

Project Funding and the Nonprofit Sector in the Era of Collaborative Governance

Robert Patchell

Student # 6800214

POLS 7300 Directed Readings State & Civil Society Relations

Dr. Karine Levasseur

4/8/2011

As Canada transitions from New Public Management (NPM) toward a system of governance based on principals of collaboration and horizontality, the expectations of the nonprofit sector in addressing what can be referred to as ‘wicked’ policy problems is enhanced. However, the trend in federal government funding for the nonprofit sector remains entrenched in the values and ideas associated with NPM, emphasising structures of control and defined performance objectives. In the 1990’s, at the height of NPM in Canada, government funding for nonprofits shifted from grants, which provide core funding to organizations, towards an increasing reliance on contributions and project funding directed to support the delivery of specific services (Graham 2009, 35). As project funding allows government to retain control over how organizations expend project funds, through detailed contractual agreements, a hierarchical relationship develops between government and nonprofit organizations.

Project funding undermines the capacity to develop an effective system of collaborative governance, as it creates a relationship between government and nonprofit organizations that is built on control. As a result, the autonomy of nonprofit organizations is weakened, reducing their role in solving wicked policy problems to one in which they simply deliver services on behalf of government rather than acting as an equal partner within the network. This funding relationship will have adverse consequences, not only on the viability of nonprofit organizations and the broader civil society, but also on the federal government’s capacity to realize strategic policy objectives within the framework of collaborative governance.

The goal of this paper is to demonstrate how project funding, as a policy instrument, is ineffective in meeting the goals of both nonprofits and government within the framework of collaborative governance. Project funding is used to support the delivery of government services

through external organizations, capitalizing on perceived efficiencies by pushing the delivery of those services into the private sphere. However, project funding simultaneously reduces the capacity of nonprofit organizations to continue to deliver services effectively as these organizations face reduced capacity as a result of the loss of long term sustainable funding. While Canada's nonprofit sector has long recognized the contradictory nature of project funding, and its impact on the viability of the sector, the Canadian government must re-evaluate its relationship with the sector if it expects organizations to be fully able to engage in a collaborative governance model.

This paper will begin by defining the role of civil society, and subsequently the nonprofit sector, in its relationship to the state and the market. From there, it is important to identify what collaborative governance is and how it provides a framework for addressing wicked policy problems. This paper then goes on to describe the evolution of Canada's nonprofit funding regime, focusing on the impact that NPM has had on the shift toward a reliance on project funding as a principal policy instrument employed by the federal government. As well, it is important to examine the evolving conceptions of horizontal accountability, challenging traditional concepts of vertical structures of accountability prevalent within the Westminster system. From there this paper will identify the key impacts project funding has had on the capacity of nonprofit organizations, demonstrating how it undermines the ability of these organizations to fully contribute to solving wicked problems within the framework of collaborative governance. To conclude, this paper will argue that a strengthened contributions funding model should remain a necessary component within an expanded nonprofit funding regime.

Defining the Role of Civil Society

Civil society, in its most basic sense, can be understood as an “intermediary entity, standing between the private sphere and the state” (Diamond 1994, 4). However, this definition does not fully realize the role civil society plays in contributing to a society’s capacity to resolve collective problems. As Michael Edwards argues:

There are three ways in which societies can resolve collective problems – through rules or laws enforced by the coercive power of the state, through unintended consequences of individual decisions in the marketplace, and through social mechanisms embedded in voluntary action, discussion and agreement (Edwards 2009, 11).

Civil society is the location where the social networks exist that allow for voluntary action, discussion, and agreement. Robert Putnam describes these social networks, and the norms of reciprocity and trustworthiness that these connections produce, as social capital (Putnam 2000, 19). If one is to recognize the importance of utilizing social mechanisms and relying on social capital to solve collective problems, the role of civil society must be seen to occupy a greater space rather than simply the “intermediary” sphere between the state and the market. For the purpose of this paper, it is important to provide some clarity of what civil society is and how it differs from both the state and marketplace, identifying the importance of those social mechanisms in meeting society’s collective challenges.

The three sector model of society identifies the state, marketplace, and civil society as three distinct spheres. Rather than civil society standing as an “intermediary” between the market and the state, which suggests it simply acts as a mediator between the other two sectors, civil society exists alongside these other sectors, for which each operates interdependently to meet society’s problems. Each sector has unique defining characteristics and institutions, which differentiate one from another, and contribute to meeting the objectives of society. Actors within

each of these sectors interact and the boundaries of each sector are fluid (Edwards 2009, 24). For example, nonprofit organizations within civil society, as this paper will demonstrate, will often deliver services on behalf of government, meeting the objectives of both the state and the organization itself. As civil society can be understood as separate from both the state and the market, further clarification is required to identify what organizations comprise civil society.

The concept of civil society is fluid and so is the criterion defining the organizations that comprise civil society. For example, some argue only those associations which embody a pre-defined normative criteria can be considered ‘civil’, and would be expected to symbolize those ideals of volunteerism and democracy leading to the good society (Edwards 2009, 24). However, others have challenged this idea that certain organizations are ‘civil’ while others are ‘uncivil.’ Organizations which produce social capital that is then directed toward malevolent and anti-social purposes are nonetheless a part of civil society (Putnam 2000, 22; Diamond 1994, 5). The fundamental aspect is that these associations are the locations which generate social capital, however as there are competing ideas of what organizations are and are not part of civil society it is important for the purposes of this discussion to utilize an operational definition to describe civil society organizations. This paper builds on the definitions provided by the CIVICUS civil society index and the John Hopkins Comparative Nonprofit Sector Project.

The CIVICUS Civil Society Index, a participatory action-research project focused on studying civil society throughout the world, defines civil society as “the arena outside of the family, the state, and the market where people associate to advance common interests” (Heinrich 2004, 13). This broad definition provides a starting point for identifying those organizations that

comprise the civil society, however specific criteria needs to applied to define those organizations that are neither the state nor exist within the market.

The John Hopkins Comparative Nonprofit Sector Project provides a definition that identifies five structural or operational features of those entities that make up the civil society sector. These five features require that the entity must have an organizational structure; must be private and not be a part of the state apparatus; cannot be profit distributing and must not exist to achieve commercial objectives, or distribute revenues and profits to directors or shareholders; the entity must be self-governing with internal governance mechanisms; and finally, participation within the organization is voluntary and is undertaken by the individual on their own accord (Salamon, Sokolowski and List 2003, 7-8; Hall, et al. 2005, 2-3).

For the purposes of this paper, civil society is recognized as the space where people come together to advance a common interest outside of the spheres of both the market and the state, and that civil society organizations should meet the five criteria identified. This creates a broad, encompassing definition that includes a wide range of civil society organizations ranging from those providing a service delivery function to others that exist to meet an expressive function. As well, this definition would include both religious and secular organizations, and those which rely primarily on voluntary labour and others that rely on paid staff (Hall, et al. 2005, 3). As this paper focuses on those civil society organizations that provide a service delivery function and rely on government for a significant portion of their funding, further clarification to define these specific organizations is required.

In Canada, the terms applied to organizations broadly conceived to make up the civil society will include “voluntary sector, non-profit sector, charitable sector, third sector, civil

society sector, and community-based organizations” (Hall, et al. 2005, 3). For the purpose of this paper, the term ‘nonprofit’ will be used to describe those organizations that primarily deliver direct services and rely, to a large extent, on government funding.¹ These organizations provide direct services in the areas of economic development, housing, health, education and employment training, amongst others. The rationale to use the term ‘nonprofit’ as opposed to ‘voluntary’ or other terms is that these service providing organizations often employ professional paid staff in addition to voluntary staff.² The term ‘nonprofit’ adequately encompasses the criteria outlined by the structural-operational definition used by the Johns Hopkins project, while avoiding confusion of referring to organizations as ‘voluntary’ when the majority of staff is paid professionals. Meanwhile, the term ‘nonprofit’ does not exclude those organizations that do rely on voluntary staff, while also encompassing those organizations that may not have charitable status but are nonetheless included within the civil society.

The limitation of using the term ‘nonprofit’ to describe civil society organizations, which deliver services, is that it suggests these organizations are somehow less than those organizations operating within the market or the state. By using a term that is negative it suggests that there is a hierarchy of sectors. It should be noted, however, that this is not the aim within this paper, and that the nonprofit sector is regarded as equal to both the market and state sectors.

As Canada continues to transition from a process of governing based on the ideas and values of New Public Management (NPM), which emphasizes market based policy tools and contracting out, toward a model of collaborative governance, the role of civil society alongside

¹ This definition is used to describe civil society organizations that primarily deliver services but do not include hospitals, universities, and colleges.

² Boards of directors of these organizations remain voluntary and therefore can also be described as voluntary organizations.

the market and the state in meeting collective problems will be enhanced. The model of collaborative governance builds upon the strengths of each of the three sectors within society, acknowledging the importance of those social mechanisms that exist within the civil society to solve collective problems. As a result, policy actors, both within and outside of government, will need to recognize the increasing role nonprofit organizations are to play in solving society's wicked problems.

The collaborative governance model is based on principals of horizontal collaboration as opposed to vertical hierarchies that emphasize control, operating through networks comprised of both government and non-government actors to achieve policy objectives (Philips and Levasseur 2004, 452). Collaborative governance will demand that nonprofit organizations are recognized for their contribution with respect to addressing complex, collective problems (Stoker 1998). However, the nonprofit funding regime in Canada, with its emphasis on project based funding and strict accountability requirements that reinforce vertical structures of control, undermines the capacity of nonprofit organizations to fully participate as equal partners alongside government and other private actors. Before engaging the issue of funding, it is important to clearly identify how collaborative governance is reshaping the way Canadian society meets complex policy objectives.

Collaborative Governance and the Role of Nonprofit Organizations in solving Wicked Policy Problems

The term governance, while often used to refer to the formal institutions of government, is used within the context of this paper as a process that leads to the creation of the conditions for "ordered rule and collective action" through the development of governing styles that blurs the

boundaries between the state and private sectors (Stoker 1998). It is the interaction of the diverse interests operating within the network that creates the structure in which collective action can take place to solve complex social issues often referred to as ‘wicked policy problems.’

Horst Rittel and Melvin Webber, writing in 1973 on the nature of problems identified in the discipline of city planning, define wicked problems:

As distinguished from problems in the natural sciences, which are definable and separable and may have solutions that are findable, the problems of governmental planning – and especially those of social or policy planning – are ill defined; and they rely upon elusive political judgement for resolution not “solution” (Social problems are never solved. At best, they are only resolved over and over again). (Rittel and Webber 1973, 160).

Wicked policy problems often include those policy challenges nonprofit organizations have traditionally been involved with. These problems could include poverty, homelessness, and chronic unemployment, amongst others.

Nonprofit organizations, operating within the civil society, provide the vehicles in which to access the social capital necessary to contribute to solving these collective, or wicked, policy problems. Additionally, as the nonprofit sector has become a key service delivery agent for social services under NPM, many of these organizations provide a certain level of expertise and resources that can be mobilized in meeting defined challenges. Therefore, by developing capacity within a network comprised of government and private policy actors the ability to respond to collective challenges is enhanced.

Capacity is created within the network by encouraging enhanced cooperation and sharing of resources, relying on the expertise and skills of those policy actors within the network. As a result, the collaborative governance model is dependent upon a structure of horizontal accountability and the recognition that order or control cannot be imposed externally (Stoker

1998). The challenge, however, facing Canada's nonprofit sector is that it lacks the capacity to fully engage in this new collaborative governance model as a partner. This can be attributed to the impact that the federal government's nonprofit funding regime has on the operational viability of civil society organizations, reducing core funding and reinforcing inflexible vertical accountability requirements. The following section introduces the evolution of Canada's nonprofit funding model, focusing specifically on the reliance on project based funding.

Canada's Nonprofit Funding Regime and the Legacy of New Public Management

The Canadian government has been criticized for failing to articulate a clear vision for its relationship with the nonprofit sector, assuming that organizations, despite their reliance on public funding and charitable donations, will develop their own capacity to continue to deliver services and support their work. This relationship has been described as one of "active neglect" (Philips 2010, 65). Rather than seeing the nonprofit sector as a partner in addressing wicked problems, the federal government treats these organizations as agents for the delivery of public services. This is demonstrated by a nonprofit funding regime that relies on a project based funding model and contribution agreements, emphasizing a relationship of control rather than partnership between government and nonprofit organizations.

Canada's nonprofit funding model is premised on the ideas and values associated with NPM as opposed to collaborative governance (Philips and Levasseur 2004, 452). NPM was an attempt by governments throughout the western world to adopt those practices perceived to be proven within the private sector and apply them to government bureaucracies. The goal was to address the supposed issues of inefficiency within the civil service, focusing on performance and outcome based results. A main feature of NPM was the emergence of indirect control as a means

of managing from a distance (Evans and Shields 2010, 310). Government emphasized performance management and achieving defined outcomes. With respect to the nonprofit sector, this meant an increasing reliance on contracts that define the scope and expectations attached to funding for specific projects. This reliance on contractual relationships allows the state to push out social services to the nonprofit sector, then purchasing these services back and allowing the nonprofit agencies to deliver them on behalf of government. The rationale is that by shifting service provision outside of government, to the private sphere, market mechanisms will take hold and improve efficiencies. Through contract and project based funding, government, according to theory, can control spending and outputs while bringing the desired business model to the nonprofit sector (Eakin 2001, 2). The shift to NPM redefined the relationship between the state and the nonprofit sector to one which embodied the values of neoliberalism.

The rise of neoliberalism in Canada, beginning in the 1970's and taking a firm hold in the 1980's and 1990's, was the driving force behind the shift in the relationship between the state and the nonprofit sector in Canada. Under the Keynesian welfare state model this relationship, while ad hoc, was one based on a mixed social-economy model. Social services were delivered through a combination of state and privately administered programs and agencies (Evans and Shields 2010, 306). Evans and Shields argue that while the nonprofit sector assumed a secondary role next to the state in the provision of social services, these organizations were important in expanding the availability of social programming in Canada (Evans and Shields 2010, 306). A complimentary relationship emerged between government and the nonprofit sector, allowing the sector to grow alongside the welfare state (Evans and Shields 2010, 306). As neoliberalism began to emerge in the late 1970's, challenging the assumptions of the Keynesian model, the relationship between the state and the nonprofit sector shifted to reflect

this new economic paradigm in Canada. What was occurring was a shift to a process of what could be described as neo-liberalising the nonprofit sector.

New Zealand and the U.K. are often seen as NPM innovators, and were no less vigorous in their attempt to shift these neoliberal values onto their own nonprofit sectors. In the 1980's, New Zealand began purchasing defined outputs from nonprofit service organizations (Eakin 2001, 1). This indicated a shift to the adoption of market based mechanisms to define the relationship between nonprofits and government. In the U.K., the government adopted contract funding for the purchase of services from nonprofit agencies. However, unlike New Zealand, the British model deliberately underfunded these organizations to encourage individuals to donate to the charities they supported (Eakin 2001, 2). This imposed a model for competition onto the nonprofit sector, requiring organizations to make up funding shortfalls by appealing to the broader public. Canada soon followed, recognizing the appeal of shifting responsibility for social service provision out of government and onto the nonprofit sector.

The relationship between the government and the nonprofit sector that has emerged under NPM is one in which nonprofit organizations become agents for the delivery of social services on behalf of government, rather than partners in the provision of social services. Nonprofit organizations offer services that government can purchase, establishing contracts that clearly define the outcomes government expects the nonprofit organization to deliver on. As Lynn Eakin argues, this relationship was expected to bring the "rigours of business to the perceived 'inefficiencies' of service provision among voluntary sector organizations" (Eakin 2001, 2).

Advocates of NPM and neoliberal ideas welcome the enhanced competition among nonprofit service providers, and the perceived efficiencies this would provide. By pushing the

delivery of social services outside of the state, government is able to refocus on what it would describe as 'core' functions. However, under neoliberalism, government has failed to clearly articulate what the nonprofit sector's role is beyond simply being service delivery agents for government services. As a result, the impact on the operational viability of nonprofit organizations has been significant. This is evident in the shift to a funding regime under NPM that is defined by project funding and enhanced accountability requirements.

In her 2003 report *Funding Matters: The Impact of Canada's New Funding Regime on Nonprofit and Voluntary Organizations*, Katherine Scott presents the findings from a study conducted by the Canadian Council on Social Development (CCSD) and the Coalition for National Voluntary Organizations (NVO). Scott argues that a new funding regime had emerged in Canada, threatening the continued viability of nonprofit organizations (Scott 2003, 35). This new funding regime is characterized by increased targeting of funds; reliance on project based funding; increased accountability; greater emphasis on market models; and widespread understanding amongst funders that nonprofit organizations are largely staffed by volunteers, rather than professional staff (Scott 2003, 35-36). A defining element of this new regime is the shift to a project based funding model and the reliance on enhanced accountability mechanisms. However, before identifying the impacts project funding has on nonprofits, it is important to first describe how project based funding works and how it differs from previous grant based funding prevalent under the Keynesian model.

A fundamental element of the project based funding model is that it no longer recognizes nonprofit organizations as the client as the former grants based model had (Evans and Shields 2010, 312). Instead, as discussed above, project funding is used by governments and other

funding bodies to purchase services from service delivery organizations, whether they are for-profit or nonprofit entities. This indicates a fundamental shift in the way government provides funding to nonprofit organizations. Under a grants based model, funding allocations are provided to maintain the core funding necessary to support the organization's mandate. As government and other funders continue to utilize a project funding model, Scott argues, "they are increasingly narrowing the range of organizational activities that they are willing to fund; specifically, they are narrowing their focus exclusively to costs related to a given project or program..." (Scott 2003, 38). Project funding allows the funder to purchase a continuum of services that meet the identified needs of the particular client group who will access the service, opposed to the needs of the organization to meet its identified mandate.

Scott identifies three key distinctions between project based and core funding models. First, core funding can be described as the revenues a nonprofit organization will utilize to cover expenditures related to the general administration and operation of the organization. Scott argues that a core funding model allows an organization to operate its own chosen programming. Under a project based model, strict regulations outlined under the contractual agreement define what administrative costs are acceptable expenditures. The second key distinction between core and project based funding models is the degree of autonomy which the nonprofit organization has with respect to how it goes about meeting its objectives. While core funding allows the organization a certain degree of autonomy in how it expends those revenues, project based funding is directed toward specific objectives identified by the funder. Lastly, Core funding is often multi-year, while project funding, by its nature, is short term and focused on a specific project (Scott 2003, 36).

This shift to a project based funding model is evidence of the reliance on market mechanisms under NPM, allowing funding agencies and governments to purchase services they determine meets their own objectives. Nonprofit organizations, under a project based funding model, are required to adapt to the needs of the funder often at the expense of their own operational goals. In addition, nonprofit organizations are expected to adhere to strict accountability requirements requiring them to meet the conditions attached to funding. These accountabilities emphasize the vertical top down lines of authority as opposed to horizontal accountability, and were further strengthened in the wake of the 2000 Human Resources Development Canada (HRDC) “scandal.”

Accountability

Peter Aucoin and Ralph Heintzman identify three purposes that public sector accountability is intended to serve. This includes control for the misuse of public authority; provision of assurance that public resources are used accordingly, and that that actions comply with the law and broader public service values; and third, accountability is used to promote learning and continuous development and improvement in public management (Aucoin and Heintzman 2000, 46). In Canada, the accountability mechanisms applied to the funding relationship between the federal government and the nonprofit sector is characterized by the first two purposes identified by Aucoin and Heintzman. This includes specific focus on ensuring public funds attached to a contribution agreement are closely accounted for, emphasising strict financial reporting requirements that organizations are expected to adhere to. As well, organizations are expected to meet established performance targets identified by the funder. The result is an accountability regime that emphasises control and ensuring the rules are strictly

adhered to, there is little opportunity to support accountability as learning (Philips and Levasseur 2004, 455). Moreover, these strict accountability requirements were enhanced in response to what has been commonly referred to as the HRDC “scandal.”

In 2000, an internal auditor’s report, which documented spending within the federal department of Human Resources Development Canada (HRDC) described how after examining approximately \$1 billion in federal spending some areas require improvement with respect to how those resources are managed (Sutherland 2003, 187). The audit examined several project files under eight grants and contributions programs. The audit pointed to a number of issues, including inadequate documentation and missing information (Philips and Levasseur 2004, 455). The ensuing media response described this report as evidence of government mismanagement of public resources, labelling it the “biggest scandal in Canadian history” (Sutherland 2003, 187). Despite the fact this internal audit was a qualitative ‘soft audit,’ and there was never evidence to support the interpretation that a billion dollar fund was misappropriated, the political consequences were significant (Sutherland 2003, 189). As a result, the federal government strengthened vertical accountability requirements focused on control to ensure financial reporting requirements attached to funding contributions are explicitly followed, undermining horizontal accountability collaborative governance requires.

In a collaborative governance model, formal hierarchical structures of accountability are no longer applicable in the same way. Collaborative governance depends on autonomous actors working through complex networks rather than a top down command and control structure that is entrenched within the Westminster system through the convention of ministerial accountability. As Gerry Stoker demonstrates, “the first message of governance is to challenge

constitutional/formal understandings of systems of government” (Stoker 1998). This requires that new conceptions of accountability be applied, recognizing that vertical structures of accountability are no longer the only way to ensure partners within the network comply with what is expected of them.

Within the Westminster system, the convention of ministerial responsibility reinforces the vertical structure of accountability. The minister of a department is accountable to parliament for the actions of that department, and in turn is authorized to exercise authority over that department. What is created is a line of authority, or a unified chain of command, which serves as the line of accountability between the minister and those civil servants within the department (Considine 2002, 25). The vertical accountability requirements imposed on nonprofit organizations is an extension of this traditional conception of accountability. Networks, however, are organic in their ability to evolve and continually respond to emerging policy challenges. Various policy actors from all three sectors of society will continually join the network or leave as is required to meet the challenges at hand. The ability to hold actors to account is better realized through continuous learning and the ability for those actors to adapt to meet evolving public policy challenges, rather than imposing a top down accountability focused on control.

Canada’s nonprofit funding regime is a legacy of the country’s experimentation with NPM. Relying on project funding, and its corresponding accountability requirements focused on performance measures and defined outcomes, is no longer appropriate if the federal government is committed to addressing complex social issues through a model of collaborative governance. Project funding impacts the capacity of nonprofit organizations to meet the objectives as defined

by the organization itself, creating a hierarchical relationship between government and the nonprofit sector that is more in-line with NPM ideas and values of control rather than collaboration.

Impact of Project Funding on the Capacity of Nonprofits and the Government's Role in Funding the Nonprofit Sector

Project funding creates a limited capacity within organizations to deliver specific services that meet objectives that are defined by the funder. What develops is not a relationship based on partnership, but rather one in which the nonprofit organization becomes an agent for the delivery of government services and programs. The following discussion will argue that as a result of maintaining this existing funding relationship the ability to develop an effective model for collaborative governance in Canada is compromised. The discussion will focus specifically on the key impacts project funding has on the capacity of nonprofit organizations with respect to program administration, mission drift, and the larger role that nonprofit organizations play as vehicles for advocacy and citizen engagement.

Under a project based funding model strict regulations and expectations of the service delivery organization are outlined under the contribution agreement, defining what administrative expenditures are acceptable costs what are not (Scott 2003, 39). Acceptable expenditures will typically include those that are incurred in the delivery of the specific program and service, and it is expected that funding provided for that service or program not be used for other operations or activities the organization may be involved with. The impact on the organization itself is often a reduction in overall operational capacity, as those administrative functions not directly involved in the delivery of the funded project need to be funded through

other revenue sources. As many nonprofit organizations are increasingly reliant on external funding sources, which operate on a project based funding model, such as government, how these additional administrative costs are funded becomes a central concern for organizations (Hall, et al. 2003, 21).

The reluctance of contribution agreements to cover core administrative and non-project expenses indicates an understanding amongst funders that, within an organization, projects can operate in isolation. For example, by funding specific projects and allocating funding to costs perceived to be incurred only by that project, executive directors are unable to reallocate existing resources within the organization to meet various unforeseen operational requirements that may come up. This is amplified if the organization is operating multiple projects at once, and necessary resources may exist but are tied directly to other projects.

Another element of this inability to fund expenses not determined to directly contribute to the project in question, is the loss of funding for the organization's human and structural capital.

Katherine Scott argues that this would include expenditures vital to things such as:

organizational management, human resources management and volunteer coordination, board governance, research and evaluation, and costs related to maintaining financial reserves for salaries and wage liabilities, capital replacement or other contingencies (for example, when project funding is late and staff have already been hired). Similarly, there is no understanding or room on cash flow reports to include activities related to staying connected to clients and beneficiaries, community members or other nonprofit and voluntary organizations (Scott 2003, 40).

Nonprofit organizations remain constrained by their inability to develop those structures and relationships vital to ensuring they have the capacity to meet their defined mandate beyond the scope of the individual project. Moreover, as project funding is increasingly the revenue source that many nonprofit organizations rely on, specifically those with a primary focus on service

delivery, these organizations are required to operate multiple projects at once in order to access enough revenues to cover core operational expenses.

It is important to recognize that project based funding creates a hierarchical relationship between funders and the service delivery partner. As discussed above, the funder defines the project objectives and/or outcomes and provides the service delivery organization with funds to meet those objectives. Project funding shifts the relationship between funders and nonprofit organizations away from one in which the recipient organization is the client, as they would be under a core funding model, to one in which the organization becomes an agent on behalf of the government. This undermines the autonomy of the nonprofit organization in defining their operational mission or objective, leading many organizations to become susceptible to what is referred to as mission drift.

Under a core funding model, nonprofit organizations, once having obtained the funds, can use those revenues to address the specific objectives it defines. With project based funding, nonprofit organizations are directed to achieve specific objectives identified by the funder. These organizations face reduced autonomy to make the operational decisions necessary to meet their defined mission. As a result, organizations compromise their own goals and missions as they realign programming to meet the mandates of their funders (Hall, et al. 2003, 23). This relationship continues to reinforce a contract based model popular under NPM, allowing government to push service delivery into the private sphere while retaining control over outcomes. By reducing nonprofit organizations to simply being service delivery agents, their capacity as vehicles for generating social capital is undermined and reduces the overall capacity of the civil society in meeting collective social challenges.

The current nonprofit funding regime, as this paper has argued, fails to recognize the additional role nonprofits occupy in society beyond simply being a third party service provider. Civil society, if understood as associational life, is a natural location for individuals to freely come together to attempt to solve common problems. If politics is identified as the location where social change can occur, then those associations within the civil society, such as nonprofits, will engage in the political process to enact the change they determine as necessary (Frumkin 2002, 51). Much of the work nonprofit organizations engage in is focused on lobbying and advocacy aimed at influencing political outcomes. However, as a result of the shift toward project based funding, many nonprofits are unable to justify expenditures related to research and advocacy work as it fails to directly contribute to the defined service outcomes identified by the funder. Moreover, as this funding regime reinforces government control over nonprofit organizations, many within the sector feel that they lack the independence to advocate views that may be in opposition to the government's interest. This issue is further exacerbated by the volatile short term nature of project funding, as government can choose not to renew project funds on an annual basis (Hall, et al. 2003, 14).

If nonprofit organizations are to maintain a capacity to provide advice and opinions to government, through advocacy and other similar means, stable funding is required. Moreover, as collaborative governance models demand interaction from all three sectors of society, it also calls for active citizen engagement. Important questions need to be asked regarding the federal government's role in supporting the sustainability of nonprofit organizations through core funding.

Imagine Canada, in a 2006 submission to the independent *Blue Ribbon Panel on Grants and Contributions*, argues that the federal government has two distinct policy objectives with respect to funding the nonprofit sector. First, the federal government delivers services and programs *through* local nonprofits. Grants and contributions, which includes project based funding and contracts, are the primary funding instruments used to achieve this objective and are the focus of this paper. Second, the federal government should provide investment *in* the sector to develop its long term sustainability and service delivery capacity (Imagine Canada 2006, 6). This is an important distinction, and identifies a central tension this paper aims to address. Should government be responsible for providing the necessary funding to support investments *in* the sector? Or, should government simply purchase services from whichever organizations, both within and outside of civil society, in order to meet its own service objectives? Moreover, does the Minister have a responsibility to Parliament to ensure any investments in service delivery organizations are governed by clear accountability requirements?

The question of whether or not government has a responsibility to provide investments *in* the nonprofit sector is a critical issue which any government, either Liberal or Conservative, will need to address in developing a policy position with respect to the sector. As government's aim under NPM was to enhance efficiency it became increasingly clear that investments *in* the sector was secondary, and that organizations had an obligation to make up core funding through additional income sources.³ This position is consistent with the neoliberal paradigm which influenced the rise of NPM. However, under a model of collaborative governance, the state has

³ While neoliberal arguments would suggest the nonprofit sector make up core funding shortfalls through additional revenue streams beyond government funding, the federal government had not created a vibrant tax environment in which charities could more effectively solicit donations. While charities are not the only example of nonprofits in Canada, enhanced capacity for organizations to obtain charitable status may improve the capacity of organizations to augment government funding to support core funding requirements.

an obligation to provide funding *in* the nonprofit sector to ensure it has the capacity to act as a true partner. Collaborative governance requires an understanding of the role social capital and civil society play in solving public policy challenges, and that these civil society organizations are important vehicles for democracy.

As governance demands the blurring of boundaries between the three sectors in society, it pushes responsibility for solving complex problems back onto citizens. No longer is the state the sole entity responsible for the wellbeing of citizens. As Stoker argues:

At its most abstract, governance is about a change in the longstanding balance between the state and civil society. A welfare system that stimulates dependence is no longer acceptable to either right or left of the political spectrum. A citizenship that emphasizes rights and responsibilities is also part of an emerging consensus. A right to welfare support needs to be complimented by a duty to take it and respond (Stoker 1998).

Civil society is the location in which citizens are able to generate the capacity to respond to these new demands asked of them. Human beings, as social creatures, will join together in groups to address problems of collective action (Edwards 2009, 18). From this perspective which emphasizes social capital, nonprofit organizations and those entities and organizations that comprise the civil society, become important vehicles for citizens to engage the system and structures of this emerging governance model. As a result, civil society becomes more important for democratic participation within this new governance regime. It could be further argued that as the state shifts some responsibilities to citizens under a governance paradigm that the state also ensure the citizens have the capacity to respond and act on these new responsibilities. Therefore, government has the obligation to invest *in* the nonprofit sector to ensure this capacity for democratic participation is available.

With respect to the issue of accountability, government does have an obligation to the electorate and the minister to parliament to ensure government funds are expended in a transparent manner. However, imposing strict accountability requirements that emphasize control are no longer effective in meeting common social challenges. Rather, new methods of accountability that recognize the horizontal and organic nature of collaborative networks are necessary. This would include an increasing focus on accountability as learning, opposed to accountability as control.

The 2006 Independent *Blue Ribbon Panel on Grants and Contributions* recognized the deficiencies with the existing funding model, and concluded that the “federal government's administrative practices need to be more citizen-focused and emphasize respect for the recipient as partners in a shared public purpose” (Treasury Board of Canada 2007). In the development of a sustainable funding model, a variety of policy instruments will be required to meet the objectives of both the nonprofit sector as well as the federal government. These instruments could range from the development of arms length funding agencies, revisions to the tax system, or the development of framework agreements at the sectoral level. And while project funding has had an adverse affect on the sector, some form of contributions will remain a critical element of this new funding regime, albeit with some clear improvements to ensure their viability as an effective funding mechanism. While this paper has focused specifically on project funding, and how government invest in services through nonprofit organizations, the following options focus on contribution funding.

As demonstrated, project funding creates uncertainty and un-sustainability which impacts the viability of nonprofit organizations to effectively deliver services. If government is to begin

to develop a sustainable funding regime, with contributions as a critical element, these funding agreements should be multi-year. In addition to the costs of contract renewal, the competency level required by staff to facilitate ongoing contract negotiations requires a certain level of expertise amongst staff (Graham 2009, 46). Considering funding renewals are determined on an annual basis, there are high turnover rates among staff in nonprofit organizations. Moreover, if organizations rely on multiple projects for funding, contract renewal could be a perpetual role in which these organizations engage. This challenge is further amplified as project funding limits eligible expenditures to project related costs.

A second recommendation to improve contribution funding would be to develop a model that allows for additional overhead and operating costs incurred by the organization. One mechanism to achieve this would be to enhance the use of grants. Andrew Graham argues that the creation of an innovation and start up fund would help to enhance the capacity of organizations aiming to realign their business models (Graham 2009, 46). In addition, contribution funding provided for specific projects could also allow for increased overhead costs incurred by the organization. Organizations would be required to continue to provide detailed reporting to funders, while government would only need to readjust internal policy guidelines to allow for the recognition of central administrative costs. While this option would require advanced administrative expertise, the recognition to allow additional long term core expenses would allow organizations to develop the requisite human resource capacity to meet enhanced demands.

Conclusion

If government is to continue to support the delivery of services through external organizations, then government is going to have to recognize the contradictory nature of project funding as a policy instrument and its impact on the viability of the nonprofit sector. If project funding is to be an effective policy instrument, improving both the efficiency and effectiveness of service delivery, the federal government will need to recognize that service delivery organizations require sustainable funding that accounts for core operational costs. Currently, project funding reinforces a hierarchical relationship between the government and nonprofit organizations, as government imposes strict accountability measures and retain control over how project funds are expended. By reducing core funding the autonomy of nonprofit organizations to act in their own interests is reduced. This creates an inability for these organizations to act as true partners with government and other policy actors in a collaborative governance model. Instead, nonprofit organizations are simply service delivery agents on behalf of government.

As the nonprofit sector continues to occupy a greater space in a collaborative governance framework, as both a mechanism for service delivery and as a vehicle for the generation of social capital and democratic participation, then the state has a clear mandate to support investments *in* the sector. From the discussion presented in this paper it is evident that the current nonprofit funding regime, which relies to a large extent on project based funding, compromises the operational capacity of nonprofit organizations. This has considerable implications on society's capacity to solve wicked policy problems that the state, market, or civil society cannot address in isolation. As Canada continues to shift away from a system premised on NPM and neoliberal values, toward a model based on the values and ideas of collaborative governance, a revised

federal funding relationship with the nonprofit sector must be established. If the federal government fails to revise the existing nonprofit funding regime, the adverse consequences will not only impact the nonprofit the sector but will reduce the federal government's capacity to meet its own objectives within the framework of collaborative governance.

Bibliography

Aucoin, Peter and Ralph Heintzman. "The Dialectics of Accountability for Performance in Public Management Reform." *International Review of Administrative Sciences* 66 (2000): 45-55.

Considine, Mark. "The End of the Line? Accountable Governance in the Age of Networks, Partnerships, and Joined-up Services." *Governance: An International Journal of Policy, Administration, and Institutions* 15, no. 1 (2002): 21-40.

Diamond, Larry Jay. "Rethinking Civil Society: Toward Democratic Consolidation." *Journal of Democracy* 5, no. 3 (July 1994): 4-17.

Eakin, Lynn. "An Overview of the Funding of Canada's Nonprofit Sector." *Voluntary Sector Initiative Working Group on Financing*. Ottawa: Voluntary Sector Initiative Secretariat, September 2001.

Edwards, Michael. *Civil Society*. Second Edition. Cambridge: Polity Press, 2009.

Evans, B. Mitchell, and John Shields. "The Third Sector and the Provision of Public Good: Partnerships, Contracting and the Neo-liberal State." In *The Handbook of Canadian Public Administration*, Edited by Christopher Dunn, 305-318. Don Mills: Oxford University Press, 2010.

Frumkin, Peter. *On Being Nonprofit: A Conceptual and Policy Primer*. Cambridge: Harvard University Press, 2002.

Graham, Andrew. "Examining Means to Build Financial Sustainable Capacity in Canada's Voluntary Sector." In *The New Federal Policy Agenda and the Voluntary Sector: On the Cutting Edge*, by Rachel Laforest, 35-60. Montreal & Kingston: McGill-Queen's University Press, 2009.

Hall, Michael H., Cathy W. Barr, M. Easwaramoorthy, S. Wojciech Sokolowski, and Lester M. Salamon. *The Canadian Nonprofit and Voluntary Sector in Comparative Perspective*. Toronto: Imagine Canada, 2005.

Hall, Michael, Alison Andrukow, Cathy Barr, Kathy Brock, and Margret de Wit. *The Capacity to Serve: A Qualitative Study on the Challenges Facing Canada's Nonprofit and Voluntary Organizations*. Toronto: Canadian Centre for Philanthropy, 2003.

Heinrich, Volkhart Finn. "Assessing and Strengthening Civil Society Worldwide: A Project Description of the Civic Civil Society Index." Vol. 2. Civic Civil Society Index Paper Series, 2004.

Imagine Canada. *Investing in Citizens and Communities: A Submission to the Blue Ribbon Panel on Grants and Contributions Under the Federal Accountability Action Plan*. Toronto: Imagine Canada, 2006.

Philips, Susan D. "Canada: Civil Society under Neglect." *The Philanthropist* 23, no. 1 (2010): 65-69.

Philips, Susan, and Karine Levasseur. "The Snakes and Ladders of Accountability: Contradictions between Contracting and Collaboration for Canada's voluntary Sector." *Canadian Public Administration* 47, no. 4 (2004): 451-474.

Putnam, Robert D. *Bowling Alone: The Collapse and Revival of American Community*. New York: Simon & Schuster Press, 2000.

Rittel, Horst W. J., and Melvin M. Webber. "Dilemmas in a General Theory of Planning." *Policy Sciences* 4 (1973): 155-169.

Salamon, Lester M., S. Wojciech Sokolowski, and Regina List. *Global Civil Society: An Overview*. The Johns Hopkins Comparative Nonprofit Sector Project, Baltimore, MD: Center for Civil Society Studies, The John Hopkins University, 2003.

Scott, Katherine. *Funding Matters: The Impact of Canada's New Funding Regime on Nonprofit and Voluntary Organizations*. Ottawa: Canadian Council on Social Development, 2003.

Stoker, Gerry. "Governance as Theory: Five Propositions." *International Social Science Journal* 50 (March 1998): 17-28.

Sutherland, S.L. "Biggest Scandal in Canadian History." *Critical Perspectives on Accounting* 14 (2003): 187-224.

Treasury Board of Canada. "Backgrounder: Summary of the Report of the Independent Blue Ribbon Panel on Grants and Contributions." February 14, 2007. <http://www.tbs-sct.gc.ca/media/nr-cp/2007/0214-eng.asp#Backgrounder> (accessed April 3, 2011).