its intent:

- 1) Respect the recipients—they are partners in a shared public purpose. Grant and contribution programs should be citizen-focused. The programs should be made accessible, understandable and useable.
- 2) Dramatically simplify the reporting and accountability regime—it should reflect the circumstances and capacities of recipients and the real needs of the government and Parliament.
- 3) Encourage innovation—the goal of grant and contribution programs is not to eliminate errors but to achieve results, and that requires a sensible regime of risk management and performance reporting (Blue Ribbon Panel, 2006).

Its recommendations focus on developing processes that are more user friendly, recognize the costs of accountability and reporting to the agencies, and apply genuine risk management processes rather than the fully risk averse ones in place. The Panel did not propose that accountability within the system be reduced. In fact, it stressed throughout that it saw that both accountability and greater ease of processing agreements went hand-in-hand. It sought to avoid advocating a swing of the pendulum back to less rigorous rule adherence in favour of program delivery. In essence, the Panel said there should be both. This more than anything represented a challenge to both parties. It also advocated a cultural shift from what it saw as the emergence of an adversarial relationship between those providing grants and those receiving them. This also posed - and continues to pose - a major cultural challenge both to the bureaucracy within the federal government and recipients. It also poses a major theoretical challenge in terms of public administration thinking in general. As Sparrow (2000) notes, “The popular prescriptions for reform on service, customers, quality and process improvement, not on compliance management, risk control or structuring the application of enforcement discretion.” This is not a circle that is easily squared.

Government’s Response

Government reaction to the Report was positive, and it linked the recommendations clearly to its concern for excessive bureaucracy. The President of Treasury Board described the report as intended “to reduce unnecessary red tape to make these programs work better for Canadians.”⁹ The President took the lead in developing responses to the specific recommendations. It has to be noted here that those

recommendations focused clearly on process issues, ones that needed addressing. They did not propose that the government change its overall policy with respect to sector support and the expectations for greater accountability within the system.

In assigning responsibility for responding to the Treasury Board, the government signalled that it saw the issues as focusing on management rather than policy. On the other hand, the Panel itself did not propose sweeping changes to tax policy. Nor did it address some of the underlying issues such as the nature of grants and contributions, although it did call for greater clarity in their application.

Treasury Board also linked the response process to a number of other government initiatives to improve accountability and reduce the process burden both within government and to its various clients and grant recipients. Based on interviews conducted with senior Treasury Board officials in April, 2008, it was clear that this was seen as an integral part of the government efforts to clarify the accountabilities of Deputy Ministers, introduce and deepen its approach to risk management and include this issue in an effort to improve its client-service approach. The government's action plan, announced in June 2008, is based on the following pillars¹⁰:

- Policy Reform: the primary 'new' policy direction is to focus on risk management techniques rather than across-the-board rules: departments will be required to tailor their administrative regimes based on risk..
- Departmental Action Plans: lead departments will be encouraged to conduct thorough business reviews of grant and contribution processes to identify opportunities for improved service delivery and increased efficiency, and to share best practices. Each department is expected to tailor its own plan so as to simplify the administrative burden, make better use of technology, establish service standards etc.
- Horizontal Enablers: this entails the creation of a Centre of Expertise on Grant and Contribution Programs within the central agency to disseminate information about best practices across government and encourage the streamlining of administrative practices.¹¹

The government clearly bought into the main themes of the Blue Ribbon Panel. They were designed to be congruent with the emerging priorities of the government, without reducing its strong focus on internal and external process accountability. Therefore, the report and the response created little incentive to look at completely different models of financing such as co-management, an arms-length independent authority or new costing models that incorporate sustainability costs to recipient agencies. Rather, the action plan is about relationships between the central agency and line departments, rather than relationships of government to the third sector.

One of the principal characteristics of the Government's response to date has been to ease the way into a more restrictive notion of supporting the voluntary sector through improved administration accompanied by improving the skills on the bureaucratic side to better address risk. However, no real efforts have been made to take on the larger policy issues. This in itself represents a policy statement.

Does the crisis in grants and contributions and the government's response to the Blue Ribbon Panel represent a critical juncture in which new pathways of changes to financing models might be opened? Not at all. In fact, the focus on fixing existing instruments, while important, means that we have carved out an even deeper channel of reliance on existing contract-like funding instruments. They may be better used in the future by layering in more effective practices and converting management to a risk-based framework, but there is little indication that a broader array of instrument choice will be developed anytime soon. The public servants in line departments who hold more to the logic of the Task Force on Community Investments than the narrower focus on the Treasury Board Secretariat may keep working away on incremental steps toward inventing and experimenting with alternative instruments, but they will need to do so in an almost clandestine manner as the policy space is not open to such ideas, and the central agency's role in reform has further concretized the institutional channels through which they can work.

Conclusion: Subversive Incrementalism

The Canadian case is an interesting one. Despite the fact that Canada's funding system has traditionally encompassed a variety of funding tools, over time the mix of funding has shifted incrementally to the point where the funding system is now reliant on two principal tools – grants and contributions and the tax system. Yet, these very instruments have been altered in the aftermath of the deconstruction of the citizenship model. The critical juncture in the citizenship model of funding established a certain path for funding marked by strong political resistance toward any kind of support for sector infrastructure and representational activities, be it via grants and contributions or via the tax system. Funding of advocacy activities has been equated with creating too powerful interests. These ideas have perpetuated institutional rigidity and inertia by limiting the potential for discussion and debate around diversification of funding instruments. At the very time when other countries are beginning to see funding expenditures in the voluntary sector infrastructure and skills development as an investment in the sector, the Canadian government has moved slowly and incrementally to simply tweak traditional instruments.

In order to move away from this path, however, we will need real drivers for change. Centralization of policy making and fiscalization of social into tax policy has had the effect of disconnecting the centres of power from the institutional locus of relationships with the voluntary sector. Decisions about funding have been focused on the short term mechanics of funding, rather than on more future oriented goals. Because the central agency that now holds primary responsibility for reforming the funding instruments only has relationships with line departments, as opposed to on-going links with voluntary sector organizations, it will be very difficult to break the pattern. Indeed, voluntary sector actors are disconnected from the institutional arrangements where funding decisions occur, and the political space to effect change has narrowed. Line departments, however, with a direct interest in relationship building with the voluntary sector may take incremental steps toward developing alternative instruments, but in the current political context, they will have to be subversive – carefully flying under the political radar.

For this reason, although there is agreement that change is necessary, the development of funding instruments more suited to the task of investment and capacity development will require a view toward the future. The biggest challenge will be filling the void left by the deconstruction of the citizenship model and rearticulating a vision for the place and

role of the voluntary sector in policy. Until then, chances are that institutional rigidity will continue to prevail and change will remain incremental.

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ENDNOTES

¹ Edwards (2008) notes that in the USA, only 11 percent of private donations go to social justice causes.

² Addendum to the Report on the Social Security Review.

³ The federal *Policy on Transfer Payments*, under the authority of the Treasury Board Secretariat, is the main mechanism that sets out the “rules” for these direct transfers. It defines several kinds of transfers including: a) Grant: a payment to a recipient that is not subject to being accounted for or audited, but for which eligibility and entitlement may be verified and for which the recipient must meet pre-established eligibility criteria; and b) Contribution: a conditional transfer to a recipient for a specified purpose, typically to reimburse specific expenditures, which is subject to audit and evaluation. In Canada, grants are interpreted in a very narrow and traditional sense as an unencumbered (and therefore not subject to audit) ‘gift of the Crown.’ This consequently puts grants “out of step” with current expectations with respect to accountability generally and, more specifically, certain accountability provisions contained in the new *Accountability Act* (TFCI, 2006: 41)

⁴ The interest in social economy came largely from its success in Quebec, although it was relatively unknown in other parts of Canada. Since his government’s defeat in January 2006, Martin has remained a strong enthusiast for developing social entrepreneurship.

⁵ Available at http://www.oag-bvg.gc.ca/internet/English/aud_ch_oag_200605_6_e_14963.html#ch6hd3a

⁶ One member was a former senior public servant, the other a former cabinet minister in the Ontario New Democratic government and currently President and CEO of the United Way of Greater Toronto. The private sector member had to scale back his involvement part way through the process due to business considerations.

⁷ http://www.tbs-sct.gc.ca/media/nr-cp/2006/0606_e.asp

⁸ <http://www.brp-gde.ca/en/report.cfm>

⁹ http://www.tbs-sct.gc.ca/media/nr-cp/2007/0214_e.

¹⁰ The following is based on interviews with Ms. Barb Kiley and Mr. John Walker, Treasury Board Secretariat.

¹¹ Note that this Centre of Expertise is now focused on grants and contributions, not on funding practices as recommended by the Task Force on Community Investments .