Funding Matters:
The Impact of Canada's New Funding Regime on Nonprofit and Voluntary Organizations

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Funding Matters: Diversification and Financial Volatility among Nonprofit and Voluntary Organizations in Canada

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

The nonprofit and voluntary sector is indeed in a different place today than it was a decade ago. The powerful forces of commercialization and the increasing costs and constraints associated with funding from external funders are but two of the key trends that are transforming the funding landscape for the nonprofit and voluntary sector. Facing growing demand for services, organizations that survived the funding cuts of the 1990s now struggle within an increasingly competitive funding environment.[1] As Diana Leat notes above, critics fear that as nonprofit and voluntary organizations are forced to compete in the market or submit to greater controls by those who fund them, they are being transformed.

This paper explores the efforts of nonprofit and voluntary organizations to achieve greater financial security within the context of Canada's changing funding landscape.[2] Specifically, it looks at the experiences of 50 organizations in generating revenue and diversifying their resource base in response to broader social and economic pressures. The focus on funding – the relationships between organizations and their funders – is an important one. While funding is not the only thing that matters when it comes to organizational capacity and sustainability, it matters a good deal. The funding source matters, the funding mix matters, and the funding vehicle or mechanism matters. The generation and use of financial resources has a profound impact on the way organizations structure themselves, make decisions, deliver programs, set up governance structures, and define their missions.

The result of this research suggests that it is necessary to step back and assess the ways in which nonprofit and voluntary sector organizations are now funded in Canada. New funding practices and the changing mix of funding sources and mechanisms represent both opportunities and challenges for nonprofit and voluntary organizations. Greater self-sufficiency through new earned income opportunities, for example, holds the potential of financial gain for many. At the same time, evidence suggests that organizations are struggling with higher levels of financial

[1] See Rekart 1993; Browne and Landry 1996; McFarlane and Roach 1999; Howe and Reed 1999; Toronto et.al., 1996 and 1997. More recent work documents financial struggles today: Eakin 2004; Centre for Community Leadership, 2004; Daya, El-Hourani and De Long, 2004; Toronto and Community Neighbourhood Services, 2004.

[2] This paper is based on a larger study entitled *Funding Matters: The Impact of Canada's New Funding Regime on Nonprofit and Voluntary Organizations* (Ottawa: Canadian Council on Social Development, 2003).

uncertainty and volatility than they were a decade ago, even as they have sought – largely successfully – to diversify and augment their funding base. The study of funding reveals the inherent contradictions of current funding practices. Indeed, the unintended consequence of funding diversification, as this paper will argue, has been the rise in financial volatility as organizations experience huge swings in income – volatility that is systematically undermining efforts to achieve greater financial security and independence. These findings are clearly linked to the proliferation of contract and project funding – as seen in the changing mix of income sources and mechanisms – as well as intensified competition for resources, both of which are characteristic of Canada's new funding regime.

The paper is divided into three sections. In the next section, a number of key features of Canada's new funding regime are set out that establish the context within which nonprofits now operate. Following this, the paper describes the specific experiences of organizations navigating this changing funding landscape and addresses the following questions: Are nonprofit and voluntary organizations diversifying their sources of income? What is the current mix of funding sources and mechanisms? Is this changing over time, and how? The paper ends with a discussion of the empirical findings and draws conclusions about the relative success of organizations in their pursuit of greater financial security.

Canada's New Funding Regime

In the 1990s, in an environment of fiscal constraints, governments cut direct financial support to many nonprofit and voluntary organizations that they had funded for decades. But the changes in funding mechanisms were more profound than just cutbacks – the relationship itself between external funders, notably government, and nonprofit and voluntary sector organizations changed. A new funding regime emerged.[3]

The new funding regime is reflective of a philosophy that introduced values and expectations associated with the private marketplace – competition, diversification, entrepreneurialism, innovation, focus on the bottom line – into the mix with more traditional public sector values of accountability, stability, responsiveness to clients and community, and serving the public interest. Organizations were told to diversify their funding base and become less dependent on tax dollars. A number of organizations that had traditionally received an annual government grant to support their work, which left them a degree of autonomy in directing their own affairs, lost all or most of that core funding. Instead, many were left to apply for project-based funding targeted to certain priority areas or to enter into purchase-of-service contracts with government ministries and departments for the delivery of specified programs.

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[3] Scholars have used the concept of "regime" to describe the collective rules, values and sanctioned expectations that structure the day-to-day actions of nonprofit organizations and governments. Steven Krasner defines regime as a set of "principles, norms, rules and decision-making procedures around which actor expectations converge in a given issue-area" (Krasner, 1982: 185 cited in Smith and Lipsky, 1993: 43). Smith and Lipsky use the concept of contract regime to describe the extensive government practice of contracting with nonprofit social service agencies in the United States. While all actors do not operate on the same principles nor seek the same objectives, overarching assumptions and expectations exist that influence the interactions of these same actors. They define the funding environment within which nonprofit and voluntary organizations and their funders operate, and they are reflected in the institutional arrangements such as funding mechanisms that structure their relationships.

From the funders' perspective, governments – as well as other private sector funders – have implemented mechanisms to ensure the most effective use of dollars by: targeting funding to programs and projects that meet, in this instance, the elected government's priorities and focus on the results to be achieved; reducing support for administration to increase the proportion of funding that goes into programs and services; monitoring contracts closely and requiring organizations to demonstrate that they have used the funds for the intended purposes and have achieved the expected results; encouraging groups to show how they can do business differently and do more/better with less; reducing duplication and gaps in service and enabling more integrated and holistic solutions to complex problems by making organizations collaborate through partnerships; and retaining flexibility to meet changing priorities in a volatile environment by avoiding long-term financial commitments.

The reality for organizations struggling with change, however, is much different. Organizations that survived government funding cutbacks of the 1990s are now financially fragile because they are dependent on a complex web of unpredictable, short-term, targeted project funding. Indeed, their efforts to create greater financial stability have led to greater instability for many.

Navigating the New Regime

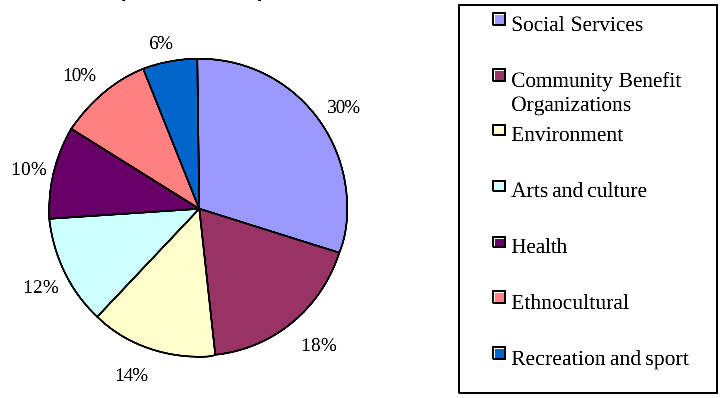
As the funding pressures have increased, efforts among nonprofit and voluntary organizations to diversify their funding bases have grown as well. For some organizations, dependence on a single stable source of income might be preferable. But the reality for most is that it has become increasingly necessary to seek out alternative sources of funding, that is, to increase the number and type of funding sources. This is not simply a case of taking on more project work, although that is the reality for many; rather, groups are attempting to seek out different types of funding, from different sources, to create a more sustainable financial base and to dilute the financial and organizational risks associated with heavy dependence on one or two funders. They are meeting with some success, as we will see below, but the cost of this success has been very high.

Participating Organizations: Who are they and what do they do?

The nonprofit and voluntary organizations that were surveyed for this study are a diverse group. (For a description of the methodology, please see the Appendix). The large majority of groups surveyed are incorporated (96.0%). Over half are registered charities with the Canada Customs and Revenue Agency (55.1%); another 20.4% are registered as nonprofit organizations, and 22.4% are registered as both nonprofits and charities (N=49). The age span of nonprofit and voluntary organizations was wide, as one might expect. The large majority of organizational respondents are well-established. Over 85% have been in existence for more than 10 years. The largest group (29.4%) was started 10 to 19 years ago in the 1980s, while another one-quarter of organizations (27.5%) were started 20 to 29 years ago (N=48).

The groups surveyed are active in a wide variety of areas. Chart 1 shows the breakdown of respondents according to their primary areas of activity. The largest group of nonprofit and voluntary organizations surveyed worked in social services (30%), followed by community benefit organizations (18%), and environmental groups (14%). Twelve per cent of the groups surveyed are involved in the arts; organizations serving ethnocultural communities and community-based health services each made up 10.0% of respondents. Recreation and sports groups made up 6% (N=50). In the absence of national data, it is difficult to say how closely this group of nonprofit and voluntary organizations mirrors the composition of the nonprofit and voluntary sector across Canada. The new *National Survey of Nonprofit and Voluntary Organizations*, expected in September 2004, will provide the first comprehensive portrait of the nonprofit and voluntary sector in all of its diversity.

Chart 1
Nonprofit and Voluntary Organizations: Primary Area of Activity, 2002



Source: Canadian Council on Social Development, *Funding Matters* Study (N=50).

Many of the organizations in our study started out as grassroots groups, operating from a "church basement," but are now established organizations with paid staff. Over 90% of the organizations surveyed for this project had paid staff in 2002 (N=50). This ranged from groups that had no paid staff, to an organization with a staff complement of 131. In 2002, nearly half of the groups surveyed had five to 19 paid employees (44%), one-quarter (24%) had fewer than five, and over one-fifth (22%) had 20 or more paid staff. Ten per cent had no employees. On average, the groups in our study had 10 staff members (N=50).[4] Nonprofit and voluntary organizations draw on volunteers as well as paid staff. In our sample, 96% of respondents reported that they benefited from volunteer labour (N=50). On average, the responding organizations "employed" an average of 93.5 volunteers in 2002.[5]

Taken together, these data suggest that nonprofit and voluntary sector organizations are engaged in a wide variety of activities, and many have been in operation for some time. This group of nonprofit and voluntary organizations has a secure base of paid employees and works with many volunteers in their communities. It is important to keep in mind that the organizations surveyed for this study do not necessarily reflect the experiences of all nonprofit and voluntary organizations. The project identified well-established organizations, particularly those with an interest in nonprofit and voluntary sector funding. That being said, however, as our extensive

[4] We have used the trimmed mean here, that is, the average of the middle 90% of organizations. In this way, we exclude groups with very large staff complements in order to give a more accurate reflection of all groups in the sample.
[5] The trimmed mean was used here again to derive the average number of volunteers among organizations surveyed.

consultations reveal, broad indicators of stability such as the number of full-time employment positions or organizational longevity do not necessarily indicate a stable financial situation.

How have levels of funding changed?

We turn now to an analysis of the financial situation of nonprofit and voluntary organizations participating in our study. In 2001, the nonprofit and voluntary organizations surveyed administered approximately $50.2 million in total, with an average of $1,046,100.[6] However, these data are misleading. The range of income was quite wide, from $5,400 to $7.9 million. The presence of a number of large nonprofit and voluntary organizations served to push up the average. The median income of the organizations surveyed was actually substantially lower, at $276,600. If we look at the 5% trimmed mean, we see that it was $779,400 in 2001 (N=48).

In order to get a sense of how nonprofit and voluntary organizations have managed financially over the past five years, we asked about the organization's income in 1997, 1999 and 2001 (the most recent fiscal year).[7] Thirty-two organizations provided information for these three points in time. This period, by and large, was a time of economic growth and we see that the nonprofit and voluntary organizations in this survey did well, experiencing positive levels of growth.[8] Aggregate income increased by one-third (36.8%) between 1997 and 2001, with the bulk of the increase occuring between 1997 and 1999 (data not shown). Even taking inflation into account (assuming an annual 2% growth in the Consumer Price Index over this period), these gains are very strong. By way of comparison, real government expenditures between 1997 and 2001 (net debt charges) increased by roughly 20%.[9]

Similarly, the change in average income and median income was positive: average incomes – as measured by the trimmed mean – increased by 78.8% between 1997 and 2001, while median incomes increased by 39%, as shown in Table 1. The substantial increase in average incomes was directly related to very large increases experienced by a few organizations. However, the fact that median incomes also rose, suggests that the majority of organizations experienced growth through this period. The most marked growth occurred between 1997 and 1999.

[6] Because the fiscal years of participating organizations differed, these data may represent 2001-02 or 2001. We have elected to use 2001 in the text to refer to the last fiscal year.

[7] We asked participants to give us financial information for the most recent fiscal year, and then two years earlier, and five years earlier. Because the fiscal years of all the organizations differed, financial information for the most recent fiscal year may be for 2001or 2001-2002. There will be similar discrepancies between data for two years ago (1999 or 1999-2000) and five years ago (1997 or 1997-98). In the text, we use 2001, 1999 and 1997 for simplicity's sake.

[8] Real GDP grew between 1997 and 2001 by 16.4%. At the same time, the Consumer Price Index rose by 8.2 points (Statistics Canada, *Canadian Economic Observer*, Historical Data Supplement 2000/01, July 2001).

[9] It is important to remember that the revenue growth reported here followed on the heels of significant funding cutbacks to many organizations across the nonprofit and voluntary sector in the early and mid-1990s. See Note 1.

Table 1: Average and Median Income of Nonprofit and Voluntary Organizations, 1997, 1999, 2001 (constant dollars)

Income	1997 ($)	1999 ($)	2001 ($)	Change in Income (%)		
				1997-2001	1997-1999	1999-2001
Trimmed mean	475,300	641,300	735,700	78.8	52.6	24.4
Median	189,600	256,400	275,300	39.0	19.5	6.3

Rounded to nearest $100. Fiscal years presented may vary slightly. Please note that the data presented for three points in time is based on a sample of 32 organizations, those that provided data for each year.
Source: Canadian Council on Social Development, *Funding Matters* Study (N=32).

The growth in income is also revealed in Table 2. The share of low-income groups in our sample fell by 6.2 percentage points between 1997 and 2001. The proportion of middle-sized organizations – those with incomes between $100,000 and $499,999 – also fell between 1997 and 1999, but surged ahead in 2001 by 6.2 percentage points. The proportional share of groups with large incomes grew by 6.3 points between 1997 and 1999, then fell by 3.2 points for an overall percentage point gain of 3.1 over this five-year period.

Table 2: Distribution of Nonprofit and Voluntary Organization by Income Category, 1997, 1999, 2001 (constant dollars)

Income Category	1997 (%)	1999 (%)	2001 (%)
Under $100,000	25.0	21.9	18.8
$100,000 to $499,999	46.9	43.8	50.0
Over $500,000	28.1	34.4	31.3

Source: Canadian Council on Social Development, *Funding Matters* Study (N=32)

Overall, most nonprofit and voluntary organizations surveyed for this study were very successful in generating financial resources through the late 1990s and early years of the new century. As the economy improved, so did the balance sheets of many of the groups. Yet these same groups also reported that they had been affected by cuts in funding from both government sources and non-government sources. Three-quarters (75.5%) of nonprofit and voluntary organizations had been affected by cuts in government funding, while over half (55.1%) said they had also been affected by reductions in funding from foundations, individuals, corporations and the like.[10]

Similarly, six of 10 nonprofit and voluntary organizations surveyed were unsatisfied with their current level of funding: 22.7% were "very unsatisfied," and 38.6% were "unsatisfied." Only one-quarter (25.0%) said they were "satisfied" – and no organization claimed to be "very satisfied." The remaining group (13.6%) stated that they were neither satisfied nor unsatisfied (N=44).

[10] Of those surveyed, ethnocultural organizations, as well as groups working in recreation, sports, arts and culture were more likely to report having experienced cutbacks from government and non-government sources, consistent with the reductions in aggregate income for the latter.

On first reading, these findings seem somewhat contradictory, given the fact that most groups in our survey experienced gains in income. However, these groups also experienced a great deal of turmoil in their funding situations. The sheer size of the income shifts is certainly a warning sign and an important finding from this study. In the period between 1997 and 2001, we see huge income gains and losses. In Table 3, we identify two groups: "stable" organizations where income gains or losses between 1997 and 2001 were 10% or less and "volatile" organizations where income gains or losses were 25% or more, adjusted for inflation. Over five years, 25.0% of the organizations experienced a relatively stable income situation. By contrast, 56.3% had income swings of more than 25%, that is, over half of the organizations surveyed experienced significant volatility of income.[11]

Table 3: Percentage of Nonprofit and Voluntary Organizations by Stability/ Volatility of Aggregate Income, 1997-2001

1997-2001 (%)		1997-1999 (%)		1999-2001 (%)	
Stable	**Volatile**	**Stable**	**Volatile**	**Stable**	**Volatile**
25.0	56.3	25.0	43.8	34.4	46.9

Stable income = income gains or losses equal to or less than 10%;
Volatile income = income gains or losses equal to or more than 25%.
Source: Canadian Council on Social Development, *Funding Matters* Study (N=32)

The volatility of income reveals the "feast or famine" conditions that exist for many in the nonprofit and voluntary sector today. While some groups have been pushed aside all together and forced to close their doors, many others – including those surveyed in this study – are struggling year to year to create a base of financial security in a context of fluctuating income, related in large part to surges in project income, as we will see below. This theme of financial uncertainty was raised time and again in our focus groups. Almost every respondent (95.7%) reported that funding reliability and certainty was an issue for their organization (N= 46). Six of 10 (59.1%) reported that their current sources of funding were not stable or reliable (N= 44), and 53.1% noted that they were less certain about the renewal of their funding today than they were five years ago (N= 49). Indeed, groups that experienced the greatest swings in income were also more likely to report concerns about funding instability than were groups with more stable funding histories: 66.7% compared to 57.1% (N=27). These data illustrate that while the amount of funding is obviously critical, *how* nonprofit and voluntary organizations are funded is equally, if not more, important in many cases. The very uncertainty of funding is evidence of the emerging funding regime and the growing dominance of project-based or contract sources of funding.

Are nonprofit and voluntary organizations diversifying their sources of income?

Nonprofit and voluntary sector organizations derive their income from a variety of sources: donations, government grants and payments; membership fees; income from commercial ventures; and income from other nonprofit organizations such as foundations or religious organizations. (In addition to direct payments from these sources, nonprofit and voluntary organizations are also heavily dependent upon in-kind support from individuals and businesses in their communities and from governments and other charitable organizations.) Although this list

[11] Volatility in income was greatest among social service and environmental organizations.

of income sources may seem extensive, not all organizations are able or want to take advantage of each source. There are different funding patterns or mixes evident across the nonprofit and voluntary sector, each linked to their diverse structures, mandates and services. As well, the ability of organizations to pursue different funding sources is also uneven. What is certain, as was evident from our survey and focus group findings, is that nonprofit and voluntary organizations are juggling an increasingly diverse and complex mix of funding sources and mechanisms.

In our survey, 87.5% of the organizations received income from government sources, while over 90% raised funds from private sources, including individual donations, private foundations, religious organizations, and the United Way/Centraide. It is also interesting to note the extent to which nonprofit and voluntary groups are involved in income-generation activities – that is, the selling of goods and services to members, or other commercial activities such as museum gift shops, or investments. Among survey participants, 75% relied on income from such earned income activities.[12]

Looking at a breakdown of sources, we see that over half of the organizations received grant income from government sources (56.3%), while seven of 10 (70.8%) had project or program funding. Only one of eight (12.5%) derived income from contracts that were competitively tendered, and one-quarter (27.1%) received income from a public foundation in 2001 such as the Alberta Sport, Recreation, Parks and Wildlife Foundation (N=48).

Overall, the greatest number of nonprofit and voluntary groups received income from private sources. Over half (56.3%) received individual donations in 2001 and 10.4% had an endowment which produced an income stream. Six of 10 generated revenues from fundraising activities in 2001. One-third of the nonprofit and voluntary organizations surveyed received funding from United Way/Centraide, while 43.8% were successful in securing funds from private foundations, the bulk of which were in the form of project or program funding. Looking at corporate donations, 43.8% of organizations received philanthropic donations from corporations; a smaller number (25.0%) received sponsorship dollars.

Over half (58.3%) of the organizations surveyed received income from membership dues or fees. At the same time, over one-third (37.5%) generated income through commercial activities and from private investments such as rental properties or securities.

In brief, the overwhelming majority of organizations surveyed relied on government sources of funding and private giving. Earned income was also a stream of revenue for three-quarters of the groups.

[12] In a 1996 study, Browne and Landry also showed the extensive range of income sources among nonprofit and voluntary organizations. Our own analysis of the 1999 charities data revealed that organizations in our survey had greater involvement with government funders than was reported by Browne and Landry: 87.5% in our study compared to 79% in that study. There were also notable differences in the reliance on individual donations (56.3% compared to 84%), United Way income (33.3% compared to 3%), fundraising revenues (60.4% compared to 82%), and commercial activities (37.5% compared to 50%) (Browne and Landry, 1996: 31).

Table 4: Percentage of Nonprofit and Voluntary Organizations Claiming Each Source of Income, 2001

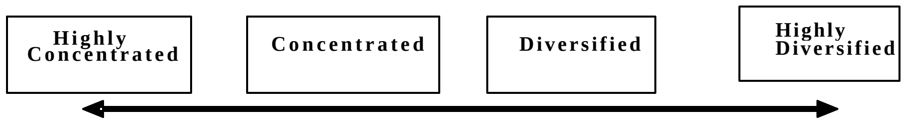
Income Source	% of Organizations claiming each source
Government Funding (N=42)	
Grants	56.3
Contributions	70.8
Contracts	12.5
Public foundations	27.1
Other government funding	10.4
Subtotal	**87.5**
Private Giving (N=44)	
Individual	56.3
Corporate	43.8
Union	6.3
Endowment	10.4
Sponsorship	25.0
United way/Centraide	33.3
Private foundations	43.8
Fundraising	60.4
Other private giving	20.8
Subtotal	**91.7**
Earned Income (N=36)	
Fees / dues	58.3
Commercial activities	37.5
Investments	31.3
Other earned income	16.7
Subtotal	**75.0**
Other Income	**4.2**

Source: Canadian Council on Social Development, *Funding Matters* Study

The following typology provides a snapshot of the funding diversity of nonprofit and voluntary organizations. Sample organizations were divided into four groups according to the number of income sources by subsector. It is important to note that this typology does not necessarily capture all of the income sources that particular organizations have. Rather, it counts the number of different types of income sources – 19 of which are listed in Table 4 – that organizations identified in the survey. For example, an organization might have a number of contracts with one level of government or another, yet in our table, this source is only counted once. Thus, the actual number of distinct income sources for the nonprofit and voluntary organizations surveyed is underrepresented.[13]

[13] It is very difficult to ask for and receive complex financial information about an organizational on a survey instrument of this type. The authors decided to ask about 19 different possible income sources, cognizant that this approach would result in a bias towards greater funding concentration.

Figure 1: Income Concentration / Diversification Typology



In our typology, groups that had one or two sources were classified as "highly concentrated;" groups that had between three and five sources were classified as "concentrated;" groups that had between six and eight sources of income were classified as "diversified;" and lastly, groups that had more than eight sources of income were classified as "highly diversified." We found that the largest percentage of nonprofit and voluntary groups in this survey (43.8%) relied on three to five main sources of income in 2001. The next largest grouping (29.2%) had between six and eight sources. One of six (16.7%) was "highly diversified" compared to one of ten (10.4%) which was "highly concentrated" (N=48). Larger organizations – that is, those with annual revenues of over $500,000 – were more likely to have "diversified" (47.1%) or "highly diversified" (17.6%) funding patterns compared to organizations with smaller annual revenues (data not shown). Again, it is important to remember that this typology does not capture every individual grant, contract or sponsorship agreement, but the number of major income streams that each organization had. That being said, we see that most participating groups rely on three or more funding sources.

Pressures to diversify income sources and mechanisms stems from both internal and external sources. Many funders have been very active in encouraging greater resource diversification on the part of nonprofit and voluntary organizations as a way to facilitate greater self-sufficiency and market efficiencies. At the same time, organizations have pursued resource diversification in an effort to break away from dependence on a single revenue source or strategy, thus reducing their vulnerability to income uncertainties and the influence of resources providers (Froelich, 1999: 263). Here we see that nonprofit and voluntary organizations have indeed heeded the call to diversify their funding sources. Over 90% of nonprofit and voluntary organizations surveyed (93.3%) reported that they had tried to diversify their funding sources. In fact, two-thirds (65.9%) stated that they had successfully increased the number of funding sources over the past five years (N=44).

The growth in funding sources is shown in Table 5. These findings are based on our surveys of 32 organizations that provided complete financial information for 1997, 1999 and 2001. Of the 19 different sources of income identified in our questionnaire, there was an increase in the number of organizations receiving income from 16 sources. There was no change for two sources, and in only one case – grants – did the number of organizations receiving funds drop between 1997 and 2001. This is not just a decline in the value of grant income. There was a real decline in the number of organizations actually drawing grant income.

Table 5: Percentage of Nonprofit and Voluntary Organizations Claiming Each Source of Income, 1997, 1999, 2001

Income Source	1997 (%)	1999 (%)	2001 (%)
Government Funding			
Grants	62.5	68.8	53.1
Contributions	65.6	75.0	81.3
Contracts	18.8	12.5	18.8
Public foundations	9.4	37.5	34.4
Other govt funding	9.4	12.5	12.5
Subtotal	**87.5**	**96.5**	**93.5**
Private Giving			
Individual	46.9	50.0	62.5
Corporate	31.3	43.8	50.0
Union	3.1	6.3	6.3
Endowment	3.1	6.3	15.6
Sponsorship	9.4	21.9	21.9
United Way/Centraide	31.3	37.5	37.5
Private foundations	25.0	43.8	46.9
Fundraising	56.3	62.8	68.8
Other private giving	25.0	25.0	28.1
Subtotal	**78.1**	**90.6**	**93.8**
Earned Income			
Fees/ dues	50.0	53.1	59.4
Commercial activities	43.8	43.8	46.9
Investments	34.4	37.8	40.6
Other earned income	21.9	18.8	24.9
Subtotal	**68.8**	**75.0**	**78.1**
Other Income	**3.1**	**3.1**	**6.3**

Source: Canadian Council on Social Development, *Funding Matters* Study (N=32).

Overall, organizations relying on government sources of funding increased from 87.5% in 1997 to 93.5% in 2001. It is interesting to note that the number of organizations relying on government sources increased by 9.0 percentage points between 1997 and 1999, then fell back 3.0 percentage points between 1999 and 2001. By contrast, there was a consistent increase in the number of organizations identifying earned income sources, from 68.8% in 1997 to 78.1% in 2001. This finding illustrates the growing impact of commercialization in the nonprofit and voluntary sector, as greater numbers of organizations pursue earned income opportunities, above and beyond the pursuit of government contract and project work. The largest increase was in the number of groups tapping private sources: 15.7 percentage points. Among the groups surveyed, organizations are now as likely to have funding from private giving sources as from government sources.

Looking at individual sources of income, more organizations received income from four particular sources: public foundations, private foundations, corporate philanthropy, and government contributions. (By and large, these are all significant sources of project funding.) The number of nonprofit and voluntary organizations in our survey successfully applying to public foundations increased by 266%: one-third (34.4%) of participating groups claimed income from public foundations in 2001, up from 9.4% in 1997. The number of organizations claiming income from private foundations also increased over this period, by 87.6%, and almost half of the organizations had income from private foundations in 2001. Similarly, there was an increase in organizations receiving income from corporations – both donations (59.7% increase over the five years) and sponsorships (133% increase over the five years). (Keep in mind that only one-fifth of participating groups claimed sponsorships as a funding source in 2001, up from one in 10 five years ago.)

The increase in the number of organizations relying on private and public foundations and on corporate philanthropy is an important finding. Diversification of income sources is well advanced among Canadian nonprofit and voluntary organizations. However, the most significant trend – certainly in terms of its financial impact – is the decline in the number organizations drawing income from government grants and the increase in organizations reliant on government contributions or project-based funding. Between 1997 and 2001, the percentage of organizations relying on grants fell from 62.5% to 53.1%, a decrease of 15%. Between 1997 and 1999, there had been an increase in organizations relying on grants, but these gains were more than eroded by 2001, as grant sources were cut back. On the other hand, organizations relying on contributions steadily increased, from 65.6% of organizations in 1997 to 81.3% in 2001. This represents an increase of 23.9% in the number of organizations relying on government contribution income. The growing prevalence of project funding, from both government and non-government sources, is a key factor behind the volatility of income reported earlier.

What is the current mix of funding sources and mechanisms?

The previous section examined the number of income sources of nonprofit and voluntary organizations. Next, we look at the *changing mix* of funding sources and mechanisms. What proportion of the total funding envelope do individual sources of income represent? What are the dominant sources of income and how is this changing?

In Table 4, we showed the number of organizations relying on various sources of income. Table 6 shows the importance of governments as a source of funding for nonprofit and voluntary organizations participating in this study: 60.7% of aggregate annual income for these organizations came from government sources in 2001, including public foundations (N=48). One-fifth (18.8%) came from private giving and another fifth (20.5%) came from earned income.[14]

When we look at each individual source in the table, we see that contributions – defined here as government project or program funding – and contracts that have been competitively tendered made up two-thirds (67.8%) of aggregate government funding. By contrast, grants constituted a little over one-quarter (27.7%). Public foundations made up 4.0% of government funding in 2001 among the organizations surveyed.

Interestingly, among government sources, the average value of contract income was the highest ($400,300). While only six organizations had contract income, the value of those awards was

[14] The proportion of government funding at 60.7% is equivalent to the estimate presented in Hall and MacPherson based on 1994 charities data (Hall and MacPherson, 1997).

very high, pushing up the average for the entire category. The trimmed mean of contribution agreements (project/ program funding) – a much more common funding vehicle – was significantly lower at $287,900. Average grant income was $93,800. Again, the median value of these sources was lower than the average value, suggesting wide differences in the value of government funding among the responding organizations (data not shown).

Table 6: Distribution of Income of Nonprofit and Voluntary Organizations by Source of Income, 2001

Income Source	Distribution of Income, Major Source (%)	Distribution of Income, All Sources (%)
Government Funding		
Grants	27.7	16.8
Contributions	58.9	35.8
Contracts	8.9	5.4
Public foundations	4.0	2.4
Other govt funding	0.4	0.2
Subtotal	**100.0**	**60.7**
Private Giving		
Individual	8.3	1.6
Corporate	7.6	1.4
Union	1.1	0.2
Endowment	1.1	0.2
Sponsorship	7.9	1.5
United way/Centraide	16.1	3.0
Private foundations	35.3	6.6
Fundraising	12.3	2.3
Other private funding	10.3	1.9
Subtotal	**100.0**	**18.8**
Earned Income		
Fees / dues	32.9	6.7
Commercial activities	58.0	11.9
Investments	2.2	0.5
Other earned income	6.8	1.4
Subtotal	**100.0**	**20.5**
Other Income		**0.05**

Source: Canadian Council on Social Development, *Funding Matters* Study (N=48).

Under private giving, there are many possible income sources. Among the organizations surveyed, private foundations provided the largest share of funds by a substantial margin: private foundations formed about one-third (35.5%) of aggregate private income. The average value of private foundation awards was $65,700 but the median value was $13,000. Thus, only a few of the 21 that received funding from private foundations received a substantial amount.

The United Way/Centraide was the second largest source of private funds at 16.1%, followed by fundraising initiatives undertaken by the individual organizations (12.3%). The United Way/Centraide was a key source of income for groups in receipt of these funds; the average value of allocations from this source, at $78,800, was higher than other private awards. The median value of United Way/Centraide funding was $57,900 for the 16 groups in receipt of this funding, suggesting that most of these groups received a significant allocation.

Corporate donations provided the second smallest share of aggregate income (at 7.6%), while sponsorships accounted for a slightly larger proportion (7.9%). Overall, corporate donations were 1.4% of the aggregate income of survey participants, a figure that reveals the very low levels of monetary support that private corporations provide to the nonprofit and voluntary sector in Canada.[15]

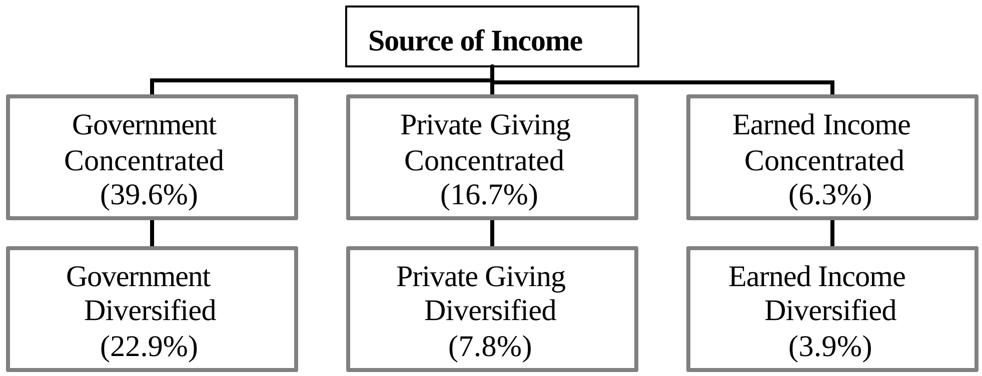
Earned income is also a very important source for nonprofit and voluntary organizations, accounting for 20.5% of aggregate income. Of this source, commercial activities constituted the largest individual source of revenue, followed by dues and membership fees. This is somewhat surprising in that commercial activities among nonprofit and voluntary groups are not thought to be that common at this time. Over one-third of our survey participants reported income from commercial activities, making up 58.0% of aggregate earned income revenues. While many more organizations claimed membership fees as a source of income (58.3%), revenues from this source made up just one-third of aggregate earned income revenues. The average value of monies generated from commercial activities was almost three times higher than the average value of membership fees: $172,600 compared to $66,100. One can speculate that income from membership fees is low because nonprofit and voluntary organizations – particularly public interest groups as compared to mutual benefit groups – tend to charge relatively low fees. Certainly, our focus group participants lamented the fact that income from memberships rarely covered the costs associated with serving their members.

Based on these data, three dominant funding patterns are evident among the nonprofit and voluntary organizations surveyed.[16] The largest group of nonprofit and voluntary groups (39.6%) fit a "government-concentrated" funding profile, defined here as relying on government sources for more than 65% of their total income. The next largest group (22.9%) can be described as having a "government-diversified" funding profile, where between 45% and 65% of their total income comes from government sources, but they also depend to a significant extent on other income sources. Lastly, 16.7% of voluntary groups are characterized by their high dependence on private giving; these groups derive more than 65% of their total income from private sources. Only very few (6.3%) were primarily dependent on earned income as their major source of income (N=48).

[15] David Sharpe found that corporations provided roughly 1% of nonprofit and voluntary sector revenues in 1994 (Sharpe, 1994).

[16] Hall presents a typology of funding profiles in his 1995 article, "Funding Charities: Dependency on Government and Implications of Cutbacks." He divides charities into four groups: government-concentrated funding; government-diversified funding; earned income-diversified funding; and donations-concentrated funding.

Figure 2: Funding Profiles



Note: 2.1% of organizations relied in equal measure on the three major sources of funding.
Source: Canadian Council on Social Development, *Funding Matters* Study (N=48).

How has the mix of funding sources and mechanisms changed over time?

In Table 6, we saw that government was the largest source of funds for the nonprofit and voluntary sector in 2001: 60.7% of aggregate income came from government sources. This proportion has changed little over the past five years. In Table 7, we see that the proportion of government funding grew slightly between 1997 and 2001, from 58.5% to 60.5%. The proportion of earned income declined slightly, from 22.8% to 20.4%, while the proportion of private giving remained essentially unchanged. Similarly, when we look at the patterns of funding dependence, there was little change in the funding profile of nonprofit and voluntary organizations surveyed. The majority of organizations characterized as "government-concentrated" and "government-diversified" – the two dominant funding profiles – experienced no change between 1997 and 2001 (data not shown).

Table 7: Distribution of Nonprofit and Voluntary Organizations by Income Source, 1997, 1999, 2001

Income Source	**1997**	**1999**	**2001**
	% of All Sources	**% of All Sources**	**% of All Sources**
Government Funding			
Grants	8.1	5.4	4.3
Contributions	34.8	42.5	44.1
Contracts	15.0	10.2	8.4
Public foundations	0.3	2.0	3.5
Other govt funding	0.3	0.3	0.4
Subtotal	**58.5**	**60.4**	**60.5**

Private Giving			
Individual	3.5	2.1	2.0
Corporate	0.6	2.1	1.9
Union	0.0	0.0	0.2
Endowment	0.0	0.0	0.3
Sponsorship	0.2	3.5	1.9
United way – centraide	3.3	3.0	3.4
Private foundations	3.4	2.6	3.5
Fundraising	3.8	2.5	2.8
Other private income	3.8	3.4	2.9
Subtotal	**18.6**	**19.3**	**18.9**
Earned Income			
Fees / dues	5.0	4.9	4.7
Commercial activity	15.7	13.7	13.7
Investments	0.6	0.6	0.6
Other earned income	1.5	0.9	1.4
Subtotal	**22.8**	**20.1**	**20.4**
Other Income	**0.1**	**0.1**	**0.1**

Source: Canadian Council on Social Development, *Funding Matters* Study (N=32).

There are, however, notable changes within the various major funding sources. Looking at government funding, the aggregate value of grant income and consequently, its proportional share of government funding, fell between 1997 and 2001. In 1997, grants made up 13.8% of government funding, falling to 7.0% of government funding by 2001 – a loss of almost 50%. By contrast, the number one source of income – contributions/ project funds – continued to grow in importance. The proportional share of contributions grew from 59.6% to 72.5%, an increase of 21.6%. Next, funding from competitive contracts actually fell, from 25.6% of government funding to 13.8% over the five-year period. With the increased emphasis on sources of earned income generally, competitive contracts do not appear to figure prominently for this group of nonprofit and voluntary organizations. The other notable trend within government funding was the growth in the share of funds from public foundations, from 0.5% of government funding in 1997 to 5.8% by 2001. This finding is not surprising in light of the fact that governments are increasingly using public foundations to allocate funds to a variety of nonprofit and voluntary organizations.

For the most part, there was little change in the importance of various funding sources under private giving and earned income, with one or two exceptions. Among the organizations surveyed, the proportion of income derived from individual donations fell between 1997 and 2001, from 18.9% of private giving to 10.4%. At the same time, the proportional share of corporate donations rose quite significantly, from 3.4% to 9.8%, reaching 1.9% of aggregate organizational income in 2001. Similarly, there was a surge in sponsorship dollars, from 0.9% of private giving in 1997 to 18.1% in 1999, then back down to 10.2% in 2001. This is related to an anomalous spike in income for one of the organizations surveyed. The share of funding from private foundations and fundraising activities tended to oscillate, going down then up. However, the share of income from United Ways/Centraides was relatively flat for organizations in receipt of this funding. There was also little change in both the share of income derived from membership fees and from commercial activities.

The changing proportion of income sources is one piece of the financial puzzle. It is also important to consider how the value of these different sources and mechanisms has changed over time as well. We noted above that there was an increase in the aggregate level of funding for this group of nonprofit and voluntary organizations between 1997 and 2001. Indeed, there was an increase in the level of funding from each source of income. Over this period, the value of government funding and private giving increased by over half – 55.2% and 52.5%, respectively – and funding from earned income sources increased by a third (34.2%). For all sources, most of the increases were registered between 1997 and 1999.

However, the aggregate data obscures some important differences among individual sources of income. The value of grant income fell for organizations surveyed by 20.9%, while the value of contributions rose by 89.7% (data not shown). Aggregate income from public foundations increased by a stunning 1,760.7% between 1997 and 2001, from $60,000 to $1,115,900 in constant dollars. Funding from the United Way/Centraide also increased for this group of nonprofit and voluntary organizations by 55.5%, as did aggregate income from private foundations (53.6%). The total value of corporate donations increased significantly, from $135,600 in 1997 to $593,500 in 2001. By contrast, individual donations fell by 15.9%, from $751,400 to $632,200. All income sources grouped under earned income increased, including income from commercial activities. It is interesting to note that aggregate revenues from earned income were $3,337,700 in 1997, jumping to $4,365,400 by 2002. This group of nonprofit and voluntary organizations appear to have met with some success in expanding into commercial activities.

Overall, these organizations have experienced success in increasing income from various income sources. While they have registered gains in all areas with the exception of grants, competitively tendered contracts, and individual donations, their greatest success has been in sustaining and in fact increasing project dollars even as other sources of government funding fell. The percentage increase in the aggregate value of the other sources may appear large, but funding from contributions continues to dwarf other sources in terms of real dollars and as a part of the total funding mix.

Analysis

The analysis reveals a mixed picture of the financial health of nonprofit and voluntary organizations surveyed in this study. There has been positive financial gain for most as the organizations have successfully diversified their funding streams. In particular, organizations have been relatively successful in securing project or contribution dollars – both from government and public and private foundations. A significant number have increased their sources of earned income, a select few making headway in commercial ventures. At the same time, the proportional share of earned income declined slightly compared to income from government and private giving sources. Overall, there was a general and sustained shift away from traditional sources of core support for nonprofit and voluntary organizations such as grants, private donations, or even memberships, to project or contract-based forms of funding from government and non-government sources.

The large-scale increase in project-based funding, and income diversification more generally, is altering the mix and dynamics of funding within the nonprofit and voluntary sector. While the majority of organizations we surveyed posted positive balance sheets, these organizations and the many others to which we spoke reported high levels of financial uncertainty and instability as a result of the growing dominance of project-based funding and the erosion of support for core organizational tasks and functions. The volatility of their funding was certainly evident as many organizations experienced surges of project income over our period of study. However, their capacity to carry out and sustain their activities was compromised, according to study participants, by the typically short-term character of project funding, the high costs related to securing and administering these funds, intensive oversight and accountability requirements, and strict limitations on the expenditure of funds. The demands of juggling multiple funding sources have similarly undermined the financial capacity of nonprofit and voluntary organizations. While the experiences of this sample of Canadian nonprofit and voluntary organizations varied by subsector, region and funding mix, concerns about project-based funding were paramount among all. Financial growth for many in the nonprofit and voluntary sector through the late 1990s and early 2000s came at a cost.

Conclusion

> “We want to support people to make change, but we can’t commit to anyone. We never know if we will be around ... We would like to be proactive, to be moving forward, but we need consistent funding.”
>
> “Unstable and hence unsustainable funding sources and streams are leading to difficulties in planning strategic directions and budgets.”
>
> “Being in a constant state of uncertainty causes our organization to be very vulnerable … Too much energy is spent on funding dilemmas which takes away from growth of the organization.”

The emerging funding regime in Canada is altering the financial capacity of nonprofit and voluntary organizations, according to participants in this study. Organizations have had success in diversifying their sources of income and in particular, have been successful in securing new project-based funding, primarily from governments. At the same time, however, they have experienced a decline in sources of “stable” or “core” funding. The resulting financial volatility and uncertainty is evident in their day-to-day activities and is a driving force behind efforts to refocus on strategies of income generation and deployment and to shore up financial capacity. Similarly, the increasingly competitive funding environment and the pressures of commercialization are affecting individual organizations in ways that are not yet fully understood. The question is whether the winds of change sweeping through the nonprofit and voluntary sector are threatening the capacity of these same organizations to pursue their missions and consequently, undermining their contributions to Canadian society.

Appendix: Methodology

The findings in this paper are based on a national study conducted by the Canadian Council on Social Development, entitled *Funding Matters*. Over the course of the study, a series of focus groups were held in different regions of the country and attended by more than 100 nonprofit and voluntary sector organizations. As well, roundtable discussions were held with funders and interviews with key informants, responses to a written survey of nonprofit and voluntary sector organizations were tabulated, in-depth case studies examined, and other research was reviewed, all of which provided source information for this work.

For the purposes of the study, attention was focused on a group of organizations that Lester Salamon has called "public benefit organizations." These are organizations that "exist primarily to serve others, to provide goods and services (including information and advocacy) to those in need or otherwise to contribute to the general welfare" (Salamon, 1995: 54). "Funding agencies" such as the United Way/Centraide and philanthropic foundations as well as "member-serving organizations" such as the Canadian Medical Association, the Canadian Automobile Association and co-operatives were excluded. Also, "religious organizations" including those that pursue "essentially sacramental and religious functions" (Salamon, 1995: 54) were also excluded. While religious groups make up the largest single group of charitable organizations – an estimated 40.8% in 1999 (Sharpe, 2001: 18-19) – they rely extensively on a pool of private donors to finance their operations[17] and, in that sense, can be said to be member-serving organizations. In addition, a select number of "public benefit organizations" – namely, universities and hospitals – which are transfer payment agencies almost exclusively reliant on government funding and regulation were omitted as well. The degree of control that governments exercise over these organizations raises questions about their independence and challenges their very inclusion in the nonprofit and voluntary sector.

With regard to the survey, focus group participants were asked to complete a written questionnaire providing general information on their organization and its finances over the past five years, from 1997 to 2001. In total, 104 questionnaires were distributed and 51 responses were received, for a response rate of 49%. Given the small size of this sample, there are limits as to the inferences that this study will support. As well, it is important to note that the organizations that chose to attend the focus groups and to subsequently complete the survey clearly thought that funding for the nonprofit and voluntary sector was an important issue, and thus, cannot be said to be broadly representative. Still, the survey findings, in conjunction with the other sources of information gathered for this project, provide a compelling picture of funding trends in the nonprofit and voluntary sector today.[18]

[17] In 1994, places of worship received over 80% of their revenues from private giving and member contributions (Hall and MacPherson, 1997).

[18] Please see Scott 2003, Appendix A, for a full description of the methodology of the study.

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