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Examining Means to Build Financial Sustainable Capacity in Canada's Voluntary Sector

Andrew Graham

The Canadian federal government has a long history of funding voluntary sector organizations. Since the early 1900s, the federal government has relied on voluntary organizations to provide services in remote areas of Canada in order to ensure that all Canadians have equal access to services regardless of place. Not surprisingly then, over the years the federal government developed a system of funding infrastructure that relies essentially on grants and contributions. While originally most funding was provided through grants, gradually over time the system has come to rely more on contributions. With the budget cuts of the mid-90s, the trend has been to move away from funding that would support organizations over time, including their role in policy development, towards project funding that focuses on the delivery of specific services. Despite efforts to build non-governmental capacity for contracted services, the new emerging government environment, with its focus on process and accountability as a result of a number of associated scandals, also poses serious challenges to most voluntary organizations' capacity to deliver services over time.

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These incremental changes in the funding relationship between the federal government and the voluntary sector have gradually rendered the funding infrastructure ossified. Moreover, they have come at great costs to the voluntary sector, changing the nature of many of the organizations delivering services at arms length. Increased expectations for reporting and accountability add costs to the delivery of services for any one project. However, they also add longer-term and more permanent costs to delivering organizations in the form of a higher level of expertise needed for preparing submissions, adequately accounting for how dollars are spent, how risk is assessed and managed and how results are tracked and reported. Although most of the improvements in reporting and accountability are desirable from the perspective of the appropriate use of public funds, they imply basic organizational changes to how voluntary organizations are structured and what internal capabilities they have. Hence, their impact on the state and nature of the voluntary sector has been significant (see Scott 2003). In response to these challenges, the Conservative government has put in place a number of initiatives to review the current system. However, this chapter argues that the difficulties with the long-standing use of grants and contributions – both their problems with providing core funding and the administrative burdened imposed– mean that this issue will not be easily resolved by "bringing back the good old days." Too much has changed. Addressing these issues, therefore, must be seen in the context not simply of the current government but also of future governments, whatever their political stripe.

As we mentioned previously, already the funding infrastructure of the federal government has come under question and a number of initiatives have been launched as of late in order to examine how it may be overhauled. In fact, the newly elected Conservative government, when announcing the Federal Accountability Act, included in its action plan the creation of a Blue Ribbon Panel on Grants and Contributions. Its mandate includes the following:

- Reviewing the draft Policy on Transfer Payments, along with its directives and related departmental practices;
- Identifying barriers to access for applicants for government grant and contribution programs and recommending changes to government-

wide and departmental policies and practices to ensure that the government delivers those programs in a fair, cost-effective, and efficient manner;
- Giving consideration to eliminating legislative barriers and constraints to the effective and efficient delivery of grant and contribution programs;
- Assessing whether instruments other than grants and contributions can better achieve policy outcomes for Canadians in receipt of government support.[1]

It is anticipated that the report of this panel will try to address some of the structural impediments to the efficient use of grants and contributions for the voluntary sector. Even this would reduce some of the costs of voluntary sector engagement in contracting with the federal government. However, we will argue that this is but one element of an overall strategic response.

On another public sector front, in October 2006 Human Resource and Social Development Canada released a discussion paper entitled "Achieving Coherence in Government of Canada Funding Practice in Communities." This is the report of the Task Force on Community Investments. It addresses issues of funding and funding support along with a range of administrative proposals to reduce transaction burdens presently imposed.[2] The Blue Ribbon Panel and the Task Force on Community Investments are two clear examples of government's determined effort to revisit the nature of the funding relationship. In the midst of intense debate, the financial issues now being raised are critical pieces that will certainly have a profound effect not only on the survival, but on the very shape and nature of the sector. Hence, we are at a turning point.

But it would be wrong to interpret the work of these two bodies as simply a short-term response to a new and conservative government. The issue of sustainable funding was created by decisions of previous governments as they reduced their budgets overall. Addressing these issues, therefore, must be seen in a broader context. The intense debate that has now been launched raises a number of fundamental issues with respect to the relationship between the state and voluntary organizations that have the potential to reshape the relationship between the two. What is important to keep in mind is that this occurs at a time when governments rely increasingly on third-party delivery tools to deliver public policy. Therefore, sorting out the relationship is crucial.

This chapter will examine some options for building financial support for the sustainability of voluntary sector organizations. It will discuss the nature of sustainable funding as separate from project funding. It will look at alternative policy instruments available to government for providing a sustainable regime, one that involves fewer outright grants and more of a mixed regime of ideas that would engage the voluntary and private sectors, and individual Canadians as well. The chapter concludes that no single method of supporting sustainability exists, given the varied nature of the sector, the continued focus on increased accountability, and the relative effectiveness of the options available. Rather, a mix of combined solutions would strengthen the sector. However, this mix will only work within a strategic framework led by government to find means to support the sector over the long term. In addition, the sector must actively encourage the pursuit of a variety of arrangements to achieve this goal.

CREATING NEW FUNDING MECHANISMS THAT BUILD CAPACITY

Canada needs a strong voluntary sector. As the range and scope of the tools to offer public services expands, the use of the voluntary sector to deliver these services will expand (See Salamon 2002). This is as much part of a conservative philosophy as it is a liberal one. But the reality is that the voluntary sector cannot simply be turned on and off in order to meet short-term service needs. It has infrastructure. It has governance. It has a variety of roles in developing both policy and program alternatives that governments need to have in place to avoid creating bloated bureaucracies and thereby expanding the costly reach of governmental infrastructure. The basic value proposition is that a strong, vibrant voluntary sector is a critical partner to governments in delivering public services to Canadians, and therefore the sector must be sustained by a financial arrangement beyond project funding alone. The harsh reality – the real elephant in the room – is that while all agree on the value of a vibrant voluntary sector, the practice of several federal governments of cutting back capacity funding over the past decade-and-a-half has begun the process of systematically killing the sector by eliminating funding sources, adding administrative burdens to reduce project risk to zero, and transferring transaction costs to a sector ill-equipped to take them up.

While it is right that governments seek to ensure value for money and that they develop better ways to measure how the funds they transfer are spent, facing the difficulty of sustainable infrastructure funds does not mean abandoning the concept entirely. That has proven already to be disastrous for the voluntary sector in Canada. If the trend continues it will weaken the capacity of the sector to play a vital role in Canadian life.

WHAT IS A SUSTAINABLE CAPACITY?

In practical terms, the challenge is to find an array of policy tools that will ensure greater long-term capacity in voluntary sector organizations. The principal characteristics of sustainable capacity are:

- Multi-year funding capacity
- Adequate capacity to cover the following core activities:
    - Governance
    - Management
    - Oversight
    - Administration
- An effective accountability regime to all stakeholders
- Project-based costing that reflects administrative costs
- The capacity to make long-term commitments in order to operate effectively

This description, however, does not reflect some underlying challenges of defining sustainable capacity. For instance, does sustainable capacity, or core funding, also involve engagement in political activity, such as advocating for legislative change? Past Liberal governments, in removing their support for core funding, and the Conservative government even more explicitly, have shown little appetite for funding such activities. On the other hand, does core funding involve being politically aware through use of staff to undertake environmental scans and engage in policy dialogues? At what point does policy analysis cross into program design and fundraising? The line is a very thin and porous one. One of the challenges for the voluntary sector is to clearly delineate what it means by sustainable core funding so that it can attract greater public support, either through direct subsidy or a mix of strategies, as suggested below.

Another issue regarding sustainable support is eligibility. Who would get support? How would this be determined? Who would remain eligible over time? How would new entrants into this very complex field become eligible? These questions have not been answered. In all probability, seeking such answers will cause major reform to flounder. It will be important to find several ways to support core activities for those organizations that can establish that having such funding is essential to their continued viability. However, who determines that viability?

We are currently in a period of intense debate over issues regarding the voluntary sector. Various voluntary sector organizations have made eloquent presentations on its sustainability and long-term health, and governments, too, have become increasingly engaged. The voluntary sector itself has been actively pursuing solutions to this emerging issue. For example, in 2003, Katherine Scott of the Canadian Council on Social Development published a report entitled, "Funding Matters: The Impact of Canada's New Funding Regime on Nonprofit and Voluntary Organizations."[3] In this report, Scott calls the treatment of administrative costs as "the new dirty word in funding," reflecting another element of the nature of the elephant in the room: the misguided and untenable notion that organizations can deliver services without infrastructure - a seeming miracle of modern organizational theory selectively applied to the voluntary sector, but certainly not to government itself.

The Canadian Council on Social Development has also published a report entitled "Pan-Canadian Funding Practice in Communities: Challenges and Opportunities for the Government of Canada."[4] This was commissioned by the Task Force on Community Investments to look at funding practice throughout the voluntary sector with a focus on leading practice.

Finally, Imagine Canada, a voluntary organization devoted to encouraging greater cohesion among the various sectors, published a submission to the Blue Ribbon Panel, entitled "Investing in Citizens and Communities: A Submission on the Community Nonprofit Sector of Canada."[5] Among its recommendations was the need for the federal government to develop a new investment strategy and to explore new funding instruments, some of which will be discussed later in this chapter.

Clearly, many players are engaged in the issue of how to support a sustainable voluntary sector in Canada. Although there is growing recognition that a serious problem exists, it is also clear that no one solution will fix it. In addition, there are some profound attitudinal and philosophical issues to be resolved for a coherent strategy to emerge. In a sense, there are a few more elephants in the room, these ones with ideological stripes.

BABY STEPS AND THE POLITICAL GORDIAN KNOT

Long-term financial sustainability for the voluntary sector is not a top priority of the present Conservative government. However, it would be erroneous to think that the sector does not play an important role in its overall view of government services. It would also be a mistake to assume that the present situation with respect to the core capacity of many voluntary sector organizations is the making of this one government. Indeed, the trend began with the past two governments, and resembles those that have been taking place around the world for the past twenty-five years. The only reference to the voluntary sector in the platform of the Conservative Party prior to the last election addressed the question of charitable contributions. It stated:

> Government should make it easier for Canadians to support the charities of their choice. A Conservative government will:
>
> Remove the capital gains tax on listed stocks donated to charities. Government should not penalize Canadians when they contribute to charities. Canadians who donate publicly traded shares to Canadian charities should not pay capital gains taxes on those donations (Conservative Party of Canada 2005).

This was done in the government's first budget in 2006.[6] It was well received by both donor groups and receiving organizations, and was seen as having the potential to increase the scope of individual contributions to the voluntary sector.

Modifying the capital gains provisions is a good first step and is consistent with this government's philosophical orientation. However, it hardly provides insight into an overall strategy of support to the sector. Without speaking to its potential efficacy as a policy initiative on its own, it remains instructive in terms of showing a government ready to find a means to better support the sector. It also shows two other directions: the use of the tax system for policy means, and the desire to increase private sector investment over the use of public funds. It is, however, a baby step in terms of the issue of sustainability in the voluntary sector.

What the Conservative government has not done is articulate a consistent philosophy about the voluntary sector. We can nevertheless draw from its discourses and actions, as well as that of other conservative governments, in order to deduce what this philosophy might encompass. This is a Conservative government, one that has a strong belief in individual choice. It has no intention of establishing massive programs of support for the voluntary sector and certainly will not engage in government-run efforts to support the sector. Once again, this philosophy differs from its predecessors' in the matter of degree. The Liberals also did not show a desire to address fundamental sustainability issues. In fact, they led the trend toward contract-based funding and the reduction of core funding to voluntary sector organizations.

That being said, there is another strong thread running through the philosophy of this Conservative government: there is a need for a voluntary sector, distanced from and not perceived as an arm of government, that can involve itself directly with people and their communities. This should be supported in policy and in substance. This is the strategic opportunity for the voluntary sector. The language of self-direction and independent community-based action is consistent with both the voluntary sector and a conservative philosophy in this country.

This government is firmly Canadian as well as conservative. It is a grassroots government, but based not on a centrist view of Canada but rather on a distributed and decentralized one. It would be easy to attribute this to Prairie populism alone, but the operative model is somewhat more complex. This vision needs to be understood by the voluntary sector. It is also consistent with the nature of the voluntary sector itself – locally based, highly decentralized, and varying in size and capacity.

A telling example of the kind of philosophy the current government has, can be found in the speech by Prime Minister Stephen Harper pronounced to the World Urban Forum in 2006. He said:

> Academic theorists have spilled oceans of ink asserting formulas for "sustainable urbanization." But while policymakers do influence the fates of their cities – for good and ill – the reality is that healthy cities are built from the ground up. The foundations of healthy cities are found in healthy neighborhoods. And the foundations of healthy neighborhoods are healthy families. Healthy cities have voluntary, neighborhood-based groups at the very core of their political organization. They're variously known as "community leagues" or "community associations." Service clubs and faith- and school-based volunteer organizations perform similar functions. Their activities include fund-raising for recreational projects, organizing social gatherings, producing community newsletters, negotiating with property developers, watching out for children, helping police fight crime, and – of course – fighting city hall.[7]

Looking at the intentions of the government, it is clear that grants and contributions will remain difficult vehicles for funding, but vital nonetheless. The new Accountability Act has sent signals deep in the federal bureaucracy and across other governments that have increased the transactions costs of applying, processing and receiving grants and contributions for both the giver and the recipient of funds. With a few specific, unique but nonetheless devastating incidents, like the sponsorship scandal, the previous government set the stage for a massive reaction. This government has simply upped the ante. Further, it has not made any effort to establish a risk-based approach to these tools to secure a flow of services or to provide support to the voluntary sector. The effect has already been well documented.

Another glimpse into the conservative philosophy can be found in the budget restraints announced in September 2006. They reveal its attitude towards another elephant in the room of financial arraignments: an antipathy to what it identifies as the advocacy role of many voluntary organizations. This government has been quite open and direct on this issue. One can conjecture that previous governments held very little value in the advocacy role, except in certain circumstances. They, however, chose the indirect route of withdrawing so-called core funding. The effect was the same.

There is an urgent need for the voluntary sector to clearly delineate what it means by advocacy and how it can separate long-term administrative sustainability from this issue. There is certainly one source of confusion that appears to simply reinforce the misunderstanding: that is the legitimate and necessary advocacy by voluntary organizations to meet the needs of their clients versus advocating for a particular political direction. Some would argue that there is no distinction. Some will argue that it is essential to delineate one. This is the Gordian knot in the continuing relationship between certain parts of the voluntary sector and government.

It is interesting to note that governments who are more conservative than the present Canadian federal government have made significant moves to better support the not-for-profit sector. In fact, the Bush government has provided some models of improved in-kind support to facilitate granting mechanisms for all not-for-profits, as discussed below.[8] Similarly, the Australian federal government in creating Grantslink, also sought to better serve the applicant community.[9] These developments show that conservative governments around the world still are making efforts to support the voluntary sector and its relationship with government. In fact, both of these examples offer insight into some elements of a comprehensive view of solutions.

As we have seen, the issue of sustainable capacity spans the Canadian political spectrum and is being addressed in many countries. What is missing in all of these discussions, however, is a concerted political will to create a strategy of sustainability. Some modus vivendi on such issues is necessary for several reasons:

- Smaller government needs a robust voluntary sector as a delivery arm – this might called the conservative argument.
- The use of grants and contributions alone as a sustainability strategy is not sustainable itself – that is not the intention of such programs, even though their writ is very wide.

What follows, therefore, is built on the assumption that there is a case for governments wanting a greater sustainable capacity in the voluntary sector. This does not automatically translate into a direct transfer of funds. Governments support their policy directions with a variety of policy tools.

A STRATEGIC SUSTAINABILITY MIX

The ideas presented here address long-term, structural possibilities. They do not address in any way specific levels of funding from any one source. This is deliberate. Governments come and go. Certain organizations assume a paramountcy that passes, supplanted by others. Markets fluctuate. Therefore, it cannot be expected any set of proposals will satisfy the views of all those engaged in the question of what is a sufficient level of funding.

One principal conclusion that research in this area has shown is that there is no single solution, no "silver bullet." The sector is too diverse and the organizations within it too varied to fit one proposal. To arrive at a strategy, the sector and government must look to a multi-faceted approach that combines funding itself, new funding tools, fixing existing problems to actually reduce costs, as well as in-kind support. Finally, an underlying theme is that the financing base has to broaden in Canada. This means finding both tools and ways to increase private sector involvement.

What follows is a description of the elements of a strategic approach to sustainable support to the sector:

- Improving the use of grants and contributions
- Developing arms-length arrangements that will focus on long-term stability of the sector
- Continued improvements to the taxation system
- In-kind support to reduce the need for higher administrative cores in the voluntary sector

FIXING GRANTS AND CONTRIBUTIONS – STILL A VIABLE OPTION

Governments will continue to use some form of transfer mechanisms such as the grants and contributions used by the federal government. Nevertheless, the Conservative government has made it clear that it sees problems in these areas and would like to fix them. In creating the Blue Ribbon Panel on Grants and Contributions, it has put in place a process to directly address the financing issues. From this perspective, we argue that certain key elements of change to the present regime have to be put in place:

1. **Long-term funding specifically for overhead, administration:** The issue of whether to support core funding is not one of law, but of policy. Grants, as they are defined,[10] remain a viable mechanism. However, no government will want to indefinitely commit itself to this kind of funding. Nevertheless, the creation of an innovation and start-up fund using this tool would be a good way to position voluntary organizations that either seek help to begin or to transform their business plan to become more viable.
2. **Adoption of multi-year funding contracts:** More than any other factor in the current regime, the cost of contract renewal has been identified as a major core cost burden for voluntary organizations. They also demand a competency level in the administration of these contracts at the organizational level that requires a stable core office. The irony is that most contribution agreements entail the delivery of specific results and do not permit so-called core funding, so voluntary organizations need to carry that burden.
3. **Developing a new cost model that includes reasonable overhead costs:** Government itself would not pass the tests for separating overhead costs from delivery costs in the vast majority of contribution agreements. The recognition of reasonable overhead costs, subject to audit scrutiny, as well as open reporting, would be a vital first step in developing more stable funding arrangements. Examples of this already abound. For instance, most universities, in seeking grants from many sources, automatically add a certain cost of central administration to such funding submissions.
4. **Reducing the range of oversight to a single format:** This is not a novel idea and has been recommended many times, most recently by Imagine Canada in its submission to the Blue Ribbon Panel. In fact, a model exists in the United States, where the Grants Streaming Initiative[11] worked with federal departmental liaisons to publish the single audit compliance supplement for use by auditors in auditing federal

assistance programs. Reducing the range of oversight to a single format remains a work in progress, but is a deliberative strategic move in the right direction.[12]

NEW FUNDING STRUCTURES

Given the highly politicized and increasingly bureaucratized nature of the administration of grants and contributions, some means have to be found to separate the issues of sustainability from service delivery. While the suggestions we discussed above fully recognize that part of core activity of voluntary organizations has to be costed into projects, there remains a need for a more sustainable framework of support that could cover other operational activities. This next section examines the potential scenarios to achieve this end.

A Funding Foundation

Others have already recommended the creation of a foundation to support core voluntary sector activities.[13] The attraction of the foundation model is that it appears to be at arms-length from government, is less subject to short-term budgetary decision-making, and is able to take a longer-term perspective focused on investment. There are also two types of models. The first can be found in the provinces in the Ontario Trillium Foundation[14] and the Alberta Wild Rose Foundation.[15] Both organizations provide grants to voluntary sector organizations with a broad mandate for programs, capital, and operations. They have governance that entails the political appointment of board members who make decisions on recipients. Secured funding sources assure the long-term viability of these organizations.

The second model is that of the Social Science and Humanities Research Council. It is an arm's-length federal agency that promotes and supports university-based research and training in the social sciences and humanities. It was created by an act of Parliament in 1977, governed by a Council that reports to Parliament through the Minister of Industry. Its purpose is to support research and innovation across a broad range of disciplines. A key factor in the decision-making process is that it subject to peer review within the academic community. Another very pertinent example of this model is the Canadian Foundation for Innovation. CFI is an independent corporation created by the federal government to fund research infrastructure. The CFI's mandate is to strengthen the capacity of Canadian universities, colleges, research hospitals, and non-profit research institutions to carry out research and technology development that benefits Canadians. Since it was created in 1997, the CFI has been given grants to an accumulated total of $3.65 billion by government.[16] The CFI normally funds up to 40 percent of a project's infrastructure costs, which are invested in partnership with eligible institutions and their funding partners from the public, private, and voluntary sectors who provide the remainder. This partnership component of the fund enables it to produce a multiplier effect, thereby leveraging the benefits.

Many viable foundation models even exist within government. In fact, this funding instrument has been used extensively. Two notable examples are the Millennium Scholarship Fund and the First National Aboriginal Healing Foundation. In both cases, the federal government created specific endowments that are managed by specially created foundations with their own governance. In both cases, these foundations manage transfer payment arrangements to specifically targeted groups of people and organizations. It is of interest to note that the legislation establishing the Millennium Scholarship Foundation allows the Foundation to accept donations from sources other than the Government of Canada. Therefore, a model for accepting both public and private contributions already exists, which should allay the concerns of some that this would create a precedent. Sadly, however, in the instance of the Millennium Fund, it was far too passive to succeed, especially in the tough donor environment in Canada. The missing link is that the tax incentives to encourage the use of this vehicle by private donors were not strengthened at the same time.

In creating a foundation to support the sustainability of the voluntary sector, some considerable advantage could be realized. The creation of an arms-length, endowed fund would signal strong support to the long-term viability of the sector. Further, decision-making would become more transparent as one sees in many of the existing foundations of the federal government. Some separation from the need to continually seek project funding would be achieved, although the present grants and contributions system would continue.

A separate entity – let us call it a Foundation for Community Investment – could also position the government to attract investment from the private sector and other foundations. This would demand that its governance be broadly based. It would also suggest that the government, in order to leverage its own investment, would also create unique tax incentives so that donors would want to use the foundation as a giving vehicle rather than giving direct support to specific organizations. In practical terms, this would be the only way to create such leverage.

Several issues would have to be resolved before such a foundation could become viable. The first is purpose. What is the foundation exactly investing in? The problem at hand is the issue of providing stable core funding tools to voluntary sector organizations. Does this mean that a foundation would provide, on a permanent, continuous basis, some portion of the administrative costs of a select group of voluntary organizations – or all such organizations for that matter? This would have the effect of putting these organizations into a permanent dependency relationship with the funding foundation. Would this not then simply become a flow-through mechanism from government to these organizations that, in effect, reduces their independence and permanently commits government to their survival? Neither state is desirable. How would an organization be recognized as eligible for funding? How would it be recognized as no longer being eligible?

Another issue is that of accountability. In the past, the Auditor General has been critical of the creation of special funds that insulate a foundation from scrutiny. In the 2005 Report of the Auditor General, Chapter 4 – Accountability of Foundations, several criticisms were leveled at the use of foundations to achieve pubic policy purposes: "The government has transferred billions of dollars to foundations to achieve its policy objectives. In receiving these up-front transfers, foundations are effectively exempted from the kind of periodic scrutiny by Parliament that occurs when funds are appropriated annually. Once taxpayers' money is transferred to a foundation, the government relies on the foundation's directors and members to achieve public policy objectives."[17] The federal government and its legislative auditor have debated the accountability and reporting requirements of foundations since 1997 when the Millennium Fund was created. The heart of the debate is well stated above. It appears that, after years of such conflict, many of the foundations have responded with increased transparency. While the accounting issues cannot be fully resolved, it is clear that any foundation devoted to supporting the voluntary sector would have to follow such trends as the annual publication of corporate plans and their submission to Parliament.

A related but much more political issue is the degree of scrutiny that such a foundation would receive. Clearly, within the voluntary sector, there are organizations that represent particular points of view. Supporting them with long-term funding, or not supporting them for that matter, could become very politically charged issues. Further, depending on what sort of governance is put in place, the government could be accused of political favoritism or cronyism with such a fund. It is of interest to note the degree to which major funding organizations such as SSHRC and the Foundation for Innovation go to establish funding decision-making rules that insulate individual applicants from accusations of political interference.

The concept of a foundation endowed to support the voluntary sector with long-term investment funding cannot by itself promise to solve all the capacity issues in the voluntary sector. But, like the rest of the mix of ideas in this chapter, it could be an important foundational step for the government and sector, one that creates the potential for long-term growth and stability. Questions remain about how to best define sustainability funding. Governance and priority-setting must carefully ensure a balance between spending public money for the purposes intended and independence from political interference with respect to individual grants. It remains unclear how such a fund would work in terms of the core funding issue. Where it could work most effectively, perhaps, is on the investment side, rather than on the sustainability side. Foundations tend to be best at innovating, building capacity, creating new knowledge and capabilities and then moving on once a certain level of viability or sustainability has been established. This, of course, is a form a seed funding. To such an end, assisting fledging organizations or those proposing the creation of new programs or redirecting their business plans are worthwhile objectives in themselves. Certainly, as well, the current project-based use of grants and contributions mitigates against organizational capacity building or experimental program development. A foundation could readily fill this need. It would, by its arms-length relationship and stable endowed funding, be able to take risks that governments are loath to do. It could also make investments in organizational infrastructure, provided that adequate business cases leave it in a position to account for its management of funds and speak effectively to the achievement of the objectives of the investment. This may well be the best path for the use of a foundation concept.

Supporting Indirect Costs through Specific Funding Programs

Whether through a foundation or directly using already existing transfer payment programs, consideration should be given to creating funds, available as grants, to support indirect costs. Indirect costs include start-up and application development costs, as well as those sustainability issues as outlined above. Such costs are typically not included in the purchase of services, yet are very real for most voluntary organizations. Hence, it could be argued that indirect costs are actually core costs for organizations.

Once again, models exist within the Canadian context. Through the Indirect Cost Program, Canadian post-secondary education institutions can apply for program grants to help defer indirect costs associated with research funding they receive. The present budget level is $260 million per annum.[18] This program, led by Industry Canada within the federal government, covers a variety of costs. Indirect cost funds for example may be used to maintain the current level of services to and support of an institution's research infrastructure, as well as to cover new expenditures and to generate improvements and efficiencies. The following list of eligible and ineligible expenditures is not exhaustive:

Facilities – renovations, upgrades, operating costs

Resources – library acquisitions, data bases

Management and administration – application support, financial services, purchasing, human resource management

Regulatory requirements and accreditation – training, international accreditation costs, upgrades

Intellectual property – administration of patents, technology transfer, marketing of teaching material.[19]

There can be little doubt that this program, taken as well in the context of the larger research funding program it serves, is a strategic investment in sustainability for recipient organizations. Based on its most recent ministerial report, it is also clear that funds have flowed for a variety of administrative support submissions and to all sizes of educational facilities.[20] It also bears notice that this program is administered as a secretariat within the Canada Research Chairs secretariat, which in turn is housed within the Social Sciences and Humanities Research Council (SSHRC). What this program demonstrates is that core funding issues can and are addressed by the federal government in a very comprehensive way. In that sense, the issues of what is meant by sustainability may have already been, to some extent, addressed.

MODIFYING TAX RULES TO MAKE INVESTMENT MORE ATTRACTIVE

> The degree to which tax benefit alone contributes to giving is certainly open to debate. In fact, a 2000 Statistics Canada survey of giving habits of Canadians would seem to indicate that the relative tax benefit has little to do with the decision to give, and that few Canadians actually claim the tax credit arising from making a donation to a charitable organization.[21] Paul Reed, of Carleton University and Statistics Canada, commented: There is nothing pejorative about this; it is simply a fact, although one sharply at odds with prevailing economic doctrine. What we see for the majority of givers is a disconnection between being influenced by the availability of tax credits when making the decision to give, and actually claiming tax credits. And [furthermore], at least half said they would *not* give more if there were a larger tax credit (Reed 2003).

With this as a cautionary note, a comprehensive strategy by government to increase sustainable support to the voluntary sector must, of necessity, take into account tax instruments that would attract other donors and encourage more or larger donations. The purpose of such an element in an overall strategy has to be understood. It is highly unlikely, as noted above and elsewhere (See Duff 2004), that changes to the tax system would reward the generosity of those who are already giving. It may, however, alter their behaviour marginally. While no empirical evidence yet exists, the general view is that the adjustments to the treatment of capital gains from donated securities announced in the 2006 budget were an incentive to increase investment in the voluntary sector. It is precisely this type of tax instrument that is needed to open the possibilities of more donations.

Serious and continued examination of how the tax system and attendant financial instruments can serve to support and develop sustainable capacity in the voluntary sector is needed (Scharf et al. 1997; Domingue 1995). As Professor David D. Duff of the University of Toronto has noted:

> A good argument can be made that the public sector should provide financial support to charitable organizations. Where charitable organizations provide alternative methods of delivering public goods and services to those employed by the traditional public sector, this quasi-public function should be supported by public funds. To the extent that charitable organizations provide quasi-public goods and services, moreover, economic theory supports the subsidization of these activities in order to prevent their undersupply (Duff 2004).

One simple but devilishly difficult suggestion is to increase the rate of tax deduction for charitable donations from its current effective rate to a higher figure.[22] It would indeed be possible to set a higher tax credit rate than now currently exists. This form of tax expenditure would be dependent on the amount of fiscal room that they government has so there is no magic level, expect, perhaps a rate of 100 percent. As quixotic as such an objective may seem, it should be in the sights of those advocating greater public expenditure support. Similarly, certain provisions of the use of individual tax credits need to be addressed. The current tax credit structure clearly provides no incentive for lower income donors. Since the credits are non-refundable and non-transferable, however, they are worthless to individual donors whose incomes are too low to pay any tax. As the average individual donation to charitable organizations in Canada is approximately $230 per annum,[23] a means must be found to credit that donor in tax terms. It can be argued that the tax incentive is less important than the desire to give, and therefore giving a full tax credit would not change the decision. Taken from a strictly economic decision-making model, this is right. Ensuring full tax credit for all individual donations would, however, be a means of encouraging that a second (and third and fourth) donation is given because it would increase the incentive to give again. It would also ensure the broadest possible engagement of citizens in a sector that is defined by that engagement.

Another possibility is to expand the definition of taxable donation to include the donation of services. In this situation, specific services that support sustainability of voluntary organizations could be treated as a taxable deduction. Arriving at a definition would, of course, be complex. However, in principle this kind of deductibility could relate to both individuals and corporations that provide in-kind services to voluntary organizations. A further restriction would be that the services would have to be directed at the core sustainability of the organization. Therefore, for example, providing information technology or accounting services would be tax deductible. The question outstanding would be if direct client service by individual volunteers, which is estimated to be as much as two billion hours a year,[24] could be given a monetary value and become tax deductible (McDaniel 1972; Duff 2001). A suggestion of this type is not without complications and difficulties. The ability to provide fair market costing of certain services, especially if direct volunteer client service is included, may be limited and contentious in many cases. In addition, the ability of certain voluntary sector organizations to provide adequate documentation and proof of service may be restricted or unacceptable from a tax scrutiny perspective. Nonetheless, in terms of adding to the strategic arsenal, this concept may be worth pursuing.

A further concept that needs to be explored is the limitation on charitable donations and their inter-period treatment.[25] If the objective is to increase financial support to the sector, then one key strategy is to pursue larger donations from individuals and corporations in addition to the pluralistic objective of increasing the overall donor base. Current tax provisions set limits on such donations. Limits can be raised and it could be made simpler to credit donations over more years (presently set at five years) to permit better tax management.

Any discussion of tax incentives to support voluntary organizations would also have to address which organizations are eligible for tax consideration. Contextually, while there are almost 161,000 incorporated not-for-profit organizations in Canada, there are only approximately 80,000 registered charities covered under the Income Tax Act.[26] For the most part, the application of tax deduction cover registered charities, registered amateur sports organizations and certain other organizations serving public good purposes.[27] However, this later category remains contentious and, to a significant degree, restricted in its application. The sector needs to continue to encourage a more generous interpretation of which organizations can receive donations that earn tax benefit. There is considerable case law in this area already that suggests that the concept of public benefit should be the foundation of eligibility (Duff 2004, 57). Broadening the base of eligible organizations would serve to raise the level of giving.

Tax incentives will not, of themselves, solve the long-term funding challenges in the voluntary sector. But they can help. Government can strongly signal its strategic support to the sector with further tax incentives. These also have the advantage of not being linked to annualized budget decision-making. While many of the ideas put forward here are indeed tax expenditures and certainly subject to withdrawal should they prove beyond the means of the government of the day to support them. However, this happens less frequently than direct funding changes, unless, as noted above, such funding is placed at arms-length from the budgetary process.

In-Kind Support: Reducing Core Requirements

The final thrust that is needed to produce a more sustainable core for voluntary sector organizations is for governments to reduce the administrative burden and simplify the relationship between the public and voluntary sector. As observed in the discussion of grants and contributions, this relationship can often be chaotic. Individual departments manage their own programs, often setting their own rules, risk tolerances, application and audit requirements along with providing information on available funding on an eclectic basis. In fact, during its hearings, the Blue Ribbon Panel on Grants and Contributions found that the relationship between granting agencies of government and the recipients was confused, complex and varied from department to department.

Imagine Canada, in its brief to the Blue Panel, also documented very well the need to treat the voluntary sector in a more strategic and focused manner (Imagine Canada 2006). It made the cogent argument that the nonprofit voluntary sector should be treated in a similar manner to the small- and medium-sized business sector (SMEs). It noted that, over the past two decades, the federal government has developed a range of services to help SMEs reduce the costs of working for government, creating a more level playing field for them. It notes the creation of Web site services, such as Strategis by Industry Canada, and the SME Branch of Public Works and Government Services Canada that make it simpler for SMEs to fully inform themselves of contracting possibilities and try to reduce the burden of doing so (Imagine Canada 2006, 15).

This type of integrative support to the voluntary sector is vital. It is dangerous to consider the voluntary sector as a monolith. It is a highly disaggregated and decentralized environment in which size and capacity vary dramatically among organizations. As all levels of government depend on a strong voluntary sector, they must consider ways to provide the in-kind services that they have already acknowledged are needed.

Other governments have already moved decisively in this area. Even the Bush administration – who have aggressively reduced direct support to the sector – have taken a number of steps to provide a more integrated point of entry and source of information on over one thousand grant programs in the American government. Through its Web site, www.grants.com, it has created a single portal for the sector. As noted on its Web site:

> Grants.gov was created to provide a single website for all federal grant opportunities. It was called for from the President's Management Agenda and also as part of the Public Law 106–107, which is to streamline and simplify the way the federal government does grants. It simplifies the grants management process by providing a central online system to find and apply for grants across the federal government. It has also created a single audit framework for all 1000 government grant programs, a major reduction in reporting burden for recipients and users.[28]

Two of these initiatives have particular importance for the voluntary sector: creating an online application system and working towards a common audit framework. It is clear that the General Accounting Office,[29] the legislative audit arm of the American Congress, continues to criticize the administration for not yet achieving a single audit framework, but evidence shows that major steps have been made in the right direction. We can learn from this example. Indeed, reducing the burden of these two steps would be significant in the Canadian context. This is not an undertaking that can be left to individual departments to implement. As with small business, this would take a strategic and concerted effort. At this juncture, however, this option is not part of any overall strategic plan. With the continued decentralization of departmental activities, the impact of individual departmental rules on the voluntary organizations they are dealing with has gone unnoticed.

CONCLUSION

Financing a sustainable voluntary sector is a complex task. It demands a strategic approach that begins with the long-term commitment to a stable, well-equipped voluntary sector that plays a key role in providing public goods. It requires a comprehensive approach, with no one quick fix possible. It involves a higher level of government co-ordination than is now presently evident. It also will involve a mix of approaches, each designed to address the primary issues of access to support, both in money and kind, that will ensure that the stable core of the sector is sustainable. While the Conservative government has taken some baby steps toward redressing some of the features of our ossified funding infrastructure, supporting sustainable capacity in the voluntary sector cannot be the work of one government. It will require the sustained efforts of many governments to come.

Notes

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[1] For more information, see http://www.tbs-sct.gc.ca/media/nr-cp/2006/0606_e.asp#bk1

[2] See http://www.hrsdc.gc.ca/en/cs/sp/sdc/task_force/tfci/page00.shtml

[3] Full text is available at http://www.ccsd.ca/pubs/2003/fm/index.htm

[4] Available through the Council at www.ccsd.ca

[5] See http://www.imaginecanada.ca/Files/publicaffairs/final_blue_ribbon_panel_aug_2006.pdf

[6] See http://www.fin.gc.ca/budtoce/2006/budliste.htm

[7] See http://www.pm.gc.ca/eng/media.asp?id=1212

[8] For more information, see www.grants.org

[9] See http://www.grantslink.gov.au

[10] Grants are transfer payments without the need for the recipient to provide a detailed account for the use of the funds. Grants are provided with an understanding of the use to which the funds will be put and some preconditions. Audit and evaluation is not required, but there are defined eligibility criteria and the recipient may have certain reporting or disclosure requirements (Source: Treasury Board of Canada policies).

[11] Federal Financial Assistance Management Improvement Act, Public Law 106-107 Initial Plan available at http://www.grants.gov/section3/PL106107InitialPlan.pdf

[12] See http://www.grants.gov/aboutgrants/grants_accomplishments.jsp

[13] See the recommendations of Imagine Canada to the Blue Ribbon Panel on Grants and Contributions at http://www.imaginecanada.ca/Files/publicaffairs/final_blue_ribbon_panel_aug_2006.pdf

[14] See http://www.triulliumfoundation.org

[15] See http://www.cd.gov.ab.ca/all_about_us/commissions/wild_rose/ and http://www.qp.gov.ab/ca/documents/Acts/W08.cfm?frm_isn=0779747798

[16] Annual Report, 2005-2006, Canadian Foundation for Innovation, available at http://www.innovation.ca/publications/annual/annual06_e.pdf

[17] See http://www.oag-bvg.gc.ca/domino/reports.nsf/html/20050204ce.html

[18] Grants Program to Canadian Post-Secondary Institutions to Defray a Portion of the Indirect Costs of Federally Supported Research at Colleges, Universities and their Affiliated Research Hospitals and Institutes Results-based Management and Accountability Framework and Risk- Based Audit Framework, June 2003, available at http://www.indirectcosts.gc.ca/publications/rmaf_rbaf_e.pdf

[19] More detailed information is available at: http://www.indirectcosts.gc.ca/using/costs_e.asp

[20] "Indirect Costs Program: Briefing to the Minister: April, 2004-March, 2005" available at http://www.indirectcosts.gc.ca/publications/Brief05_e.pdf

[21] Statistics Canada, *National Survey of Giving, Volunteering and Participating*, November, 2000.

[22] See the Income Tax Act, subsection 117(2), which defines basic federal tax payable as 16 percent of taxable income up to $30,754, 22 percent of taxable income between $30,755 and $61,509, 26 percent of taxable

income between $61,510 and $100,000, and 29 percent of taxable income exceeding $100,000.

[23] Statistics Canada, "Charitable Donors," *The Daily*, November 4, 2004.

[24] Johns Hopkins Comparative Nonprofit Sector Project.

[25] In Canada, this percentage was originally set at 10 percent of the donor's income for the year, but was increased to 20 percent in 1972, 50 percent in 1996, and 75 percent in 1997. In the United States, the ceiling was originally 15 percent of the donor's income, but was subsequently increased to 50 percent.

[26] Statistics Canada, *Cornerstones of Community: Highlights of the National Survey of Non-profit and Voluntary Organizations*, 2003 revised in 2005, Catalogue 61-533-XPE.

[27] *Income Tax Act,* sec 110 and 118.

[28] See http://www.grants.gov/aboutgrants/about_grants_gov.jsp

[29] See http://www.gao.gov/govaud/yb2003.pdf

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