Myths, Money and Service Provision

An Overview of the Funding of Canada's Voluntary Sector

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for

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Table of Contents

Executive Summary

This review was undertaken to bring together the "in the field" experience of voluntary sector organizations with the literature on non-profit funding in the hope that this combined perspective could provide an overview of today's situation and help determine the most productive and urgent priorities for future action.

The strength of this review is that it has sought to integrate the practical knowledge and realities of the field with the findings and conclusions of the research. Much of the research focuses on isolated components of the financing picture while the organizations struggle with the cumulative effects. Using the perspective of the voluntary sector, this paper "collects" the research findings to compile the overview that is needed to determine priorities for action.

Where We are Now

The paper begins with an overview of the development during the 1990s of the current methods of funding voluntary sector organizations, including:

- "Contract funding" – the purchase of defined services with specified outputs and closely controlled funding, usually accompanied by increased accountability requirements with little or no flexibility in program delivery or funding.
- "Matching contribution funding" – building on contract funding, matching contribution funding is the conditional approval of funding for a portion of a project subject to the agency securing the balance from another funder.
- "Diversification of funding sources" – the expectation that voluntary sector organizations find private funding from corporations, individuals, foundations, commercial ventures, user fees, or gaming to fill gaps left by government.

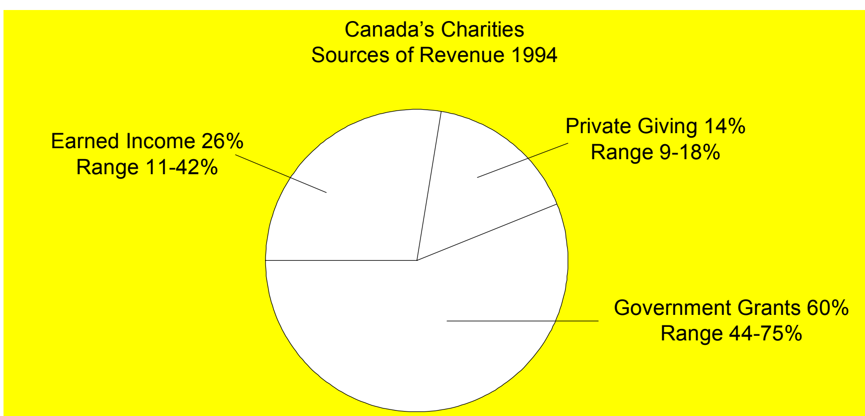
By 2000, the feedback from voluntary sector organizations was that the new approach to financing services was not working and the sector was showing serious signs of stress:

- Service contracts typically did not cover the actual costs of program delivery.
- Voluntary sector organizations reported increasing difficulty meeting legal and legislative obligations to staff.
- Voluntary sector organizations have been unable to cover growing shortfalls in government funding with other stable sources of funds.
- Voluntary sector organizations cannot support the infrastructure needed for program delivery.
- Inflexible service funding is stifling innovation and creativity.

The research confirms the stress on voluntary sector organizations and raises questions about the efficacy of current funding methods:

- The literature documents the general failure of “contract funding” as an efficient or effective method of funding services.
- The private sector is not filling the gaps left by government.
- Commercial ventures and fees for services have proved risky for voluntary sector organizations and show little promise as a reliable revenue-generator.
- Gaming is unstable as a source of income and presents moral issues for charities.
- Not all voluntary sector organizations are equally able to attract private-sector funding. Evidence is that larger, urban organizations in selected geographic regions of Canada fare best. As well, certain sectors or causes have greater private-sector appeal than others.

The funding profile that emerges from the research clarifies the difficulties being faced by voluntary sector organizations. Government funding remains the largest source of funds, and organizations have not been able to diversify their funding. They are all competing for a pool of private funds which represents less than 15% of voluntary sector revenues. Moreover, private-sector funding is largely one-time or short-term funding; however, the voluntary sector organizations have funding needs which are ongoing. Significant differences in funding are evident across provinces. Private giving ranges from 9-18% and government funding from 44-75% depending on the province.



Looking Forward

- ***Service demand will continue to exceed our collective capacity to deliver.***
  Canada’s demographic trends, with our aging population, mean that demand for services will continue to grow. The Canadian public continues to look to its governments for services, and demands continue to increase.

- ***Our current approach to funding voluntary sector organizations is known to be counter-effective.***
  "Contract funding" and its partner "matching contribution funding" do not support a sustainable voluntary sector. The under-funding of voluntary sector organizations has resulted in weakened capacity for service management and delivery. Rigid funding guidelines and accountability requirements coupled with unstable short-term funding have prevented voluntary sector organizations from managing their resources effectively.

  Expectations of private-sector involvement in the voluntary sector have proved unrealistic. The private sector may not have the capacity, organization or the interest to fill the gaps left by government funding. The private sector can and does play an important role in voluntary sector funding, but it is not one of sustaining funding.

- ***Innovation and experimentation need to be nurtured by enhancing local community capacity.***
  Service design and priority-setting by funders have frustrated community capacity-building and service innovation. Finding ways to address the escalating community needs is going to require more, not less, local community capacity and involvement in decision-making.

- ***The voluntary sector has different operating principles from business, therefore business models need to be modified to be effective in the voluntary sector.***
  Bringing the "business model" to voluntary sector funding has proved to be problematic. The voluntary sector is motivated by an entirely different set of principles and dynamics than is the business sector. Business theory, therefore, has consistently failed to evoke the appropriate response in the voluntary sector. With $90.5 billion going to the voluntary sector annually, more attention must be paid to understanding its operational dynamics so support to the sector can be strategically and effectively deployed.

- ***Funding policy must reflect a common vision and a balanced accountability between funders, voluntary sector organizations and citizen recipients.***
  For the better part of a decade, funders have made funding decisions without effective mechanisms to hold them accountable. They have made decisions from their own perspective. Contract and matching contribution funding, and the trend to linking corporate donations to marketing opportunities, are examples of funder-focused decision-making. Effective funding strategies require a collective vision. To be successful, funding policy must balance the needs of the various funders, the voluntary sector organizations and service participants.

Suggestions for Action

1. **Funders should move rapidly to provide sustainable funding to maintain capacity in the voluntary sector and ensure service contracts cover the actual costs of delivery, including organizational infrastructure and human resources.**

2. **Funders should work with the voluntary sector and representatives of service recipients when developing funding policy, establishing priorities, and evaluating funding effectiveness.**

3. **Short-term private-sector funding also should be encouraged to support service innovation and community capacity-building.**

4. **Donors should be encouraged to make a significant portion of all gifts to community funds capable of local priority-setting, fund distribution management, and ongoing funding of voluntary sector organizations.**

5. **Funding policy should be tailored to the capacity and needs of the specific voluntary sub-sector being funded. Funding effectiveness should be evaluated within the sub-sectors and overall.**

6. **Each funder group should develop a collective capacity so it can coordinate with other funders' complementary roles and funding policies.**

Introduction

This review was undertaken to bring together the "in the field" experience of voluntary sector organizations with the literature on non-profit funding in the hope that this combined perspective could provide an overview of today's situation and help determine the most productive and urgent priorities for future action.

This paper pulls together two elements:

- the review of literature of the 1990s on resource issues for voluntary sector organizations undertaken by the Manitoba Intersectoral Secretariat on Voluntary Sector Sustainability;[1] and
- the work of the federal Voluntary Sector Initiative (VSI), including the results of its focus groups with service providers as well as a short online questionnaire on fund-raising capacity.

The strength of this review is that it has sought to integrate the practical knowledge and realities of the field with the findings and conclusions of the research. This is not a simple task because much of the research focuses on isolated components of the financing picture while the organizations struggle with the cumulative effects. Using the perspective of the voluntary sector, this paper "collects" the research findings to compile the overview that is needed to determine priorities for action.

In pulling together the studies, we found that they did not always match exactly. For example, the research on corporate donations is from a different year than the study on individual donations. It is still possible, however, to identify trends and relationships between the various studies well enough to develop an accurate profile of the situation.

Current Environment

The federal government began the Voluntary Sector Initiative at the urging of the Voluntary Sector Roundtable, a group dedicated to bringing the difficulties faced by the sector to the attention of government. Persistent reports of serious distress among voluntary sector organizations in Canada had circulated for a number of years. To understand how we have come to this place, it is helpful to take a brief look backwards at the events and trends of the 1990s in Canada and abroad.

A Brief History

Beginning in the 1980s, the New Zealand and the British governments shifted from "grant-based funding" (funding voluntary sector organizations to deliver programs) to a "contract funding" model (purchasing defined outputs, i.e., services). New Zealand led

[1] All references in these footnotes to abstracts refer to the summary of abstracts prepared by the Manitoba Intersectoral Secretariat on Voluntary Sector Sustainability.

the way, shifting funding to the purchase of defined outputs (services) that were increasingly defined by government alone.[2] The British soon followed and adopted "contract funding" with deliberate under-funding (the theory was that under-funding would allow the public to choose which services to support with their donations). The British model grafted the marketplace theory of choice onto social welfare provision.[3]

The rest of the developed world watched with interest, faced as they were with increasing debt loads, on and off recessions, coupled with what seemed like insatiable demand for increasing amounts of services. Many governments, including the Canadian federal and provincial governments, moved to reduce public expenditures for services and to reduce and temper the public's expectations for services,[4] e.g., the Ontario "Do more with less" campaign. Accompanying the shift to contract funding was a questioning of the efficacy of "grant funding" to voluntary sector organizations. "Contract funding" for defined services enabled governments to specify outputs and closely control spending. This type of funding had tremendous appeal; it was seen as bringing the rigours of business to the perceived "inefficiencies" of service provision among voluntary sector organizations.

The theory and the hope underlying "contract funding" was that the "private sector" would replace and fill the service gaps vacated by government. Voluntary sector organizations bravely talked of diversifying their funding sources; they also began exploring for-profit endeavours and service fees, and stepped up their charitable fund-raising efforts. Marketing campaigns encouraging corporations to increase their giving were successful in achieving an 18% increase from 1994-1999 donation levels.[5] Tax reforms improved the tax treatment of charitable donations in Canada in 1996 and again in 1997. In response, average donations reported by individuals on tax returns increased by $89 in 1996 to $731, by another $78 in 1997 to $809, and by $51 in 1998 to $860 a year. Donation increases had averaged $20 a year in the years previous to 1995.[6]

In the Field – 2001

Despite all of these efforts, by the end of the 1990s, voluntary sector organizations were showing serious signs of stress. Evidence was mounting on all fronts that the new approach to financing services was not working. Voluntary sector organizations reported

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2 *Government Funding of Voluntary Services in New Zealand: The Contracting Issues*, a scoping study, McKinlay Douglas Ltd. for the Social and Civic Policy Institute in New Zealand 1998 – see abstract, p. 10.

3 Pete Hudson, "The voluntary sector, the state and citizenship in the United Kingdom," *The Social Service Review* 72(4): 452-465, December 1998 – see abstract, p. 10.

4 Section entitled "Government Funding Cutbacks and their Effects on Nonprofits" – see abstracts, pp. 27-29.

5 Imagine: an Initiative of the Canadian Centre for Philanthropy, a report on Phase II Activities, 1994-1999; and John Nieuwenhuis and Janet Rostami, "Corporate Community Investment in Canada 1998," Conference Board of Canada, April 1999 – see abstract, p. 14.

6 Laura Heinz, "Trends in individual donations: 1984-1998," *Research Bulletin*, vol. 6, no. 4, Autumn 1999, Canadian Centre for Philanthropy – see abstract, p. 19.

difficulties with: ever-increasing accountability requirements; rigid funding policies and practices that impeded service delivery; and funding contracts which did not support organizational capacity or, in some instances, even cover the actual cost of program delivery.

Voluntary organizations are finding it increasingly difficult to meet their legal and legislative obligations to staff, and many lack the organizational capacity to sustain fund-raising efforts. Voluntary sector funding is increasingly unstable and short-term, and the organizations report a general failure to cover the growing shortfalls in government funding with other sources of funds.

Emerging Trend

Even as voluntary sector organizations struggle to maintain basic operating capacity, a new approach to financing services is gaining popularity which will place still more demands on their administrations. Research is not yet available, but consistent reports are coming from voluntary sector organizations and concerned community funders.

"Matching contribution funding" is now being added on top of "contract funding." It is the practice whereby funders (both government and private funders are using this method) approve funding for only part of a program or project. This funding is conditional on the organization securing another sponsor to fund the balance of the project. In a recent development, this process is reversed and the agency is asked to obtain a firm commitment from another funder prior to submitting an application for "matching contribution funding."

For funders, the attraction of matching contribution funding is obvious. By only funding part of a project request, the funder can "fund" many more projects. Although matching contribution funding has obvious advantages for the funder, the practice vastly increases the "noise" in the charitable sector as projects need to be reviewed by more and more funders. It also significantly increases the effort required by voluntary sector organizations because multiple funders need to be approached for every project. Time pressures and different grant deadlines further complicate the challenge for voluntary sector organizations as they put together "packages of funding" for each project. Voluntary sector organizations, of course, already juggle different funders for different programs.

What the Research Tells Us

The research bears out the claims by voluntary sector organizations of extreme stress and impending crisis. The literature review clearly documents the general failure of "contract funding" as an efficient or effective method of funding service programs and, in particular, its failure to: provide adequate methods and resources to monitor outcomes; support innovation; or develop knowledge and capacity. Contract funding is now understood to hinder both government and voluntary organizations from achieving their objectives.[7] The research is also very clear on the failure of the "private sector" to step into the role of government or to even come close to filling the gaps in government financing of services.[8] Moreover, business ventures by not-for-profits show very little promise as a reliable revenue-generator and in many instances were thought to detract from the non-profit mission (U.S. research[9]). Broad use of service fees is also problematic; these fees were found to discourage the very people who most needed the service (U.S. research). For many service providers, gaming revenues present moral issues, and are an unstable source of income.

Although much of the research has studied funding trends and the impact on the charitable sector, some of the literature focused on what makes for a successful organization. Research on what is required for good and effective service identified the importance of a sustainable organization, some of the necessary components of which are: leadership, financial management, marketing management, organizational and human resource development, management information systems, and client and funder accountability systems.[10] The very characteristics that make for strong, effective voluntary sector organizations are precisely those functions not adequately funded under current funding practices.

The Funding Profile

In Canada, and indeed in many of the developed nations, the state played a large role in the funding of the voluntary sector. In the 1990s, as resources became strained, governments began reducing their role and their accountability for service provision. The private sector was asked, and expected, to step in and help. Now, a decade later, it is obvious that this expectation has not materialized and the notion of a private/government funding partnership, beyond a few isolated examples, remains elusive and unobtainable for most voluntary sector organizations.

- Government funding by the three levels of government averages 60% and ranges between 44% and 75% depending on the province in which the charity is operating.
- Government funding remains the largest source of revenue for the voluntary sector.
- Earned income (averaging 26%, ranging across provinces from 11-42%) includes lottery revenues, ticket sales, user fees as well as investment, business and property income.
- Private giving remains a small portion of voluntary sector funding (averaging 14%, ranging across provinces from 9-18%).[11]

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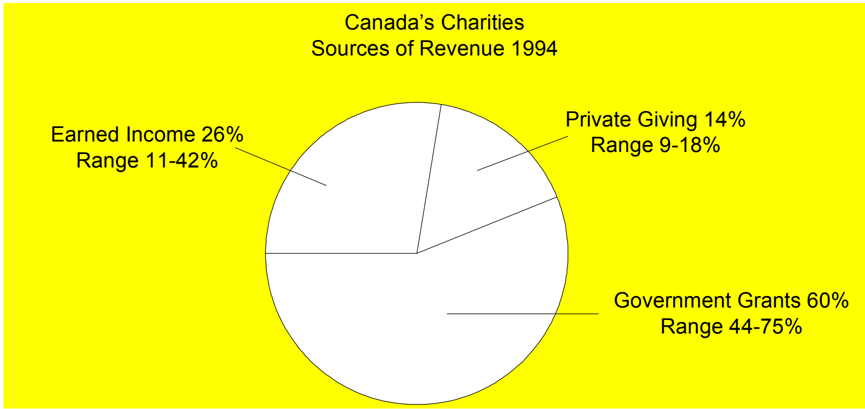
7 Section entitled "Contract Culture and Its Impacts" (Canadian, U.S. and international studies) – see abstracts, pp. 8-13.

8 Section entitled "Government Funding Cutbacks and their Effects on Nonprofits" (Canadian and U.S. studies) – see abstracts, pp. 27-29.

9 Section entitled "Commercial Activities of Nonprofits" – see abstracts, pp. 5-8.

10 Section entitled "Sustainability and Its Components" – see abstracts, pp. 30-32.

11 Michael Hall and Laura MacPherson, "A Provincial Portrait of Canadian Charities," *Research Bulletin*, vol. 4, no. 2 & 3, Spring/Summer 1997, Canadian Centre for Philanthropy.



Government

Although government funding overall averages 60%, the exact amount varies by province and by type of charity. An analysis of social service voluntary sector organizations in Ontario in the 1990s found that 89% of their revenue came from one of the three levels of government.[12] Of 133 voluntary sector organizations in British Columbia, 80% of funding was from government (1993). Of the three levels of government, the provincial government is the largest single funder. Studies show that approximately 60-70% of revenue comes from the provincial government. An analysis of revenue of voluntary sector organizations in Ottawa-Carleton, Ontario, in 1997 found that 70% of their revenue came from the provincial government. In Halton Region, Ontario, a 1997 survey found that 60% of funding was from the provincial government, while in Metro Toronto 66% of funding was from government.[13] (These studies were prior to the downloading of responsibilities from the provincial to municipal level of government, so the profile may be shifting between the various levels of government.)

Government funding from one of the three levels of government remains the largest and most important source of revenue for voluntary sector organizations.

Corporations

Corporate donations account for .8% of voluntary sector revenues[14] and although corporate giving increased during the 1990s from .67% of pre-tax profit to .99% of pre-tax profit,[15] corporate giving remains a very small part of the financial revenue of voluntary sector organizations. A 1995 survey of 1,500 voluntary sector organizations

12 Paul Reed & Karen Howe, *Voluntary Organizations in Ontario in the 1990's*, Statistics Canada, 2000 – see abstract, p. 27.

13 Section entitled "Government Funding Cutbacks and their Effects on Nonprofits" – see abstracts, pp. 27-29.

14 Quoted from the briefing note that prefaces the abstracts – see "Corporate Contributions and Cause Related Marketing," p. 2.

15 Imagine: an initiative of the Canadian Centre for Philanthropy – see abstract, p. 14.

found that corporations made up 9% of private funds raised by the organizations.[16] There are also particular characteristics of corporate giving that shape its impact on the voluntary service sector.

- Grants tend to be on a one-time or short-term basis – not ongoing.
- Giving is often issues-based rather than by service category.
- Increasingly, corporate giving tends to be "strategic" – designed to meet or complement corporate goals and objectives and linked to marketing objectives.
- Sponsorship agreements and in-kind donations are two corporate responses linked to "strategic donation" decision-making.
- Corporate donations typically go to the largest charities: the larger amounts to the education and hospital sectors ($15,000 median donation), the smallest amounts to arts and social services ($5,000 median donation). Provincial differences were also observable with 43% to Ontario, 18% to Quebec, 14% to the Atlantic provinces, 12% to Alberta, 8% to B.C. and just 5% going to Manitoba, Saskatchewan and the Territories combined.[17]

Voluntary sector organizations report that matching contribution funding is gaining popularity in the corporate sector as a way to stretch the donation dollar across a larger number of voluntary sector organizations.

Corporation funding can be very good for those few large organizations able to form strategic alliances. However, for most voluntary sector organizations, corporation funding is difficult to access and typically provides low levels of time-limited revenue. Corporation funding is not a source of sustainable ongoing funding. Moreover, the corporate sector does not have a collective capacity to address community needs in a planned or coordinated way.

Foundations

> There are about 80 community foundations in Canada and 125 United Ways but even in the largest cities United Ways support only one or two hundred voluntary sector organizations out of a field of thousands. Collective contributions of foundations and other charities make up 2.5% of the sector's annual revenues according to the Canadian Centre for Philanthropy's estimates.[18]

Foundations, community funds and United Ways have been some of the more flexible and innovative of the funding sources. Voluntary sector organizations identify the little

16 Michael Hall & Laura MacPherson, "What types of charities are getting corporate donations?" *Research Bulletin*, vol. 3, no. 4, Autumn 1996, Canadian Centre for Philanthropy – see abstract, p. 15.

17 *Ibid.*, p. 15.

18 Quoted from the briefing note that prefaces the abstracts – see summary on "Foundations," p. 4.

funding they receive from the "flexible funders" as essential to sustain their organizations. Some foundations and United Ways are beginning to move away from matching contribution and contract funding to direct more support to help sustain voluntary sector organizations and to promote community capacity-building. Unfortunately, this sector's small size limits its impact.

Individual Donors

Individual donors comprise 5% of charitable revenues of $90.5 billion.[19] A large part of these funds (51%) go to religious organizations,[20] an additional 12% is given to community funds such as United Ways and community foundations.[21] The remaining funds are distributed across the non-profit sector. Social service organizations receive 11% of donations. In 1997, Canadian households gave 1.25% of disposable household income to charity.[22]

For those organizations and causes able to compete for the attention of the public, particularly the wealthy public, individual donations can be a consistent and significant source of revenue. Most smaller voluntary sector organizations do not have the profile for broad public recognition or the personal connections necessary to raise significant funds from individuals. Moreover, designated donor programs in community funds are tying up increasing amounts of general community funds for those who have the public profile.

Gaming, Fees and Business Ventures

The research on fees and business ventures is from the United States. Isolated examples of successful fee-charging and business ventures do exist; however, on the whole, fees and business ventures were found to be very risky (many lost money), and in some cases were detrimental to the achievement of the organization's mission.[23] Voluntary sector organizations should be cautious when thinking about operating businesses and charging fees. These methods are not secure or necessarily effective sources of revenue.

A study of Canadian gaming in 1999 explored the impact of gaming on voluntary sector organizations, the use of these organizations by government as a justification for gaming expansion, the actual revenue received by charities, and some of the conflicts surrounding the expansion and regulation of gaming. It concludes that the various concerns that organizations have with gaming – ethical (regressive tax on the poor), economics

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19 Quoted from the briefing note that prefaces the abstracts – see summary on "Donations and Fundraising Studies," p. 3.

20 Laura Heinz, *Voluntary Social Service Organizations: encouraging public involvement and support*, Canadian Centre for Philanthropy.

21 Quoted from the briefing note that prefaces the abstracts – see summary on "Foundations," p. 4.

22 Paul Reed and Marie-Claire Couture, "Generosity in Canada: Trends in Personal Gifts and Charitable Donations over Three Decades 1967-1997," Statistics Canada, Draft research note, 1999 – see abstract, p. 16.

23 Section entitled "Commercial Activities of Nonprofits" – see abstracts, pp. 5-9.

(variable and unreliable), and political (can alienate supporters) – warrant careful examination of gaming as a revenue source for voluntary sector organizations.[24] A North Dakota study, on the other hand, found that 350 charities received $23 million in revenue in 1993; overwhelmingly, those voluntary sector organizations (84%) identified gaming as a critical revenue source that allowed them to provide greatly expanded and improved services.[25] It appears that gaming revenues in North Dakota went more directly to the charities while in Canada the amount of gaming revenue that reaches the charities is smaller. Gaming is a potentially lucrative but volatile source of revenue which presents difficult ethical problems for some organizations. More research on gaming in Canada is required.

Sub-Sectors and Groups in the Voluntary Sector

Policy on the funding of voluntary sector organizations has, for the most part, treated the non-profit sector as one large group. In reality, the sector is composed of many sub-groups each with its own characteristics. To be effective, funding policy must be much more sensitive to the circumstances of the group being funded, taking into consideration their individual (and different) capacities and needs. Some broad groups have been identified (see table below).

Education	Colleges and universities Primary and secondary schools
Health	Hospitals Community health voluntary sector organizations
Social Services	Community service voluntary sector organizations
Arts and Culture	Theatres, museums, music groups, etc.
Sport and Recreation	Competitive sports, community recreation groups
Environment	Research groups, conservation groups, etc.

24 Berdahl, Youngman and Azmier, "Impact of Gaming upon Canadian Nonprofits: a 1999 survey of gaming grant recipients," Summary Report, Canada West Foundation, Calgary; and Azmier, "Gaming and the Non-profit Sector: Is It a Gamble?" – see abstracts, p. 26.

25 Cher Hersrud and Susan Haaland, "The Effects of Charitable Gaming on the Nonprofit Sector in North Dakota," an Aspen Institute NSRF Working Paper – see abstract, p. 26.

For example, the Manitoba review of research did not address various sub-sectors – sports/recreation, and arts/culture – that have unique and particular needs. Moreover, although many of the voluntary sector organizations are non-profit, they do not have charitable status and are therefore limited in the funds they can receive from the private sector.

Some sectors, and some organizations within each sector, have greater capacity to attract private-sector funds and sponsorships than do others. Large organizations obviously have far more capacity to raise funds than do smaller ones, urban organizations fare better than rural, and some causes and services are more attractive to funders. These differing needs and capacities among organizations are well known and documented; however, funding trends, policies and practices have not differentiated sufficiently between the various groups.

Universities have more capacity than do community service organizations to raise significant amounts of money. Hospitals can raise more money than community addiction programs. Community service organizations serving young children have more charitable appeal than do services supporting parolees and convicts. Funding policy and practice need to be tailored to meet the capacities of the voluntary sector organization and be supportive of achieving program objectives.

Looking Forward

- ***Service demand will continue to exceed our collective capacity to deliver.***
  Canada's demographic trends, with our aging population, mean that demand for services will continue to grow. Safety and security has recently moved to the top of the public agenda. Meanwhile, health care remains a prime concern. Homelessness is now a major issue in cities across the country. Provincial governments struggle with demands for funding for schools, for persons with disabilities, for child welfare and others. The Canadian public continues to look to its governments for service, and demands continue to increase.

- ***Our current approach to funding voluntary sector organizations is known to be counter-effective.***
  "Contract funding" and its partner "matching contribution funding" do not support a sustainable voluntary sector. The under-funding of voluntary sector organizations has resulted in weakened capacity for service management and delivery. Rigid funding guidelines and accountability requirements, coupled with unstable short-term funding, have prevented voluntary sector organizations from managing their resources effectively.

  Expectations of private-sector involvement in the voluntary sector have proved unrealistic. The private sector may not have the capacity, organization or the interest to fill the funding gaps left by government funding. The private sector can and does play an important role in voluntary sector funding, but it is not one of sustaining funding.

- ***Innovation and experimentation need to be nurtured by enhancing local community capacity.***
  Service design and priority-setting by funders have frustrated community capacity-building and service innovation. Moreover, there is concern among community funders such as United Ways that the pressure on private-sector donors to fill the gaps in voluntary sector funding has resulted in them seeking higher "profile" for their donation, moving donors away from the collaborative funding of community needs.

  Finding ways to address the escalating community needs is going to require more, not less, local community capacity and involvement in decision-making.

- ***The voluntary sector has different operating principles from business, therefore business models need to be modified to be effective in the voluntary sector.***
  Bringing the "business model" to voluntary sector funding has proved to be problematic. The voluntary sector is motivated by an entirely different set of principles and dynamics than is the business sector. Business theory, therefore, has consistently failed to evoke the appropriate response in the voluntary sector. In Britain, individual donors did not respond to contract under-funding with donations because the charity-donor relationship is based on a different set of motivational factors. Or, in another example, unable to find financing for refugee services, business would vacate the field while in the voluntary sector a lack of funding means a renewed commitment to find a way to achieve one's mission.

  With $90.5 billion going to the Canadian voluntary sector annually, more attention must be paid to understanding its operational dynamics to ensure that support to the sector can be strategically and effectively deployed.

- ***Funding policy must reflect a common vision and a balanced accountability between funders, voluntary sector organizations and citizen recipients.***
  In the 1990s, overwhelmed by demand, funders retrenched and began to make unilateral funding decisions. They became very directive in specifying service design and outcomes. Voluntary sector organizations, starved for funds and struggling to provide evidence of their effectiveness, had little choice but to comply with funder demands. Service participants became service recipients and had little or no role in shaping the services they received. The net result of this trend is that, for the better part of a decade, funders have made funding decisions without effective mechanisms to hold them accountable. They have made decisions from their own perspective. Contract and contribution funding, and the trend to corporate donations linked to marketing opportunities, are examples of funder-focused decision-making.

  Effective funding strategies require a collective vision. To be successful, funding policy must balance the needs of the various funders, the voluntary sector organizations, and service participants.

Suggestions for Action

1. **Funders should move rapidly to provide sustainable funding to maintain capacity in the voluntary sector and ensure service contracts cover the actual costs of delivery, including organizational infrastructure and human resources.**

2. **Funders should work with the voluntary sector and representatives of service recipients when developing funding policy, establishing priorities, and evaluating funding effectiveness.**

3. **Short-term private-sector funding also should be encouraged to support service innovation and community capacity-building.**

4. **Donors should be encouraged to make a significant portion of all gifts to community funds capable of local priority-setting, fund distribution management, and ongoing funding of voluntary sector organizations.**

5. **Funding policy should be tailored to the capacity and needs of the specific voluntary sub-sector being funded. Funding effectiveness should be evaluated within the sub-sectors and overall.**

6. **Each funder group should develop a collective capacity so it can coordinate with other funders' complementary roles and funding policies.**