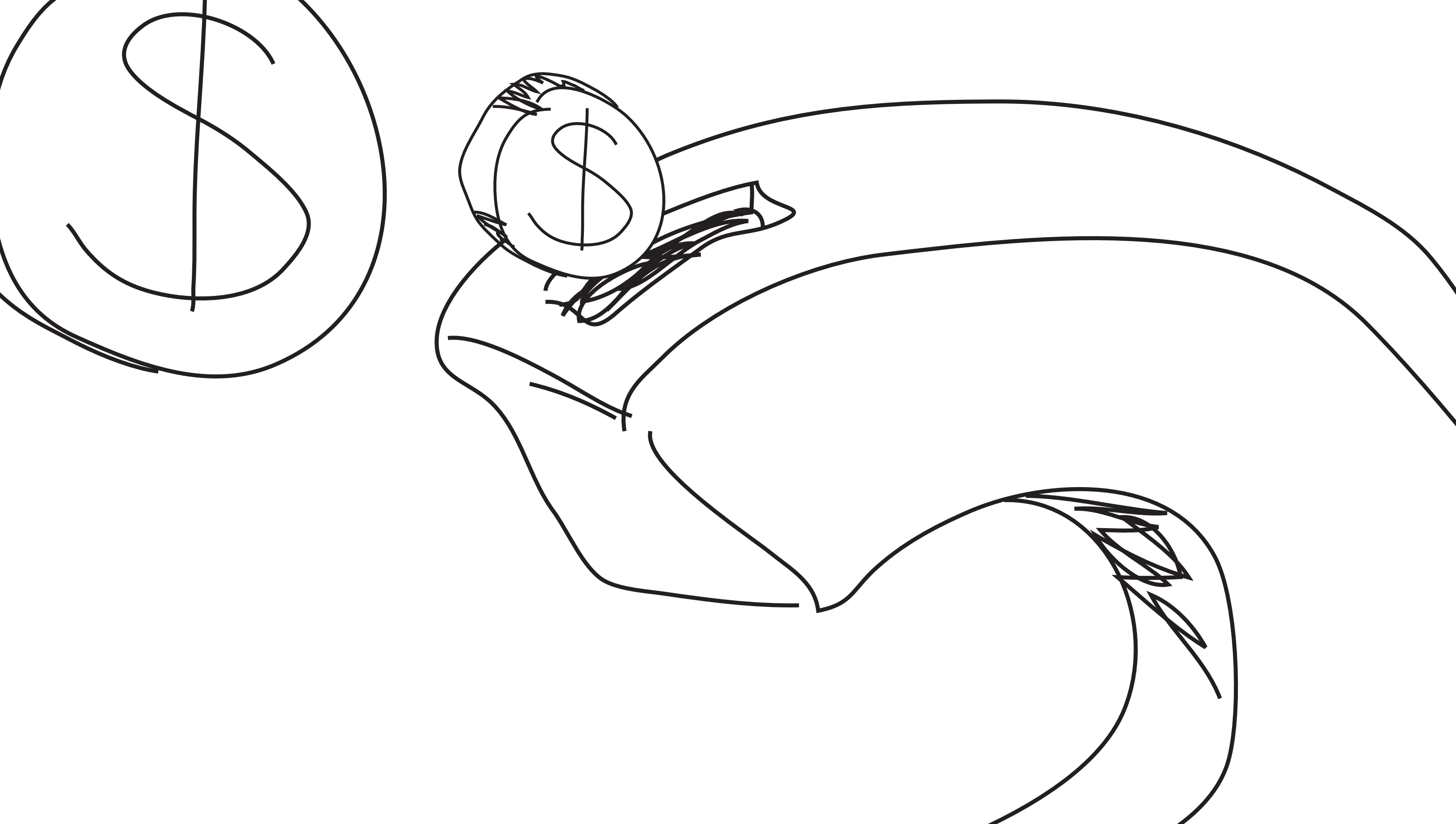

We Can't Afford to Do Business This Way:

A Study of the Administrative Burden Resulting From Funder Accountability and Compliance Practices

By Lynn Eakin

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Acknowledgements

Many thanks to the Wellesley Institute for its confidence in backing this research, for its patience in waiting until the agencies had time to provide the data, and for its participation in helping to shape the final report.

The quality of this study is due, in no small part, to the agencies that volunteered to inform the study design, provide the data, and respond to numerous requests for information. Their thoughtful participation was extremely helpful, bringing as it did, their different experiences with funders. Due to confidentiality concerns for both the agencies and their funders, the agencies cannot be identified, but you know who you are. Thank you so much. It was a pleasure to work with you.

Thanks also to Rob Howarth of the Toronto Neighbourhoods Network, whose advice and participation helped make this study happen and helped to inform the results.

Copies of this report and related documents can be found at www.wellesleyinstitute.com

Executive Summary

An organization runs a very successful and well-attended after-school program, but it is run on soft money (i.e., funding that cannot be relied on to continue). One year, the organization writes a proposal for increasing the physical fitness of the children, describing the active games in the schoolyard after school. The next year, it writes a proposal for a creative drama program, describing the play the kids put on every spring for their parents and the community and that is a huge success. It writes a proposal for an anti-bullying program, describing how the program has turned school "bullies" into schoolyard leaders by harnessing their leadership skills in a positive way. It writes a proposal for a school suspension program to allow the organization to support young people suspended from school; this program's positive process allows these young people to return to school having learned some new skills and gained some insight into how they could do things differently. The organization also writes a proposal for a homework program, describing how the program provides support for children to complete their homework.

All of these proposals are, in fact, for the same after-school program that does "all of the above" every year, year in and year out, regardless of the "flavour of the month," because the children need a well-balanced program that meets their needs.

Community nonprofit organizations had been raising concerns for quite some time about the growing administrative burden and point to such things as more numerous and complex grant application and reporting processes, and additional compliance requirements. We did not, however, have detailed data about the demands funders are placing on the organizations they fund or information on how organizations are managing. Without this information, we could not understand the nature and dimension of the administrative burden on community nonprofit organizations and how this burden affects their ability to deliver services in their communities that are collaborative, innovative, and responsive. The focus of this study was to address this gap in knowledge. We sought to understand how the grant-making process[1] operates in agencies with multiple funders and multiple programs.

We already know from recent research that the changes that funders made to grant making in the early 1990s, (moving from funding organizations to deliver services to contracting for specific programs) has resulted in a complex web of unpredictable, short-term targeted funding that threatens the sustainability of nonprofit organizations.[2] Moreover, research has found that most grants are funded at rates below cost recovery. Nonprofit organizations in Ontario, in 2004, delivered on average $1.14 of service for every $1.00 of government grant funding. Administrative and management costs were frequently not included in government service contracts.[3]

Overlaid on the new funding regime was an additional challenge for nonprofit organizations. A series of "funding scandals" and Auditor General Reports has resulted in greatly increased financial controls for monies flowing from government. The nonprofit sector, while not implicated in the scandals, has found itself swept up in complex, time-consuming, and very detailed accountability reporting systems and controls. It is in this environment that this study was undertaken.

1 In this study, the term "grants" is used generically to refer to the transfer of funds from funder to recipient. Such transactions are variously called service contracts, grants, or contribution agreements.

2 Scott, K., & Pike, D. (2005). *Funding matters … for our communities: Challenges and opportunities for funding innovation in Canada's non-profit and voluntary sector.* Ottawa: Canadian Council on Social Development.

3 Eakin, L. (2004). *Community capacity draining: The impact of funding practices on community organizations.* Toronto: Community Social Planning Council of Toronto.

We set out to explore the dimensions of the administrative burden, which we define as the work undertaken by recipient organizations to comply with funder grant management practices, accountability, and compliance demands.

Research into the impact of grant-making processes is just beginning. A Rand Corporation case study focused on one organization's capacity to meet funder demands and calculated the cost of compliance at 11% of budget and 44% of organizational time.[4] In another study, the William and Flora Hewlett Foundation and a number of other foundations sought feedback from their grantees on their granting processes and relationships.[5] And Jon Pratt has undertaken some work on understanding key characteristics of grants, measuring degrees of reliability and autonomy the grants provide to nonprofit providers.

In our study, we examined 66 grants in three community service organizations with different funder profiles. All three agencies were mid-sized, with annual revenues of $3.8 million, $2.3 million, and $2 million, respectively. Since agencies volunteered for this study and needed a certain level of capacity to participate in such detailed research, the resulting sample of organizations consists of agencies that have membership funding from a United Way/United Appeal source. [6] This funding provides agencies with more flexibility and greater capacity than many other nonprofit organizations. The sample of agencies included in this research, as the participants themselves point out, is therefore not representative and presents a best-case scenario with regard to the realities facing multi-funded agencies in the sector.

Findings

Only the key findings of this study are highlighted in this executive summary. Funders and the organizations they fund will find the detailed methodology, data, and interpretation necessary to begin work on short- and long-term initiatives to improve grant-making effectiveness in the full study report.

The findings are sobering. The administrative burden placed by funders on community nonprofit organizations is so heavy and so unrelenting, and places so many constraints on their ability to operate that it is a wonder they can deliver any services effectively. This is what we found:

The actual impact of the funding process is directly at odds with the very reasons governments and other funders engage nonprofit organizations to deliver community services. Community-based nonprofit organizations are believed by both funders and the Canadian public to be in closer touch and have better reach into their communities.[7] They are seen as having less bureaucracy and are therefore more flexible and responsive than government or larger organizations could ever be. They are widely viewed as cost effective. The current grant process, however, works against these agency strengths and actively prevents agencies from effectively serving their communities and delivering effective, responsive services.

4 Lara-Cinisomo S., & Steinberg, P. (2006). *The cost of meeting funder compliance: A case study of challenges, time spent and dollars invested.* Santa Monica, CS: The Rand Corporation.

5 Buchanan, P., Bolduc, K., & Huang, J. (2005). *Turning the table on assessment: The grantee perception report.* Cambridge, MA: The Center for Effective Philantrophy.

6 Three different United Appeal organizations funded the organizations in this study. Even a relatively small, flexible grant seems to make the difference between organizations that can contribute to sector innovation and knowledge building and those that cannot.

7 Muttart Foundation, The. (2006). *Talking about charities 2006: Canadians' opinions on charities and issues affecting charities.* Edmonton: The Muttart Foundation.

Funders, large and small, rarely give community organizations any latitude to adapt or adjust programs and finances to meet local conditions and changing circumstances. Organizations and communities are constantly shifting and changing. They do not remain static. Grant flexibility is essential if an organization is to actually function in a way that maximizes its capacity. The more strings tied to funding, the less ability the agency has to respond to changing agency and community circumstances (e.g., staff turnover, equipment failure, pregnancy leaves, service emergency, partnership opportunity, emerging community issues, etc.). Some 55% of grants provided agencies with little or no flexibility to adjust programs or expenditures. Another 42% of grants allowed changes that were pre-approved by the funder (this approval is often difficult and slow to obtain). Only 3% of grants allowed the agency to adjust programs and expenditures to meet local circumstances and most effectively achieve the program objectives specified by the funder in the grant.

Grant applications tend to be overly long, complicated, and difficult to complete. Some 55% of grant applications were rated difficult or extreme, i.e., they asked for information the organizations could not reliably know and a level of detail that was not even required for internal management. One extreme-rated report took seasoned staff 15 days to complete.

The reliability of funding sources for agencies remains tenuous. Some 42% of grants were seen to have little to no reliability, while only 13% were rated as reliable year on year, and 45% were rated as somewhat reliable. [8]

The cumulative administrative burden on agencies is all consuming. The agencies respectively completed 182, 48, and 94 major funder reports a year. Each funder and/or program had its own report requirements and formats. Securing and reporting on grants is the priority activity for the survival of organizations and their programs, pushing aside other organizational priorities such as overall agency budgeting and strategic planning, community relations, staff development, and program management.

Multi-year grants, as currently designed, do not solve the administrative burden. First, multi-year grants are uncommon – only one in five of the 66 grants in our study were multi-year. Second, of these multi-year grants, 40% could not be renewed and 60% required the same level of reporting each year and so did not reduce administrative demands. The lack of renewal options for many multi-year grants poses serious administrative challenges for agencies operating ongoing programs.

Funders are slow to approve/reject grants, and the slow response time causes "gap" problems for service delivery. Agencies often found themselves with "nine months" to deliver "12 months" of service. If an agency guesses wrong and retains staff during the "gap" and then does not receive the grant, it incurs significant debt. If it lets staff go, program delivery and continuity suffer. Response time for 73% of grants was four to five months or longer from the time the proposal was submitted to the time the funder made a decision.

Agencies reported that the political vulnerability of grants and programs is increasing. There are two parts to this, which agencies see as interconnected and reinforcing. First is the uncertainty resulting from rapid and unpredictable funding and program shifts. Second is that when programs are seen by funders or politicians to be more high profile, contentious, or risky, the agency can be subjected to more onerous compliance and other demands or to explicit political interference.

[8] Reliability is the measure of certainty that program funding will continue year to year.

Both large and small grants impose heavy administrative burdens.[9] Most grants, whether large or small, were equally restrictive and gave agencies little ability to adapt programs or shift finances. Moreover, a significant number of small grants placed a heavy application burden on agencies. There appears to be little differentiation in processes to reflect the size of the grant or the ongoing nature of the relationship between funders and agencies.

All three organizations described themselves as "operating on the edge," with staff more than fully engaged and extremely vulnerable should a senior manager leave. The organizations had no capacity for cross-training, and all three were operating without key staff in management or administration positions (these positions were unfunded as opposed to vacant). Grant applications and reporting, and addressing the challenges posed by funder practices and restrictions, dominated the attention of senior management in all three organizations.

Senior managers are very aware and worried that they cannot replace themselves. Senior managers reported that frontline staff are reluctant to take on management jobs. Moreover, the agencies do not have the administrative capacity to train the next generation of senior managers. The reluctance of funders to compensate senior managers adequately is compounding succession-planning.

Grant management, of necessity, takes priority over other management responsibilities. In all three organizations, tremendous organizational energy is directed at meeting funder requirements. Indeed, the executive directors of these agencies describe an environment in which their key responsibility is to manage the demands of funders and the many constraints and problems funders impose on the organization so that the staff can actually get some work done and meet community needs.

Funders need to do things differently. United Ways provide the best reliability and program and financial flexibility to the organizations they fund. The federal government was significantly more restrictive on grant terms and conditions and imposed a higher reporting burden than other funders. The provincial government, municipalities, and foundations had similar profiles; they provided little flexibility to agencies to manage their programs and finances, and 40-50% had very complex application processes.

In sum, the overload of information requests and filings, the lack of delegation of decision-making to the agencies, the problems caused by the granting processes, and the failure of funders to consult with grantees were all identified by participating organizations as contributing to the difficult administrative burden.

None of the agencies we studied had a portfolio of funders that supported them to get on with the task of delivering effective services and building communities. There were a few funders and programs in the sample whose funding practices included exemplary components or that agencies perceived as helpful. However, even the best of these practices were not sufficient to appreciably moderate the overall administrative burden experienced by multi-funded organizations. Nonetheless, the better funding practices do demonstrate that it is possible to design effective and accountable funding processes that support nonprofit organizational capacity and encourage innovative and responsive local service delivery.

[9] Small grants were defined as those of $50,000 or less, and large grants were defined as being greater than $50,000. Our sample consisted of 34 small grants totalling $566,000 and 30 large grants totalling $8.8 million.

In Conclusion

The findings of this research give credence to the concerns raised in the study *Pan-Canadian Funding Practices in Communities* about the current effectiveness of community investments, the sustainability of the nonprofit sector, and its capacity to address the complex problems facing Canadians. Significant funding reform is required if we are to re-energize the nonprofit sector and free up organizations to work with their communities to develop innovative solutions to the challenges facing society.

As Eric Young[10] described, we live in a changing world that even ten years from now will look very different. Young warns that the decisions we take today will significantly shape our emergent future. He goes on to describe the scale of the changes required as he notes that the public and governments are currently locked in a relationship that is inauthentic and ill suited to the modern condition: "Current cultures of accountability are different from cultures of adaptability" Today the world needs adaptive systems, agencies need to be freed up to be learning organizations.

Our study provides further evidence that funders are not giving agencies the flexibility they need to innovate or adjust services, or to partner or develop new way of responding to the complex challenges facing communities. We have too much of the wrong kind of accountability – too many administrative demands that sap productivity. Agencies need to be able to respond to local situations and search for new ways of meeting community needs. Funders need to involve their service providers in designing effective services and give them the stability and flexibility to try new ways of doing things.

The Cost of Not Acting

- **Less value for money** – Funders will increasingly have problems finding competent, dynamic community organizations capable of delivering responsive, quality service.
- **Less effective services** – Services to Ontarians will deteriorate and diminish as service delivery is driven by funding agreements and compliance requirements rather than individual and community needs.
- **Nonprofit values and mission are at risk** – The capacity, compassion and energy of community agencies is at risk. Young leadership will go elsewhere as the job of operating an agency becomes an administrative drudge.
- **Not enough innovation and new service models** – Innovative and new service models will not be developed because funder constraints prevent new ideas and programs from emerging, and lack of organizational flex leaves agencies little capacity for experimentation.
- **Weaker, disconnected and fractious communities** – The connection to communities will be lost as community agencies find themselves unable to respond to emerging community needs, and unable to collaborate and partner effectively because of funding and program restrictions.

The data are clear: we can't afford to do business this way. It is in everyone's interest to reform the funding process by minimizing the administrative burden and maximizing the flexibility of agencies to adapt, respond, and innovate, with a focus on results, not controls. It is urgent that funders, nonprofit organizations, and local communities come together to create new administrative systems that can most effectively support the objectives of improving community well-being.

[10] Young, E. (2003). *Remarks at Policy Learning and Distributed Governance: Lessons from Canada and the UK. London*, UK: Canada House, p 12.

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"Not only is it possible to simplify administration while strengthening accountability, it is absolutely necessary to do the first to ensure the latter." Blue Ribbon Panel, Canada, 2006

Introduction

Background on Funding Reform

In the early 1990s, government funders in Canada began to move away from *funding organizations delivering services* to *contracting* with community organizations *for specific services.* This shift in funding practice was accompanied by major cutbacks in government funding as governments focused on reducing the deficit. By 2000, it was evident that the cutbacks and the less stable, short-term contracting for services were having a negative impact on nonprofit organizations that deliver services for government.[11]

In the intervening years, we have acquired a significant body of Canadian research that documents the impact of the funding shift on the nonprofit sector. There has been a series of studies on the nonprofit sector that provide a profile of the diminished capacity of the charitable nonprofit sector. The seminal *Funding Matters* study[12] describes the sector as "dependent on a complex web of unpredictable, short-term targeted project funding that may unravel at any time." The shift to short-term targeted funding has resulted in a granting system focused on cost reduction that threatens the sustainability of the nonprofit sector.[13]

Just as the new funding regime was being identified as problematic for nonprofit organizations, an additional challenge was developing. A series of "funding scandals" was preoccupying the Canadian public. In the submission by nonprofit sector organizations to the Commission of Inquiry into the Sponsorship Program and Advertising Activities[14] they describe how the nonprofit sector was caught in the fall out and how in response to the crisis, the Canadian Government imposed strict and stringent financial controls on government contracts, including contribution agreements with the voluntary sector. Voluntary sector organizations providing community services have to meet onerous reporting requirements, many of which are out of proportion to the amounts of risk involved.

Nonprofit organizations find themselves swept up in complex, time-consuming, and very detailed accountability reporting systems and controls.

These controls have taken on a life of their own. The Auditor General, in her May 2006 report, confirmed that government departments have yet to streamline their management of grants and contributions in a way that would resolve the concerns of recipients of grants and contributions. Multiple audits, demonstrating eligibility for funding, and reporting on recipients' results continue to impose a heavy financial and administrative burden on recipients.

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11 Eakin, L. (2001). *An overview of funding of the funding of Canada's voluntary sector*, Ottawa: Voluntary Sector Initiative.

12 Scott, K. (2003). *Funding matters: The impact of Canada's new funding regime on non-profit and voluntary sector organizations*. Ottawa: Canadian Council on Social Development, Executive Summary, p 5.

13 Scott, K. (2003); Eakin, L. (2004). *Community capacity draining: The impact of funding practices on community organizations.* Toronto: Community Social Planning Council of Toronto; Statistics Canada. (2004a). *Satellite account of non-profit institutions and volunteering*. Ottawa; Statistics Canada. (2004b). *Cornerstones of community: Highlights of the National Survey of Nonprofit and Voluntary Organizations*. Ottawa; City of Toronto. (2005). *Cracks in the foundation, community agency survey 2003: A study of Toronto's community-based human services sector*. Toronto; Saunders, R. (2004). *Passion and commitment under stress: Human resource issues in Canada's nonprofit sector – a synthesis report.* Ottawa: Canadian Policy Research Networks.

14 Imagine Canada, Canadian Council on Social Development, & Canadian Policy Research Networks. (2005). *Submission To the Commission of Inquiry into the Sponsorship Program and Advertising Activities*. Ottawa.

In June 2006, the President of Treasury Board, The Honourable John Baird, commissioned The Blue Ribbon Panel to recommend measures to make the delivery of grant and contribution programs more efficient while ensuring greater accountability. The Commission reported in December 2006 with the following key conclusions:

- There is a need for fundamental change in the way the federal government understands designs, manages, and accounts for its grant and contribution programs.
- Not only is it possible to simplify administration while strengthening accountability, it is also absolutely necessary to do the first to ensure the latter.
- Making changes in an area of government as vast and multi-faceted as grants and contributions will require sustained leadership at the political and public service levels.

The report went on to make 32 recommendations in areas such as respect for the recipients, dramatically simplify the reporting and accountability regime, encouraging innovation, and organizing information.[15]

At the time of our research in winter 2007, we had a funding regime in Canada that provided nonprofit and charitable organizations with short-term, unpredictable project-based funding, which frequently fails to cover the actual costs of project delivery and typically falls short of covering organizations' administrative costs. Moreover, this unstable funding environment is overlaid with regulation designed to eliminate risk by imposing rigid and controlling accountability and reporting requirements on grant recipients.

It is increasingly clear that the current method of funding nonprofit organizations is not working for anyone – governments, nonprofit organizations, or the Canadian people. Katherine Scott and Marilyn Struthers, in their introduction to the study *Pan-Canadian Funding Practices in Communities,* reference numerous studies that raise serious concern about the current effectiveness of community investments, the sustainability of the nonprofit sector, and our current capacity to address the complex problems facing Canadian communities. They point out that this challenge is not uniquely Canadian. In the face of complex social and economic problems, governments are increasingly turning to a more collaborative process of problem-solving.[16] Unfortunately, in Canada, while there is increased interest in addressing issues collaboratively, standing in the way of these horizontal collaborative methods of problem-solving is a lack of knowledge of how to shift the practice of funding to allow these new paradigms to emerge.[17]

The need to move forward with funding reform is urgent, but moving from broad identification of the problem to having the detailed information to craft effective solutions has been a challenge. Effective reform requires detailed understanding of the issues and the roles of the multiple parties involved. In the financial area, we have gradually developed an understanding of the complex web of funding to nonprofit organizations and how it interrelates so that effective

[15] Independent Blue Ribbon Panel on Grant and Contribution Programs. (2006). *From red tape to clear results.* Ottawa: Treasury Board of Canada. Available from www.brp-gde.ca

[16] Scott, K., & Struthers. M. (2006). *Pan-Canadian funding practice in communities: Challenges and opportunities for the government of Canada.* Ottawa: Canadian Council on Social Development.

[17] Phillips, S., & Levasseur, K. (2004). The snakes and ladders of accountability: Contradictions between contracting and collaboration for Canada's voluntary sector. *Canadian Public Administration*, 47(4); Bakvis, H., & Juillet, L. (2004). *The horizontal challenge: Line departments, central agencies and leadership.* Ottawa, The Canada School of Public Service.

strategies can be crafted.[18] The implications for human capital in the sector have also been recently described.[19] A similar understanding of the administrative demands on organizations and the implications is not available.

In this study, we seek to provide that level of detailed knowledge about the cumulative administrative burden that organizations carry, reporting, as they do, to multiple funders, each with their own accountability and reporting requirements. This case study of three community service organizations explores the administrative load generated by funders, assesses the organizations' administrative and management capacity to respond, and identifies trends and patterns among organizations and funders.

Administrative Burden

The *administrative burden* in this study is defined as the work undertaken by recipient organizations to comply with funder grant management practices and accountability and compliance demands. Also included under the administrative burden is the additional work required to maintain agency operations and programs, frustrated or impeded by terms and conditions of grants. (In this study, the term "grants" is used generically to refer to the transfer of funds from funder to recipient. Such transactions are variously called service contracts, grants, or contribution agreements.)

Since 2000, nonprofit organizations have been reporting an onerous and growing administrative burden. Underlying these complaints is the sense among service providers that much of the information they provide is not used and has little or no impact on service, yet gathering this data consumes increasing amounts of time and scarce resources. Some studies have reported on this burden anecdotally, but we do not know enough about the impact on nonprofit organizations of funder-imposed grant management practices or accountability and compliance requirements. We understand too little about the "compounding process" that takes place within an agency with multiple funders and multiple demands.

Moreover, the Auditor General's Report 2006 and the report of the Blue Ribbon Panel mentioned above only address fund management problems in the federal government. There has been no parallel focus on provincial and municipal governments or on the practices of other funders such as foundations and United Ways and their contributions to the administrative demands on organizations.

18 Eakin, L. (2004).

19 Clutterbuck, P. (2007). *Pushing the limits: Challenges of Halton's nonprofit and voluntary sector labour force*. Halton, ON: Community Development Halton. Available from http://www.cdhalton.ca/pdf/Pushing_The_Limits_Technical_Report.pdf

Research Focus

Research studies are only just beginning to document the demands on and costs to organizations of complying with funder accountability and compliance requirements, to describe and evaluate funders' attempts to reform funding practices, and to develop tools to rank grant makers according to their ability to enable the community nonprofit sector to deliver effective and responsive services.

The Rand Corporation Case Study,[20] one of the few in-depth explorations of nonprofit organizational compliance, focuses on examining one organization's capacity to meet funder compliance requirements. It analysed the decision-making and data collection structures in the organization, the time involved, and the cost of compliance. The study made recommendations on strengthening the organization's ability to meet compliance requirements more easily and effectively and calculated the cost of compliance at 11% of budget and 44% of the recipient's time. While the study focused primarily on the internal capacity of the agency to meet compliance demands, its authors also recommended that funders evaluate the design and appropriateness of their compliance requirements to ensure they collect pertinent data that will inform all participants (e.g., agency, funder, client, and staff).

A number of foundations in the United States, following the lead of the William and Flora Hewlett Foundation, have recently sought to obtain feedback from their grantees on their granting processes and relationships. The Grantee Perception Report® was developed by the Center for Effective Philanthropy and, as more foundations use this tool to survey their grantees, they are able to obtain feedback on the experiences of their grantees and learn how they rate compared to other foundations on such measures as clarity of communications, selection process, responsiveness and approachability, and quality of assistance beyond the grant cheque. Participating foundations have found the feedback helpful, if sometimes difficult. Foundations with disappointing results have needed strong leadership to counter the natural tendency to discount the results.[21]

Jon Pratt has developed a method for organizations to gain an understanding of the key characteristics of their funder portfolio. In his paper *Dynamics of Funding – Considering Reliability and Autonomy*,[22] he sets out a scale for measuring grant reliability and financial autonomy weighted by the grant's percentage of total organizational funding. Organizations classify their sources of funding according to a scale of high, medium, or low reliability and use a similar three-point scale to measure financial autonomy permitted by the funder. For example, a very specific and restricted grant would rate low for financial autonomy while a funder that allowed the organization freedom to use funding as needed to achieve the agreed objectives would rate high.

[20] Lara-Cinisomo, S., & Steinberg, P. (2006). *The cost of meeting funder compliance: A case study of challenges, time spent and dollars invested*. Santa Monica, CA: The Rand Corporation.

[21] Buchanan, P. ,Bolduc, K., & Huang, J. (2005). *Turning the table on assessment: The grantee perception report*, Cambridge, MA: The Center for Effective Philanthropy.

[22] Pratt, J. (2002). *Dynamics of funding – Considering reliability and autonomy.* Nonprofit Quarterly, 11(1).

The critical importance of the administrative burden as an issue for Canadian nonprofit organizations came to light during a survey of agencies on the funding of administrative costs by the federal government,[23] In the course of that study, it became evident that the funding of administrative costs was only one component of what was needed for organizational sustainability. If the administrative burden was not addressed at the same time, the funding of agency administration would be consumed by compliance processes and would not achieve the intended improvements in organizational capacity and effectiveness.

The first step to streamlined accountability and compliance processes is to develop the baseline knowledge. We need to understand the administrative demands on organizations to meet funder management processes, the impact this has on nonprofit organizations, and the similarities and differences between funders.

We need to be able to answer the following types of questions:

- What aspects or characteristics of the existing accountability requirements are burdensome to nonprofit agencies, in terms of:
  a. the time and effort they require of agencies;
  b. the constraints and limitations on agencies program activities and other uses of funding; and
  c. the security and stability of agency programming?
- What is the compounded impact of multiple different funder accountability requirements on organizations; that is, how do the burdens of individual grants compound within an organization?
- Are all funder accountability requirements equally onerous, or does the burden vary significantly by project and/or by funder?
- Are there clear 'best practices' accountability regimes? What do they look like?
- To what extent are agencies' perceptions of a heavy administrative burden a function of their lack of internal capacity?
- Who carries the administrative burden within agencies? How much of the burden does senior management carry and how does this affect their capacity to lead the organization?

Methodology

In our study, we examined three community service organizations (mid-size agencies with annual revenues of $3.8 million, $2.3 million, and $2 million, respectively). Among them, these agencies have 66 grant agreements with funders. All three agencies have multiple funders. Five funders overlap among agencies, which enabled us to assess consistency in the rating scales and to better determine if findings were likely to be replicated in different organizations or if they were idiosyncratic to a particular organization.

The study used quantitative and qualitative data gathering methods: an Excel spreadsheet was used to gather consistent data on individual grants, individual semi-structured interviews

[23] Eakin, L. (2005). *The policy and practice gap: Federal government practices regarding administrative costs when funding voluntary sector organizations.* Ottawa: Voluntary Sector Forum.

were conducted, and document review and analysis rounded out and provided context for the grant data. The agencies in the study worked closely with the investigators in identifying and developing the measures used to assess the administrative burden.

Sample Selection

Agencies were recruited from the Greater Toronto area and were located across the municipality and in the adjacent 905 region. The agencies were selected because of their differences and similarities. The objective was to obtain a broad cross-section of providers, programs and funders with enough overlap to control for consistency in the use of data collection tools across the organizations. Between them, the agencies received 66 discrete grants totalling $9.4 million. The breakdown is as follows:

Sources of Funding

	Total $	Number of Grants
Federal government	3,774,109	14
Province government	1,538,834	7
Municipal government	2,010,733	26
United Way	1,411,139	5
Foundation	591,444	12
Corporation	11,000	1
Nonprofit organization	24,167	1
TOTAL	9,361,426	66

- None of the service-provider organizations had significant revenues from fees or earned income.
- Agency A had the federal government as its largest funder; Agency B had the provincial government as its largest funder; and Agency C had a municipality as its largest funder. All three agencies received funding from a United Way organization, and all had foundation funding.
- There were multiple specific programs or departments within each funding category. For example, the seven grants from the province came from six different sources.
- Two municipal funders, three United Way funders, and seven foundations were also involved.

Data Gathering

An initial schema of data to be collected was assembled by the researcher, who then met with the executive directors of the agencies to refine and improve the rating categories and to ensure that the data were available and/or could be accurately collected across the three settings.

The revised Excel spreadsheet, having been formatted for ease of input, was provided to the executive directors to complete with their financial managers and senior staff. The researcher undertook site visits and interviewed the executive directors and the finance managers and/or program managers as required.

An interview framework was developed to guide interview content. Information was gathered on administrative capacity, including agency staffing and organizational roles, office systems and equipment, board of director involvement, operational and administrative challenges, audit and auditor involvement, and evaluation activities.

Information was also sought on the organization's relationship with key funders, including the history of the relationship, compliance difficulties and challenges, formal and informal accountability activities, special audits and compliance requests, and funder accountability and responsiveness. Information was also sought on their perceptions of changing relationships with funders and new trends. Agencies were asked to identify effective funder accountability processes. The impact of funder administration on program delivery was explored.

Measures

Our study measures the administrative burden along several dimensions. Four measures document the burden that grants impose, through funding and activity restrictions and other individual grant characteristics, on organizations' ability to deliver sustained, effective programs. These four measures are funding reliability, financial autonomy, program autonomy, and political vulnerability. The first three build on the categories developed by Jon Pratt.[24] Initial discussions with the agencies in this study led to a fourth core measure, political vulnerability, which agencies considered separate and an increasingly important component. The study applied these core measures to individual grants.

A second set of measures investigates the burden imposed by granting processes. Two measures document the grant application and reporting burdens of individual grants (application for funding and reporting on funding). Three further measures document the frequency with which agencies must apply for grants, therefore shedding light on the total ongoing burden on agencies of the grant application process. These measures are: number of years of the grant (grant time period), whether the grant can be renewed (renewal conditions), and the related length of the application to renew or re-apply (application type).

The study also measured the time it takes for grants to be approved. This measure sheds additional light on the uncertainty and precariousness created for agency activities by the current administrative regime.

Finally, grants are identified by type of funder to shed light on the distribution of the administrative burden among different categories of funders.

Data Definitions

Reliability

Funding reliability is an important gauge of the degree of stability in revenue sources. An agency with poor grant reliability ratings will need to expend considerably more energy and effort to identify and attract new sources of funding as existing revenue streams fade away or come to an end. In this measure, political vulnerability was not considered. What is measured is the ongoing continuity commitment to funding year on year. Grants with low reliability make it more difficult for an organization to attract and retain qualified staff, put pressure on the organization to find "gap" funding to tide it over between grants, etc. The agencies ranked their grants on a three-point scale.

[24] Pratt, J. (2002).

Reliability Rating	***Measure of the certainty that funding/program will continue***
3. Most	*Most Reliable*: e.g., legally mandated government program, United Way membership (where model in operation), etc.
2. Some	*Somewhat Reliable*: likely to continue but not assured, e.g., government per diem, purchase of service that has been renewed for five or more years, etc.
1. Little	*Unreliable/Not Renewable*: known end date, not renewable or renewal most uncertain or not known, e.g., most foundation grants, program subject to RFP, etc.
0. N/A	*Renewal Not Appropriate or Needed*: one-time grant, one-time purpose, e.g., capital grant, special research grant, etc.

Program Autonomy

Program autonomy provides a gauge of the ability of the organization to tailor the program to meet local circumstances. Grants providing low flexibility/autonomy over program design and delivery make it much more difficult for an organization to be responsive to local needs.

Program autonomy is also important to allow for the development of local partnerships and collaborative strategies to tackle challenging problems. If agencies cannot adapt programs, then they have little to bring to a partnership table.

Program Autonomy Rating	***Gauges how much ability the agency has to address local conditions/needs***
3. Most	*Most Flexible*: maintaining program intent, an agency is able to tailor program to local needs permission to make changes not required in advance.
2. Some	*Somewhat Flexible*: change possible within specific program framework/ objectives; pre-approval required; funder typically approves change request.
1. Little	*Little Flexibility*: program required to be delivered as specified; pre-approval required; change permission rarely granted.
0. N/A	Nature of grant makes program autonomy not relevant.

Financial Autonomy

Financial autonomy is a measure of the degree of flexibility a grant provides an organization to manage its affairs effectively. An organization with grants providing low flexibility has much more difficulty responding to organizational and program circumstances than one with grants providing greater flexibility. Organizations are constantly shifting and changing. They do not remain static. Financial autonomy is essential if an organization is to actually function in a way that maximises its capacity. The more strings that tie funding to specific lines, the less ability the agency has to respond to changing circumstances such as staff turnover, equipment failure, a pregnancy leave, a service emergency, etc.

Financial Autonomy Rating	Gauges the ability of the agency to meet expenses and reallocate resources
3. Most	*Most Flexible*: within approved budget, agency may reallocate within major budget categories, or funder is open to major budget reallocation; easy process.
2. Some	*Somewhat Flexible*: limited fund reallocation allowed within approved budget without prior permission, e.g., 10% between line; funder approval required before major fund reallocation; difficult to obtain.
1. Little	*Little Flexibility*: little to no flexibility between budget lines; reallocation approvals typically not considered or not granted.
0. N/A	Nature of grant makes budget flexibility not relevant.

Political Vulnerability

Political vulnerability is a measure of the likelihood that direct political involvement (direct intervention) and political priorities (indirect intervention) will direct or influence decision-making regarding a grant's terms and conditions. Grants for programs with high political vulnerability are inherently riskier to operate as they can be subject to rapid changes in funding terms and conditions and/or time-consuming compliance requests. Some client groups are inherently higher profile. For example, operating a drop-in for homeless people is more likely to be subject to political involvement and consideration than operating an after-school program for elementary school children. This has always been the case, but what agencies say is changing is the political intervention or influence in grant management. For example, the trend to "re-announce" programs with a new twist causes problems for service organizations as key criteria are changed. New application processes are developed, often resulting in delays of funding decisions and discontinuity of programs. Moreover, the past decade of downloading and inter-governmental disputes has often left community service agencies caught in the middle (See, for example, "Funding crisis closes shelter," April 19, 2007, www.thestar.com).
As municipal, provincial, and federal governments jostle over who pays for what, community service programs struggle to keep programs operating.

Political Vulnerability Rating	***Some programs and client groups are inherently higher profile and are affected by political and news events. These programs are more complicated and riskier to run.***
1. High	Subject to political interference, intergovernmental disputes, and public attention, e.g., anti-gang youth program, harm reduction programs, homeless hostel.
2. Medium	Subject to interference on occasion due to client or community action or a news item, e.g., community health clinic, autism program, young offender program.
3. Low	Stable, flies below political radar, non-controversial, e.g., after-school program, seniors' program.
0. N/A	Nature of grant makes vulnerability irrelevant.

Applications for Funding

Funder grant management begins with the application process. In its application for funding, an organization sets out the services to be delivered and the budget required and provides data and history on its operations, local community, and local partners as well as any other information required by the funder. A rating scale was developed to measure the complexity of application processes. Both the time involved and the degree of difficulty of completion are captured.

Applications in the *simple* and *average* rating categories ask for knowable information from agencies and, agencies feel, allow the funder to gather all the data required to evaluate and track an application. For example, logic models and outcome indicators, program descriptions, implementation timelines, budgets, and references all fit within average applications.

Application processes that are *difficult or extreme* ask for what agencies consider to be too much and too detailed information to ever be of use to the agency, much less to the funder. They make a lot of work for the agency both in completing the application and when accounting for the grant against such detail. Difficult and extreme applications want information that cannot be reliably known, such as how many photocopies each grant will use or what training the new staff position will require and the date they will attend. Extreme application processes often add extra challenges such as an online application system that only allows one person to work on the proposal and/or does not permit highlighting or tracking of changes. (Given the time lines and pressures on agencies, putting together an application is often a group activity with different people working on different components.)

Application Complexity Rating	***Application processes differ in their length and in the complexity and detail of information required.***
1. Simple	*Standard and Easily Accessible Information*: relatively short proposal requiring standard and easily accessible information; straightforward program description and objectives; can be completed by a senior staff.
2. Average	*Moderate Length of Proposal*: requires information that is, for the most part, readily accessible; program detail required is more elaborate and detailed but known; can be completed by a senior staff and finance person; requires 3-5 references.
3. Difficult	*Complicated Proposal*: requires data that need to be amended or extracted from existing agency data; can be completed only with difficulty and involves more than senior staff and finance person to assemble accurate information; program and financial information required is very detailed; requires many references.
4. Extreme	*Very Complicated Proposal Format*: often places constraints on how agency completes proposal (e.g., allows only single staff to make entries or has a time limit for completion); requires extensive data that are not readily available, new additional information collection, specificity on program and outcomes that cannot be predicted with accuracy; many people to assist with information gathering/proposal completion, and many references.

Reporting on Funding

Reporting rating categories are similar to the application rankings but have been tailored to the content of the reporting processes. Once again, *simple* and *average* categories provide all the information both agency and funder need to track and evaluate the grant. *Difficult* and *extreme* reporting requirements require information that is less reliable because it requires elaborate extraction processes or multiple staff judgements. Extreme reports often have very tight timelines and/or can require data from informants in the community that have no obligation to provide it.

Reporting Ratings	Daily / weekly / monthly / bi-monthly / quarterly / interim / year end.
Simple	Data readily available and simple to complete.
Average	Data reasonably available, but requires some internal communication to gather data from different people.
Difficult	Data not readily available; requires staff review and judgements, multiple staff, multiple communications to complete, creative writing.
Extreme	Data very difficult to obtain; requires many judgements, extra collection, and outside involvement; is very demanding of staff time; imposes time pressures to obtain detailed data.
None	Report not required.

Length of the Grant

This measure describes the tenure of the grant, measured in numbers of years.

Terms of Grant Renewal

This measure describes whether a grant permits renewal, requires agencies to re-apply for a new grant once the grant ends, or is a one-off time-limited grant.

Application Type

This measure describes the application process for grants, i.e., renewal application, full application, or letter of intent followed by full application.

Approval Time

This measure describes, in months, the time between grant application submission and funder approval/rejection.

Funder Classification

Funders are classified by type, i.e., federal government, provincial government, municipal government, United Way, foundation, corporation, or nonprofit.

The full definition schedule used in the study can be found in Appendix A.

Findings

This section describes the reliability, financial and program autonomy, and political vulnerability of 63 grants included in the analysis,[25] as well as the grant application and reporting complexity involved in getting and keeping grants.

We then look at the individual agencies to see if there are distinct differences in their situations given their differing funder portfolios. Funding trends can be exaggerated or masked by individual agency funder portfolios.

In reviewing the data on grant processes, we have not broken the data out by agency as this did not add to the analysis. Instead, we have reported on the total grants for grant renewal, grant review times, and unsuccessful grants.

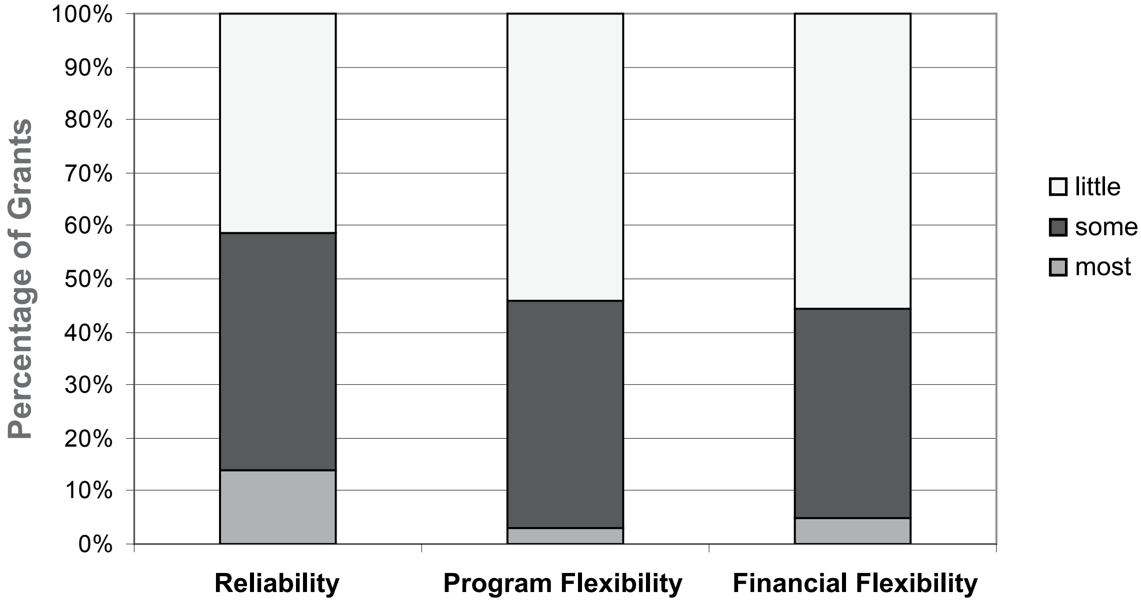
In addition we looked at the length and size of grants to explore grant terms and conditions. Finally, we looked at the data by funder category, again to explore similarities and differences among funders and provide baseline information to funders for funding reform.

1. Funding Reliability, Program and Financial Autonomy, and Political Vulnerability

Figure 1 describes the funding reliability and program and financial autonomy provided by the 63 grants received by the three agencies in our study. As the figure shows, grant reliability is an issue, with 40% of grants providing little reliability and another 46% providing only some reliability. The data also show how little control agencies have to adapt to local conditions and changing circumstances. Over 50% of grants allow little or no flexibility for changes to programs or financial expenditures, and another 40% require pre-approval before changes are made. Fewer than 3% of grants permitted the agency flexibility to make program and expenditure adjustments.

[25] To ensure the most reliable comparative analysis, three unique grants – one for pay equity, one from a private corporation and another from a nonprofit corporation – were not included in most calculations.

Figure 1. Grant Reliability and Program and Financial Flexibility (n=63)



Composite Profile Across 63 grants

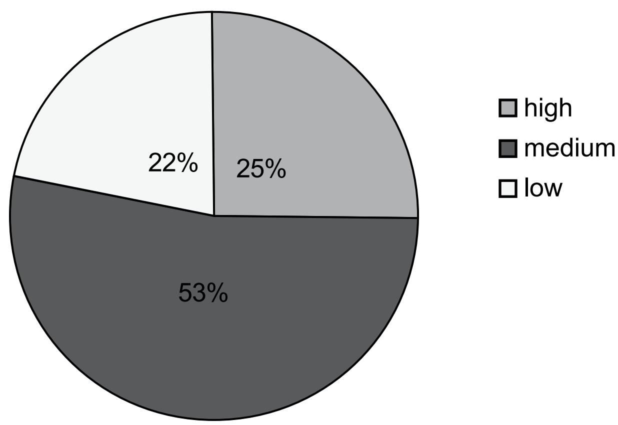
- **Reliability** – 14% of grants have good reliability, and another 45% have some reliability. More than 40% of grants received by the agencies in our study have little or no reliability.
- **Program Flexibility** – only 3% of grants give the agency flexibility to adapt programs to meet program objectives. Another 43% provide some flexibility (pre-approval is required, and permission is usually granted), but 54% provide little or no flexibility for the agency to adjust programs to changing circumstances to or meet local conditions. (permission to change is rarely granted).
- **Financial Flexibility** – 5% of grants provide the agency with discretion to move money within the budget. Another 40% provide some flexibility (under 10% of the budget can be moved between budget lines, but major fund reallocation is difficult to obtain), and 56% of grants provide little to no flexibility.

Agency Perspective

Agencies reported the lack of flexibility in program and financial management to be very problematic as they are unable to respond to local needs or collaborate or partner with others in their communities. With more than 50% of grants allowing little or no change and another 40% requiring funder pre-approval, agencies had 95% of their funds tied up by funders. All agencies described instances of a funder declining to approve a change they felt was important and should have been approved on its merits.

Figure 2 presents the political vulnerability rating of grants. More than 50% of grants were rated as being in the medium range of political vulnerability, with political interference occurring only after community action or a news item. One quarter of grants, however, were rated as highly susceptible to political interference. These grants fell into two categories: grants that were susceptible to direct political intervention, i.e., where elected politicians intervened or directed the administration and/or management of grants (e.g., ordered a safe injection site to close), and grants that were susceptible to indirect political interference (e.g., funds were withdrawn from a program area or reallocated to another area due to intergovernmental or other politics).

Figure 2. Political Vulnerability of Grants (n=63)

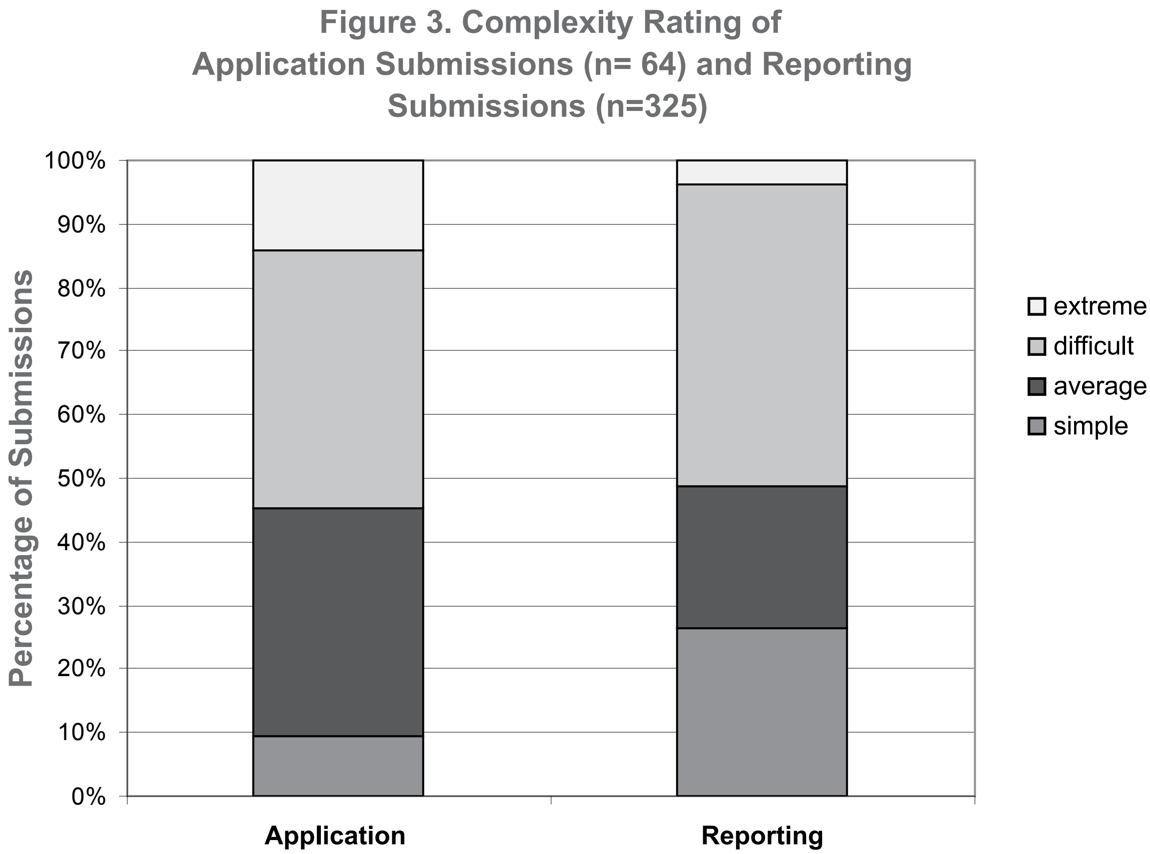


Agency Perspective

Agencies described the grant process as much more "political" than it had been and saw this as a growing trend. They could not definitively explain why this is happening but speculated that the combination of large social problems, decades of underfunding community services, and limited abilities of agencies to improve local programs has resulted in communities that are less tolerant. Politicians and other funders, meanwhile, are anxious to be seen as responsive but are unwilling or unable to commit significant amounts of new funding. As a result, new reporting and compliance requirements, program reviews, program changes, and funding shifts occur with greater frequency.

2. Granting Process

Figure 3 provides a profile of application and reporting complexity. Applications tend to be annual, and the 63 application submissions included in this analysis tended to be more extensive than similarly rated reporting submissions. However, the reports are five times more frequent (n=325). For both applications and reports, more than 50% of grants were rated as difficult or extreme by the agencies. However, the data for reports are skewed by one category of funder. This type of funder requires much more onerous reporting than other funders. If we remove its 144 complex monthly reports, 158, or 87%, of the 181 remaining reports are simple or average in their complexity.



Agency Perspective

The agencies stressed that application and reporting requirements are *in addition* to the ongoing management duties of the agencies, including overall agency budgeting and planning, strategic planning, community relations, governance, staff and program management, and so on. Report and applications submissions, however, are the *priority activity,* as the ongoing survival of the organization is dependent on them. Reports and applications trump other activities.

Each agency reported having senior staff skilled in churning out the required reports and applications. They all reported being enormously vulnerable, however, as none had cross-training in place (they did not have the management capacity), and too much of the information is held in the "heads" of particular staff. Moreover, staff who write grant proposals need to be nimble as the "spin" of the proposal often changes from year to year as funders change their focus. The following example illustrated how difficult it is to keep a program going on short-term grants.

Example of sustaining a program on unstable funding.

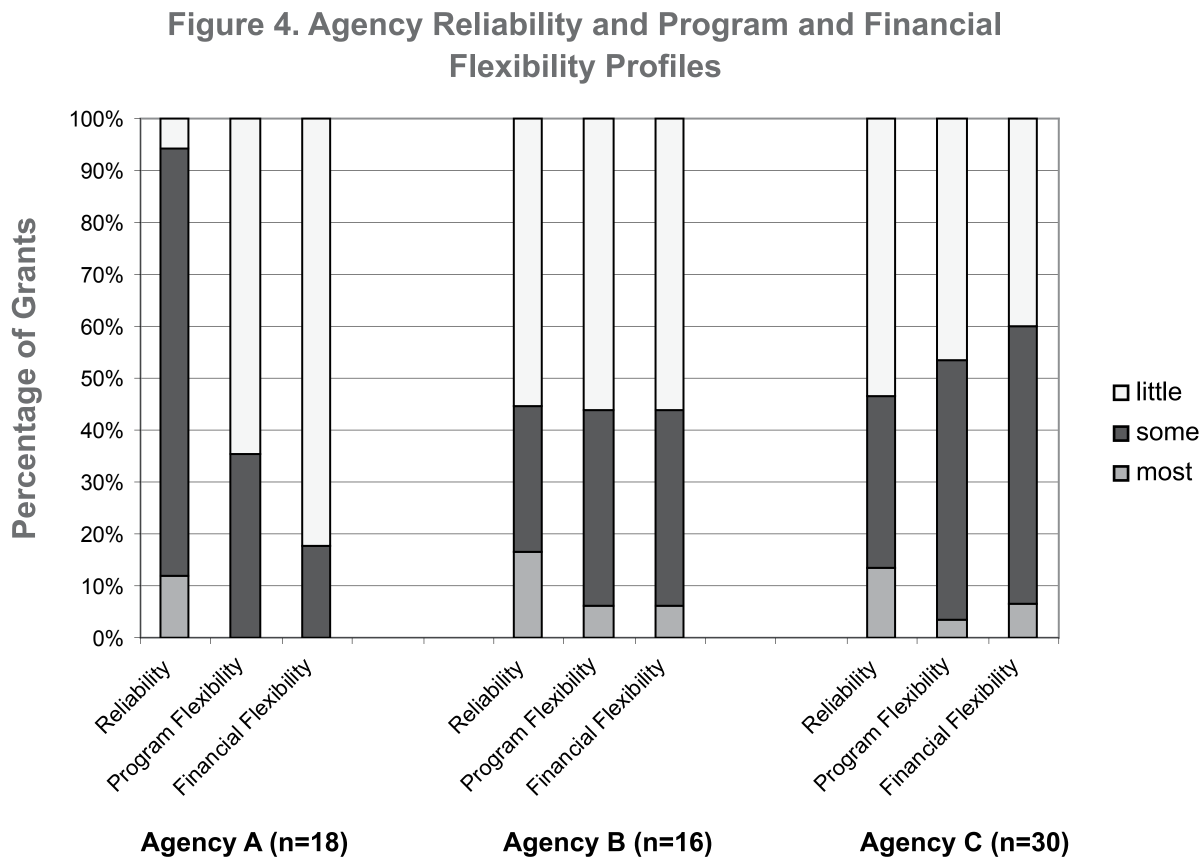
An organization runs a very successful and well-attended after-school program, but it is run on soft money (i.e., funding that cannot be relied on to continue). One year, the organization writes a proposal for increasing the physical fitness of the children, describing the active games in the schoolyard after school. The next year, it writes a proposal for a creative drama program, describing the play the kids put on every spring for their parents and the community and that is a huge success. It writes a proposal for an anti-bullying program, describing how the program has turned school "bullies" into schoolyard leaders by harnessing their leadership skills in a positive way. It writes a proposal for a school suspension program to allow the organization to support young people suspended from school; this program's positive process that allows these young people to return to school having learned some new skills and gained some insight into how they could do things differently. The organization also writes a proposal for a homework program, describing how the program provides support for children to complete their homework. All of these proposals are, in fact, for the same after-school program that does "all of the above" every year, year in and year out, regardless of the "flavour of the month," because the children need a well balanced program that meets their needs. The reporting needs of this program change depending on the grant of the day. One year, it will be important to track how many children were involved in the play, the next to calculate the amount of time the children spent in active physical activity, and another time to document the improved grades of children in the homework club.

3. Total Administrative Burden by Agency

The three agencies each have different funders, operate in different communities, and have different issues they are dealing with. In this section, we explore their individual circumstances to understand how they differ and how they are the same.

Funding Reliability and Program and Financial Autonomy

Figure 4 sets out the individual agency profiles for funding reliability and program and financial autonomy. Agency A has the greatest funding reliability, with almost 90% of its grants rated as somewhat reliable. The other two agencies have less reliability; each has more than 50% of its grants rated as having little or no reliability. However, Agencies B and C have somewhat more flexibility on program and financial management with almost half of grants allowing changes by the agency with pre-approval from the funder. Agency A, by contrast, has funding reliability but very little program or financial flexibility; 65% of its grants provide no flexibility to the agency to adjust programs, and 82% provide no flexibility for financial management.



Agency Perspective

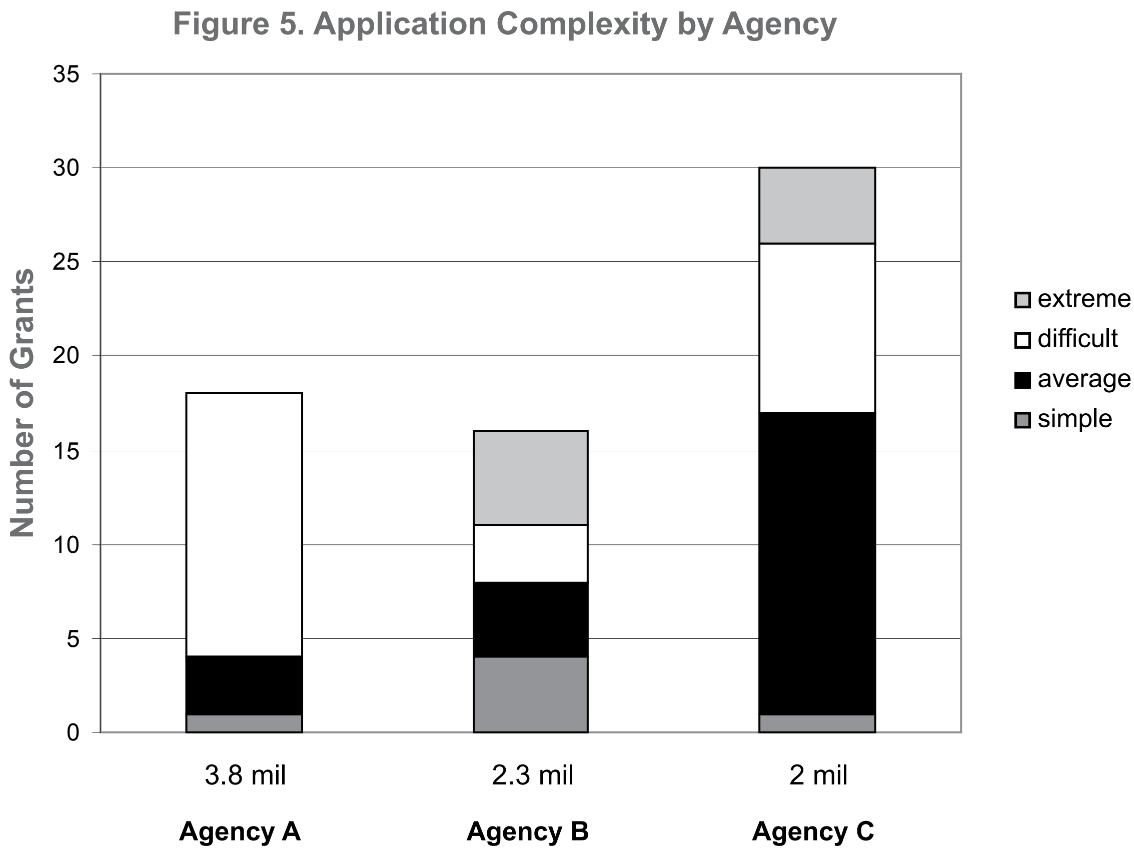
From the administrative burden perspective, a small grant can cause as much havoc as a large one. The agencies describe how their programs are like a house of cards – if one card is pulled out, the whole house is destabilized.

Applications and Reports

Figure 5 shows the application ratings by agency. The figure shows the actual number of grants instead of percentages in each rating category, as the agencies have such variation in the number of grants that percentages do not convey the differences in the administrative burden between agencies. A similar format is used for rating reports in Figure 6. Some agencies have funders that require extremely onerous reporting.

Applications

Figure 5 shows that Agency A ($3.8 million) is burdened with a high number of difficult applications (14 of 18). Agency C ($2 million) also has a high number of difficult and extreme applications (13 in total) as well as some average applications (16), yet it has only half the budget of Agency A. Agency B has eight difficult and extreme applications and eight simple and average. All three agencies have very heavy demands on their time to complete applications, but the nature of the administrative burden differs from agency to agency, depending on their number of grants and their funders' demands.



- **Agency A** (18 grants) – 78% of its applications fall into the difficult range (i.e., they require data amended or extracted from agency data, information that is very detailed, multiple staff for completion, and many references).
- **Agency B** (16 grants) – 50% of its applications are rated as difficult or extreme (extreme applications place constraints on the agency to complete and require the collection of new and extensive information that is not readily available and is often not known).
- **Agency C** (30 grants) – 42% of its applications are rated as difficult or extreme. It has the heaviest administrative load because it has almost double the number of grants as the other two agencies but the smallest budget.

Agency Perspective

Agencies find no respite from application preparation. Only five of the 13 multi-year grants had a simplified renewal process on the off years, and since 80% of all funding is for one year only, there is very little respite from proposal writing from year to year. The agencies felt strongly that no application process should rate difficult or extreme. Funders should be able to obtain all the information they need with a well-designed application of average difficulty.

Example of an extreme application.

This application was a renewal and expansion request – the agency had been funded by the funder for 10 consecutive years.

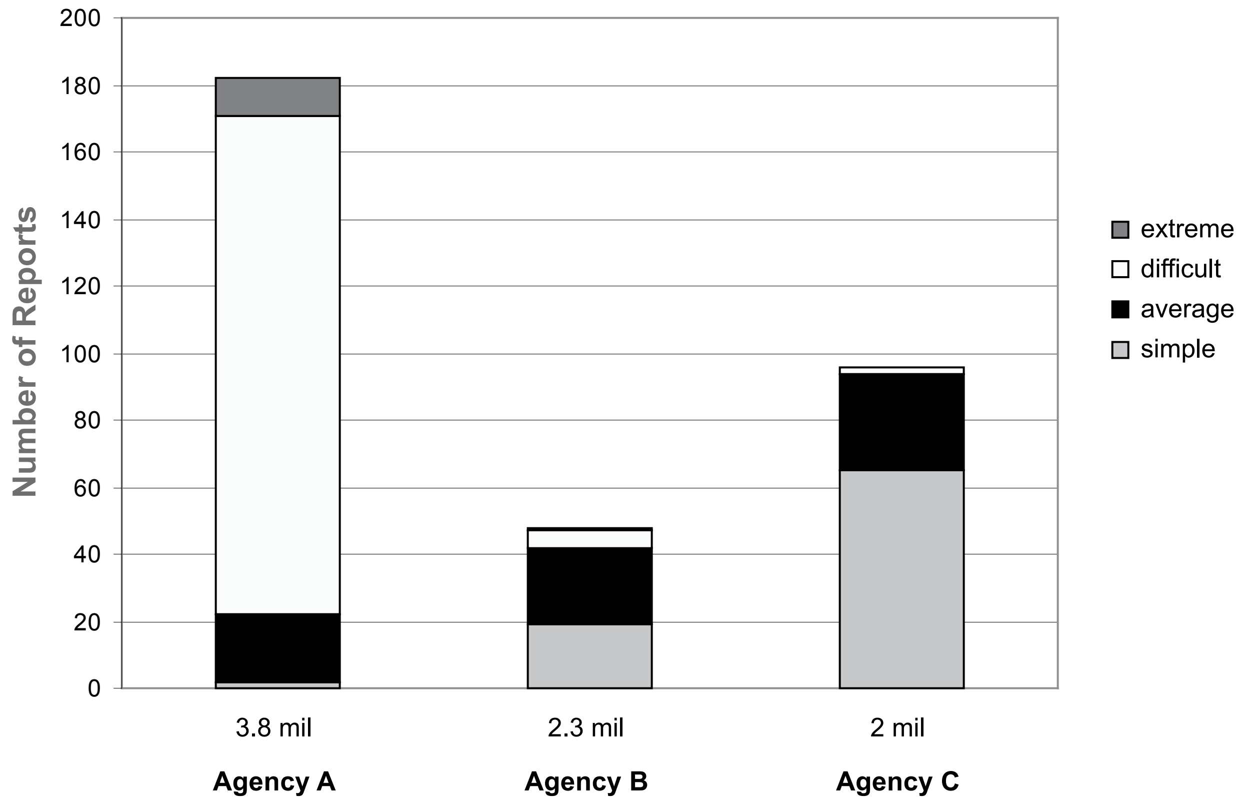
The finished application was over 150 pages long. Approximately 30 pages consisted of information related to the request. The remaining 120 pages resembled an organizational review or accreditation process without the interactive component.

The agency was required to document all the required information in a format prescribed by the funder, which meant that internal agency documents could not be used. The application required a listing of partners – three pages with a total of 76 partners (this is a community agency whose work connects them with many community groups, agencies, businesses, schools, and universities). It also required overview of the agency, including detailed demographic information of the catchments area, details of each physical service location, organization history, a complete description of each agency service, and a complete list of networks and coalitions. It also asked for service data for all programs, a written description of agency operations including governance and volunteer components, five years of detailed budgets in a prescribed format, five years of audits in a prescribed format, sections on each agency service including logic models, and details on evaluation, volunteers, partners, etc. The agency estimates that it took 15 staff days to complete the application.

Reporting

Figure 6 shows the number of reports each agency filed along with the level of difficulty. Agency A is heavily burdened with reporting. Its reporting is both more frequent (it files 180 monthly reports) and is rated as difficult or extreme. The same funders who require difficult applications from Agency A also require frequent and complex reporting. Agency B has almost four times fewer reports to prepare than agency A, and most are simple or of average complexity. Even Agency C, with twice the number of grants as Agency B, has to do far less reporting than agency A. Nevertheless, the 94 reports filed by Agency C place a significant burden on it, given its smaller size.

Figure 6. Reporting Complexity, by Agency



Agency Perspective

All three agencies have elaborate colour-coded schedules to track when reports and applications are due. The agency with the lightest reporting burden submits on average 1.27 reports a week, while the agency with the heaviest burden averages 3.88 reports a week. The agencies explained that reports are often due monthly, quarterly, and/or semi annually and annually, so there are times when there are many different reports due at the same time. For significant periods of time during the year, senior mangers do little but prepare and file applications and reports. All three agencies complained that they were too heavily burdened with applications and reporting and could not devote sufficient time to staff and program development or to community coalition building.

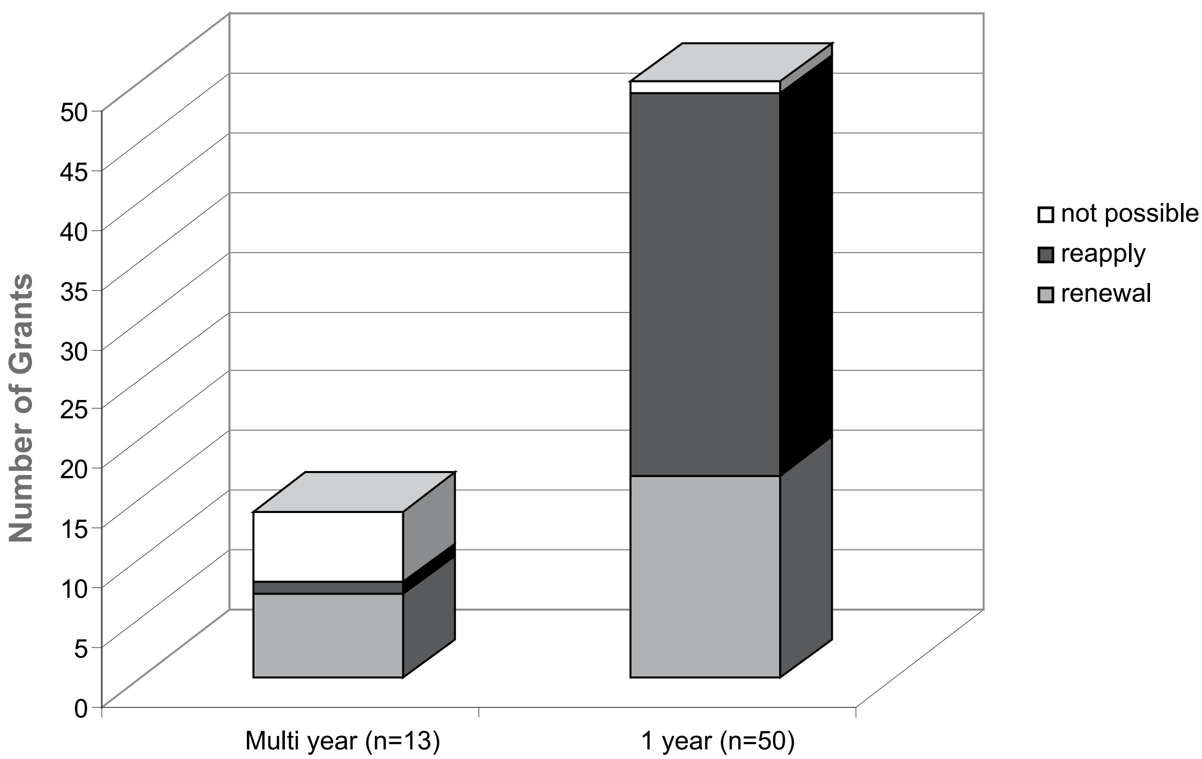
4. The Impact of the Granting Process on Agencies

The data in the following section are presented in composite format for 63 grants. The composite data provide the overview of the climate within which the agencies operate. In this section, we look at the terms and conditions for grant renewal broken out between multi-year and one-year grants. We also look at the length of time from grant submission until the agency received approval/rejection. Finally, we look at unsuccessful grant applications.

The Terms of Grant Renewal by Length of Grant

In Figure 7, we divide the grants into multi-year grants (n=13) and one-year grants (n=50) to explore whether there was a difference in renewal conditions between the two groups. The figure shows that almost half of the multi-year grants provided for no renewal, while only one one-year grant prohibited the agency from reapplying or renewing funding. Seventeen one-year grants (34%) were renewable (i.e., were recognized as ongoing programs) while 32 (64%) required agencies to reapply as if the program were new.

Figure 7. Renewal Conditions



- Requests for Proposals (RFPs). In this study, two applications were requests for proposals. One application was successful, and one was not. RFP programs are at very high risk when the contract ends and new proposals are called for. Moreover, RFPs are very time-consuming to prepare.

Agency Perspective

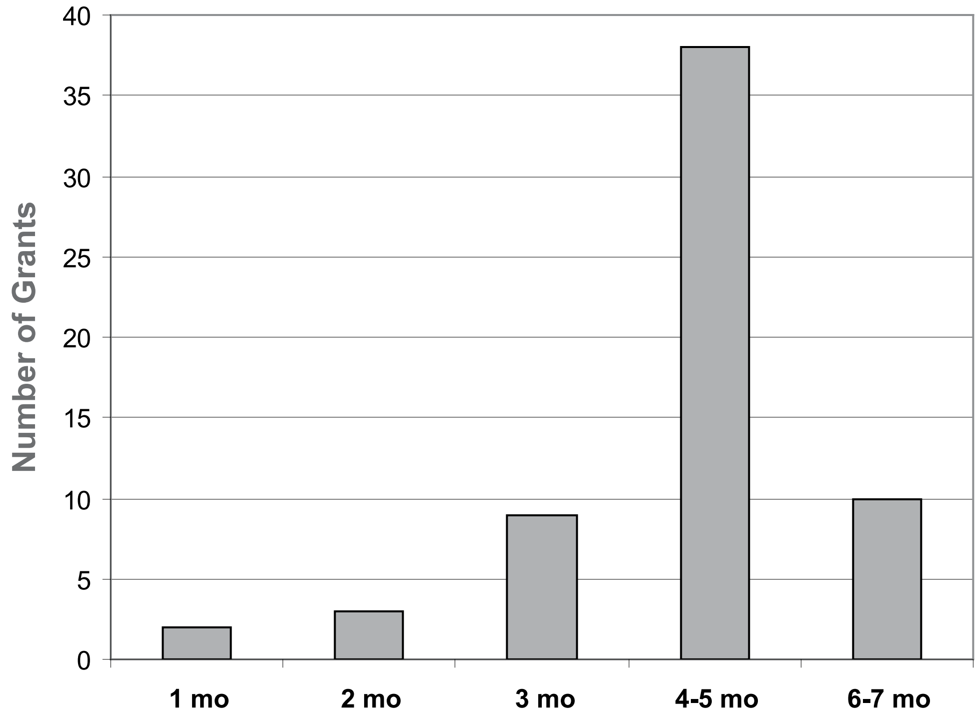
The agencies were using multi-year grants to deliver ongoing programs and/or to develop new service models. No agency reported using multi-year grants for activities that would be completed by the end of the grant. The agencies look to multi-year funding to increase funding reliability and lessen the administrative burden. They were surprised to learn that 43% of multi-year funding was time limited and could not be renewed and that multi-year grants provided little relief from the administrative burden.

Commenting on the difference between renewal and re applying as if new, agencies reported that many grants (64%) require agencies to re-apply (i.e., apply as if new) for funding each year. In practice, funders that require agencies to re-apply fairly reliably re-award grants year after year, as they know they support ongoing programs. But the process is time consuming and precarious, and renewal is never assured. In contrast, grants subject to renewal by the funder recognize the ongoing nature of the programs and the funder's commitment to it. Renewal grants (34%) are assured unless something significant occurs (e.g., the agency fails to deliver, the program is cancelled, etc.), though the funding level may change.

The Time Between Application Submission and Funder Approval / Rejection

Figure 8 describes the response time between the time of submission of a funding proposal and the agency receiving approval. With 80% of grants being for a one-year period, the response time for 60% of grants was 4-5 months.

Figure 8. Response Time



Agency Perspective

Agencies describe the response time to funding applications as very problematic. Because 80% of the funding is for a one-year period and many funders do not permit the agency to spend funds in advance of a signed contract, many funding periods are actually “nine-month” operations with 12 months of deliverables. Moreover, the gap between funding approvals presents a dilemma for agencies, as they have to decide whether to try to retain their staff through the “gap period” in anticipation of eventually receiving the funding or to let them go and start again. One agency described how it had made a wrong call and retained staff for a grant that was not renewed. The agency had to contend with the unfunded gap period and fund the severance for staff who had not been given notice. The resulting debt has made the agency extremely reluctant to take such a risk again, but community programs cannot be easily wound down and started up again. Agencies find themselves in a difficult dilemma.

Unsuccessful Applications

We wanted to understand how much effort the agencies put into writing applications that were ultimately unsuccessful because the grant data only describe the burden of successful funding applications.

The three agencies wrote 11 unsuccessful grants. Of these:

- 7 were new requests;
- 4 were second attempt applications; and
- 7 of the 11 were to foundations, one each was to a city, the federal government, a United Way, and a private corporation.

- **Failure Rate.** The agencies' failure rate for grant application was 17%. When asked about the failure rate, the agencies explained that while it may appear that there is a lot of funding available, in reality there is not much new funding to apply for. This is because a lot of funding that appears open is, in reality, largely committed. Moreover, given their workload, the organizations do not write proposals unless they have assured themselves that there is a realistic prospect of obtaining the funding. The agencies in the sample thought that less established agencies might write more unsuccessful grant proposals.
- **Second Attempts.** Agencies noted a trend among some funders to reject an application one year but encourage the agency to reapply the subsequent year after making changes or adapting the proposal. Some 36% (n=4) of the rejected applications fell into this category. The agencies expressed frustration that they were not successful after having expended more than double the work to apply. They felt that they had been misled by fund officers and/or that well-meaning fund officers simply could not deliver a positive decision through their grant review process.

5. Administrative Capacity

For the purposes of this report, organizational capacity and agency management includes:

- agency staffing and organizational roles;
- office space, systems, and equipment;
- board of director involvement;
- organizational and administrative challenges;
- informal funder contacts; and
- audit and evaluation.

In this section, we describe the administrative capacity of the organizations and how they manage to cope with their administrative workload.

Agency Staffing and Organizational Roles

Agency Staffing	Administrative and Management Staff	Grant Management
Agency A: $3.6 million in annual revenue 18 grants 160 staff, 130-140 FTE	Executive director Finance manager Finance clerk 2 regional managers	Funder reporting is highly centralized with the executive director and finance manager taking the lead, supported by regional managers and programs supplying data.
Agency B: $2.3 million in annual revenue 16 grants 63 staff, 32.4 FTE	Executive director Assistant executive director Bookkeeper (1.5 days/week) Executive assistant 2 program managers	Executive director and a program manager take the lead in funder reporting. Other managers/supervisors assist with data retrieval.
Agency C: $2 million in annual revenue 30 grants 65 staff, 45 FTE	Executive director Director of finance Finance clerk 5 program managers/supervisors	Executive director and program managers of the two programs with unstable funding sources take lead in funder applications and reporting.

- At time of our study, **Agency A** had recently been approved for expansion of two additional administrative staff to manage human resources and payroll and for salary increases for the frontline and supervisory staff funded by the primary funder. The new funding had not yet been received. This adjustment, while welcome, created significant problems agency-wide as the agency had to find the funds to adjust the salaries of its other frontline staff and other senior management staff. The agency has no cross-training for financial reporting and applications, although it hopes the administrative staff increase will help somewhat with this in the future. Currently the agency is vulnerable administratively.
- At **Agency B**, the executive director and one program manager take the lead in applications and reporting, assisted by frontline supervisors. They manage this load because they both have years of experience. The assistant director is new to the position and is still in training. The organization has no cross-training for grant reporting and applications and is extremely vulnerable administratively.
- At **Agency C,** the executive director and program managers all play an active role in grant applications. The director of finance is still learning the application and reporting ins and outs after one year on the job. Program managers carry frontline management and grant-seeking responsibilities. The agency is extremely vulnerable administratively and is short staffed.

Office Space, Systems, and Equipment

All three agencies have basic office space. One agency just moved to a more accessible location in an office building. Having just moved and having signed a long-term lease, it currently has adequate space. The other two agencies have very substandard space in cramped community locations, one above a store and the other in an apartment building. One has its senior administrative staff split in two locations. All three have many additional program locations that operate in rented or loaned space.

All agencies have basic office equipment and computer capabilities. None has agency-wide information or recording systems. None has computerized human resources or benefits management programs tied into payroll. The agencies use Excel spreadsheets to keep track of holidays and sick days, which are often maintained by program. Two of the agencies have a funder (different funders, different data) that collects its own data online. One agency can retrieve its data easily; another cannot get timely or helpful reports. One agency is exploring a computerized agency information system, as it cannot now gather integrated service data (e.g., data on how many clients use more than one agency program). The other two agencies have such complex mixes of services and data needs that they are not looking at an agency-wide system. Data are collected by program, and it is often determined by the characteristics of the grant application, which can change from year to year.

In one agency, a couple of lucky frontline workers have blackberries and notebook computers, courtesy of the funder. No one else in the agency has these. Cell phones in the agencies are used sparingly.

Board of Director Involvement

All three agencies described a similar role for their boards. The board of directors provides ongoing oversight and strategic direction and planning for the operation of the organization. The board is the only body to oversee the whole organization and monitor expenditures. In all three organizations, the board has worked to raise funds. However, these are community-based boards rather than fundraising boards. Only one has raised significant amounts to purchase and renovate a program space. All three boards sign off on applications and reports, but are otherwise not involved with reporting to funders. The exceptions are the United Ways, where the funder is included as a part of review meetings. Two boards had successfully advocated with their United Way funder for improved support.

Operational and Administrative Challenges

- *Cost of living is not built into funding.* All three organizations reported that they had difficulty with this as it means slow attrition of programs. They reported that the lack of cost of living increases affected all programs. Even recent initiatives are now suffering from slow attrition, undermining what were at the onset good programs. The need to stretch dollars further each year is a significant pressure on the organizations as it means continual service reductions or other cutbacks.

- *Systemic under-funding of programs continues.* The problem of under-funding of program costs continues. For example, one funder expects the agency to find up to 20% of operating costs and, while the policy is expressed verbally and funding is below cost recovery, the funder will not acknowledge the systemic under-funding in writing. Another funder seriously under-funds program (by 30-50%) in a high-needs area and relies on the agencies to find the rest of the funding from elsewhere, as the agencies want the program so badly.
- *Funders have program restrictions and make decisions that are not helpful.* Agencies reported that some funders seem unable or unwilling to examine requests on their merits. The agencies described the difficulties they faced when their way of meeting community needs did not correspond to how funders divide up their spheres of program responsibilities, e.g., not letting a program do outreach into the schools for inter-ministerial reasons that make no programmatic sense in communities.
- *Funders have financial restrictions and make decisions regarding grants that are not helpful*. Agencies find it difficult to keep programs operating under so many financial constraints. Moreover, when they sometimes find themselves in trouble because of actions taken by a funder, the funder is not able or willing to help with the solution. Some examples: One funder raised frontline salaries, but refused to provide equivalent funding for management positions. Another funder does not allow transfer of funds from other budget lines to cover unanticipated program cost increases. A third funder refuses to recognize agency expenditures to improve program safety.
- *Funders undertake program design without knowledge or expertise and without the advice of service providers.* Agencies reported that funders too often direct and make judgements that affect program design and delivery without the necessary knowledge and expertise and, in too many instances, without consulting service providers who do have experience.
- *Cash flow is often a problem.* In one case, the funder pays two months in arrears but only provides one month of funding in advance, which causes cash-flow difficulties. In other instances, delays in funding approval causes "gaps" in payments that the agency must scramble to cover.
- *Funders often do not understand and/or accommodate agency management challenges.* The challenge for executive directors is to have the whole agency function. They report that funders often cause serious administrative problems because they do not understand or acknowledge legitimate agency-wide management and human resources issues. Rigid rules and funding processes exacerbate staffing and human resource issues in organizations with multiple funders.
- *Senior managers are very aware and worried that they cannot replace themselves.* One senior staff person has tried to leave twice and the agency has gone into crisis. Senior managers report that frontline staff are reluctant to take on management jobs and, when they do, the training time required is long. Agencies do not have the surplus administrative capacity to enable them to train the next generation of senior managers. Moreover, the agencies report that funders are reluctant to compensate senior managers adequately.

Informal Funder Contacts

In addition to formal application and reporting processes, the agencies reported that many funders call on their organizations for additional tasks. All three reported being asked for additional information on short notice, including filling out many surveys. In addition, they are asked to manage visits from funding officers and others whom the funders send their way, visiting funders, researchers, and additional inspectors (e.g., fire, health). Sometimes the organizations are asked to attend press conferences, help raise funds, participate in funder organized training or information activities, and speak to individuals or groups. In addition, the agencies are regularly asked to assist other community groups that may be in need of help. This can involve a few meetings or more sustained mentoring and sometimes even a trusteeship for a grant. Agencies also report the funders use them to help train new funding officers (one agency trained seven funding officers in five years).

The agencies value informal contact with funders, but the time commitment is considerable. One agency tracked informal funder contact for six months and found that it spent on average about 10 hours a month on "routine" informal funder communications. Mentoring a new group, acting as a trustee, or managing a community consultation/planning process obviously requires a lot of time. Agencies want informal contact and ancillary activities recognized as a significant management obligation and capacity for informal communication recognized in administrative funding.

Audit and Evaluation

One agency has a major funder that does regular spot audits with its own auditors. For the most part, however, the agencies have their annual audit overseen by their boards with some special reconciliations required for selected funders, as part of the agency audit.

One funder supplies the agency with relevant demographic data regarding its target group and compares the agency service statistics to the data. The agency finds this very helpful as it allows it to focus its efforts and provides it with an opportunity to engage the funder in practical discussions about the program, its reach, and its outcomes.

In one agency, the funder is engaged in a collaborative experimental program. The funder, agency, and community partners meet regularly to review the program's progress and make adjustments based on recent learning. This project is a five-year pilot, and a university is providing an evaluation component.

Formal evaluations are not occurring in other grants. The agencies use logic models and track service data but do not have any research and evaluation capacity within their organizations or the budget to purchase this externally.

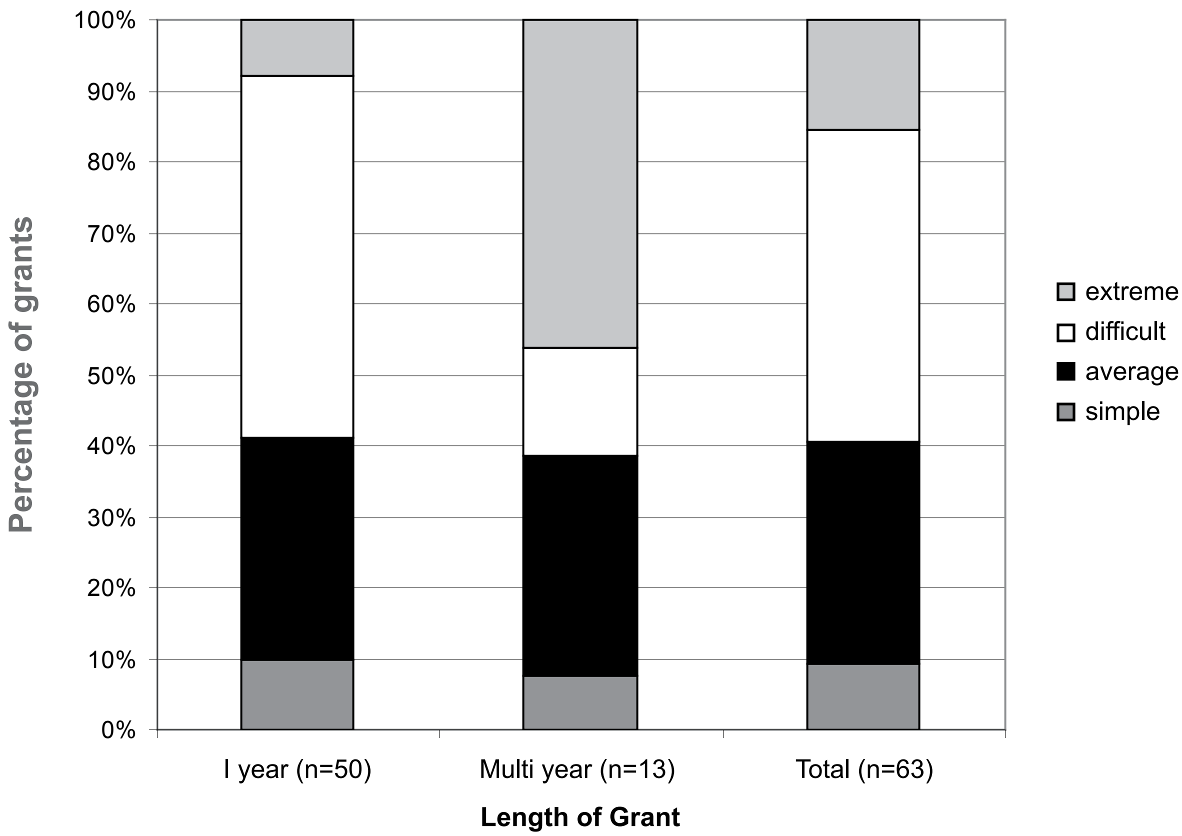
6. Funding Conditions by Length of Size of Grants

One of the questions raised by the data on administrative burden is whether the *length* of the grant or the *size* of the grant is related to the administrative burden. To explore this issue, we divided grants into two groups by length of commitment – multi-year grants (n=13) and one-year grants (n=50) – and two groups by size of grant – large grants (over $50,000) and small grants (under $50,000).

Application Complexity by Length of Grant

Figure 9 explores whether the length of a grant is related to the application complexity. It shows that 60% of both multi-year grants and one-year grants had extreme or difficult application processes. The number of multi-year grants was quite small; the percentage of grants requiring extreme or difficult proposals in a larger sample may be even higher. Overall, 60% of the grants had complex and time-consuming application process.

Figure 9. Application Complexity, by Length of Grant



Size of Grant

Grant size was judged to be an important variable, as the risk exposure is greater with larger grants. However, funders often have ongoing relationships with organizations to which they provide substantial grants. Small grants have much less exposure for the funder and typically fund only part of a staff position or program. We were interested in understanding how these grant characteristics influenced grant management and the resulting administrative burden on the agencies.

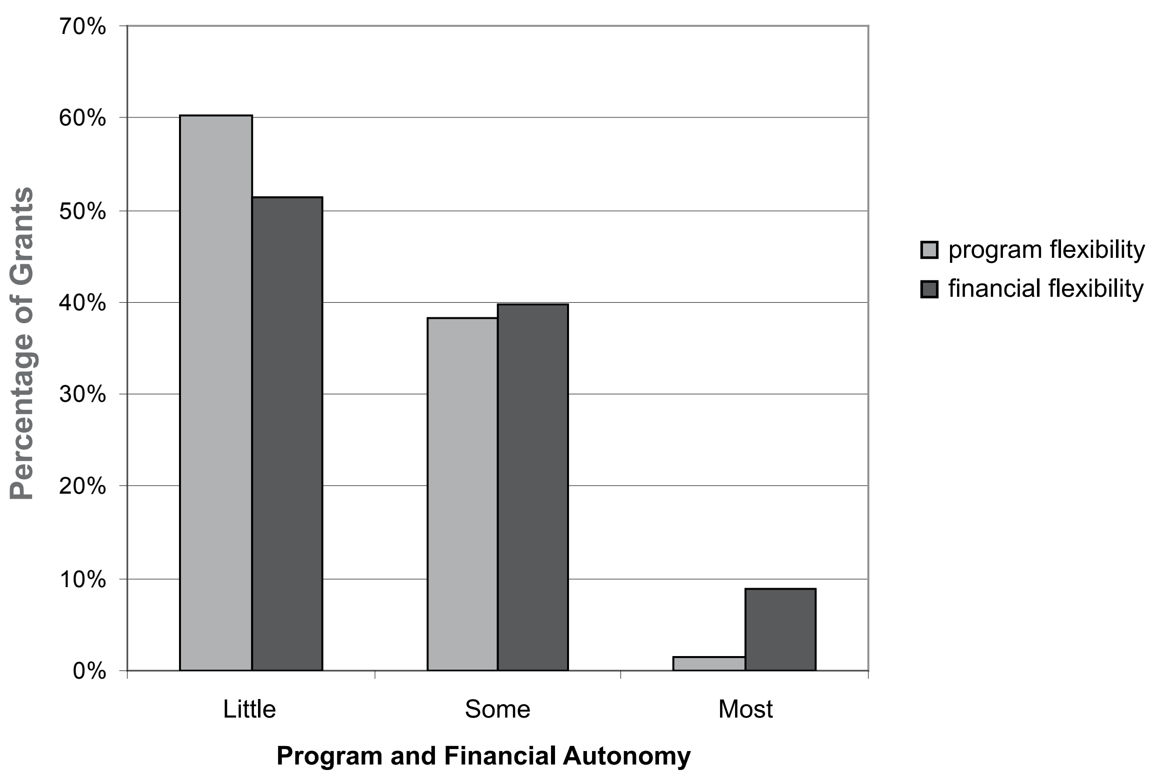
In examining grant size, we used $50,000 as the break point between "large" and "small." Any grant of under $50,000 accounts for less than one full-time frontline position and is likely a contribution to an existing program or service. In reality, $50,000 is low. Putting a frontline worker in the field probably costs in excess of $60,000 on a full cost-recovery basis.

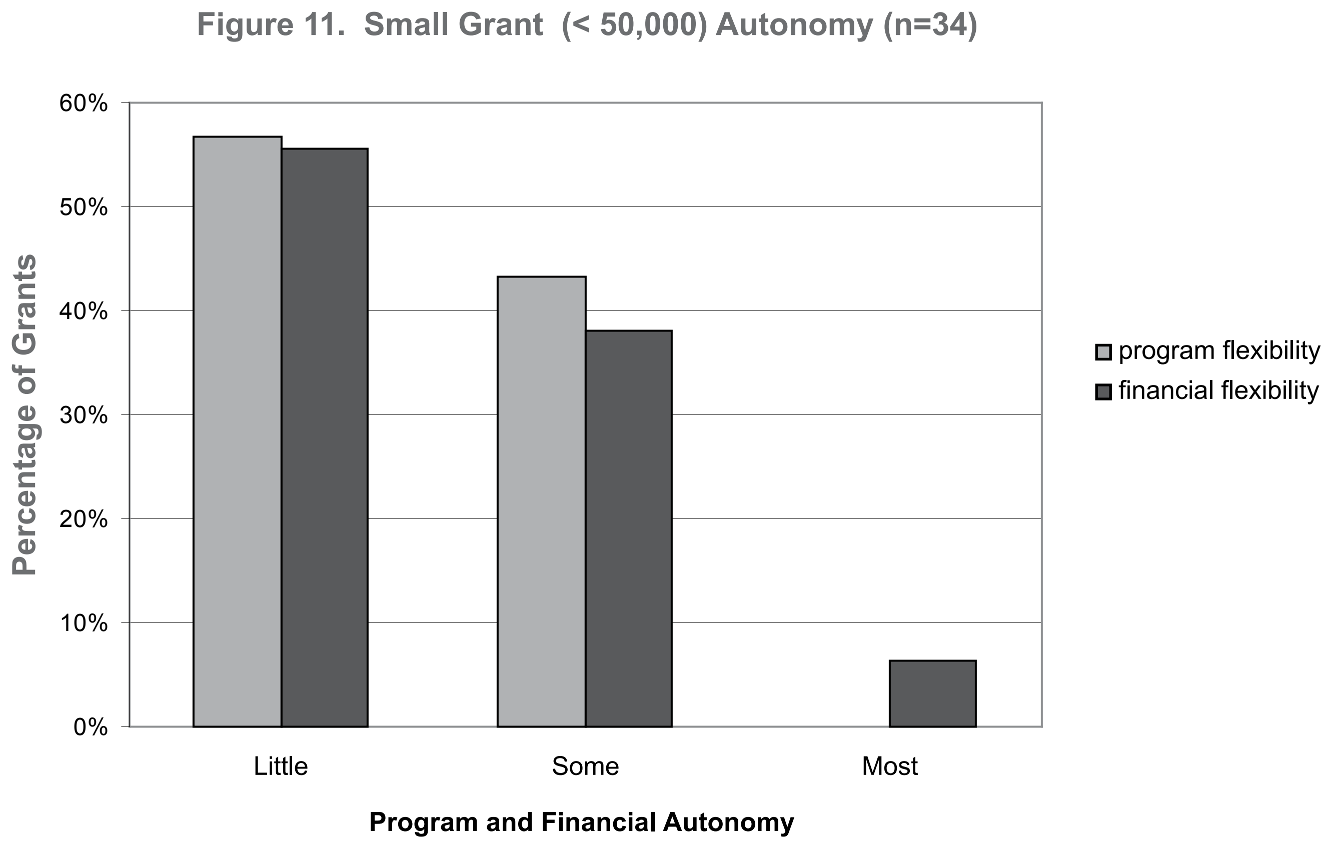
In this project, the grants split almost evenly between large and small: 30 were for more than $50,000, and 34 were for less than $50,000. The large grants, however, accounted for $8.8 million in grants while the small grants accounted for only $566,000. Small grants averaged $16,600 each; large grants averaged $293,000.

Large and Small Grant Autonomy Profiles

Figures 10 and 11 describe the ratings on program and financial autonomy for large grants and small grants respectively. They show there is no difference in grant flexibility between large and small grants. Some 60% of large grants and 57% of small grants permitted little or no program flexibility, and 51% of large and 56% of small grants permitted little or no financial flexibility. The remainder of the grants, approximately 40%, had moderate controls (prior approval from the funder was required). Less than 10% of both large and small grants provided the agency with flexibility to adapt programs and budgets to achieve objectives without requesting approval in advance.

Figure 10. Large Grant (> $50,000) Autonomy (n=30)





Application and Reporting for Large and Small Grants

Figures 12 and 13 describe the application and reporting ratings for large and small grants respectively. They show that large grants have more complicated processes than small grants; 83% of large grants had difficult or extreme application processes and 60% have difficult or extreme reporting requirements. By contrast, fewer small grants had complicated application processes, and significantly fewer had complicated reporting requirements. Almost forty percent (39%) of small grants had difficult or extreme application processes, and 61% had simple or average application processes (15% simple and 45% average). Most small grants (97%) had simple or average reporting requirements.

Figure 12. Large Grant Application and Reporting Ratings (n=30)

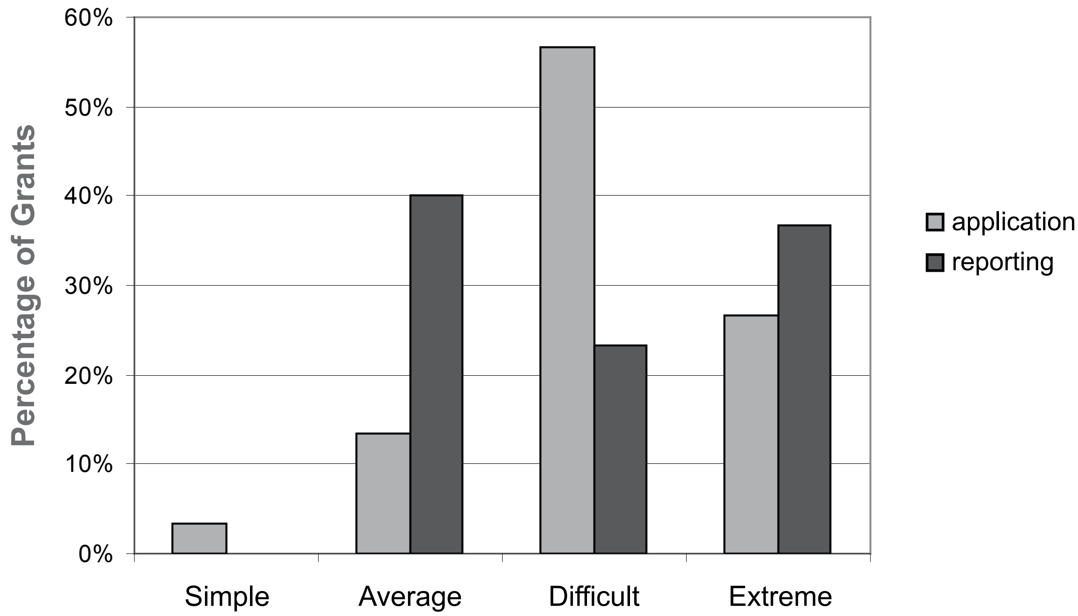
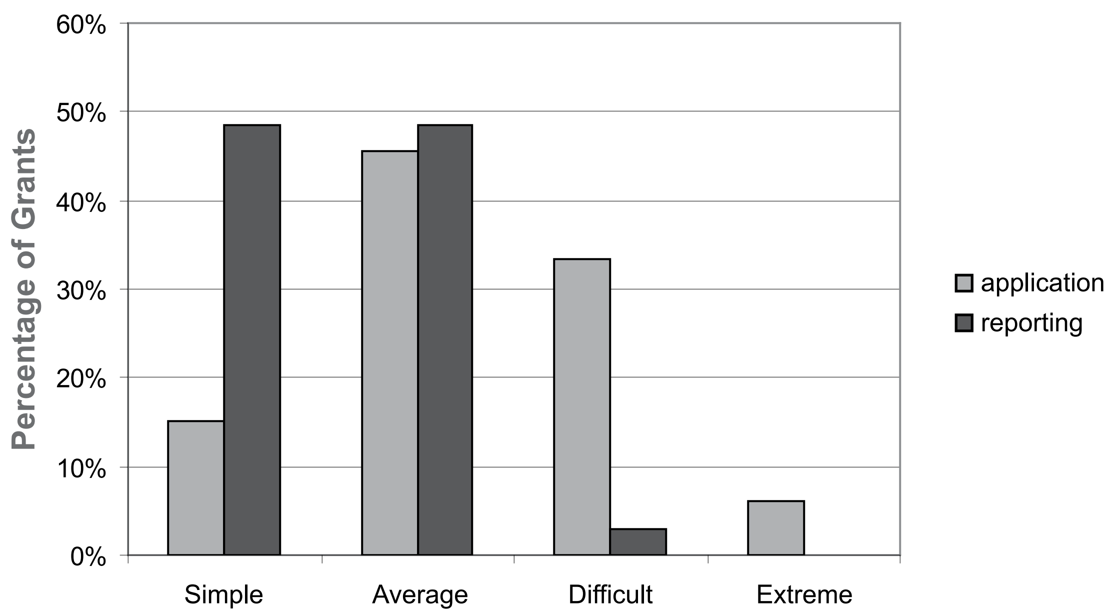


Figure 13. Small Grant Application and Reporting Ratings (n=34)



7. Funder Profiles

This section describes the differences in the administrative burden imposed by different types of funder. (It excludes corporate and other nonprofit funders. We examined reliability, program and financial autonomy, political vulnerability measures, response time, and application complexity for discernable trends among funders.

The differences among funders that emerge may be indicative of differences in funding approaches. However, the sample size is too small to allow us draw any firm conclusions about the administrative burden imposed by any one type of funder or by any individual funder.
The table below describes the number of grants, total dollar amount of those grants, the number of funders, and the number of programs funded for each funder type.

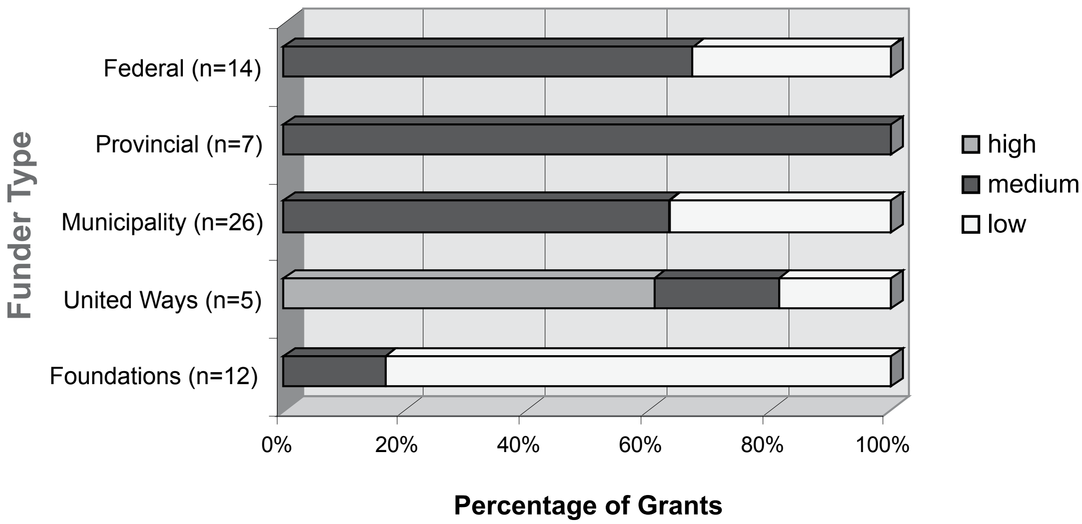
Sources of Funding

		Dollar Amount ($)	Number of Grants
Federal government	Two departments 4 programs	3,774,109	14
Provincial government	Four ministries 6 programs	1,538,834	7
Municipal governments (2)	13 programs	2,010,733	26
United Ways (3)	4 programs	1,411,139	5
Foundations (7)	10 programs	591,444	12
Corporation (1)		11,000	1
Nonprofit (1)		24,167	1
TOTAL		9,361,426	66

Reliability

Figure 14 looks at reliability of funding (i.e., the likelihood of funding continuing) by funder type. The fact that United Ways are alone in providing highly reliable funding illustrates the precarious nature of funding even among the established and stable agencies in the survey sample. The provincial government frequently funds ongoing programs that usually continue year on year, hence its medium rating. The federal government and municipalities provide a mix of medium- and low-reliability funding. Foundations are short-term, low-reliability funders for the most part.

Figure 14. Reliability, by Funder Type



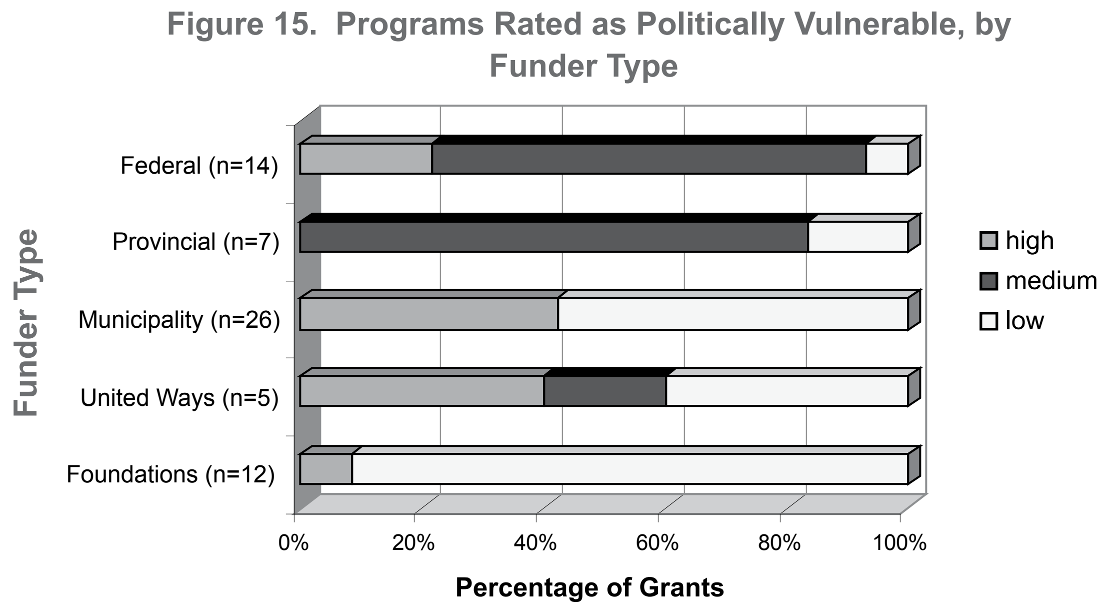
Agency Perspective

Because none of the three agencies provided short-term services, all were juggling low-reliability funding to maintain ongoing programs. Agencies value the reliability of the United Way funding tremendously. All three agencies had funding from a United Way, and they commented on how hard it must be for agencies without reliable funding.

Political Vulnerability

Figure 15 describes the ratings of political vulnerability by funder type. It is the overall ratings rather than individual ratings for political vulnerability that are interesting in this breakdown. In the perception of the agencies, political interference and rapid changes in political priorities are growing. Agencies believe this adds to the precariousness of service delivery, is beyond their control, and can throw their fragile agencies into crisis at any time.

The definition of political vulnerability includes both direct intervention by politicians and political considerations influencing funding and/or grant management decisions. In hindsight, it might have been better to separate the two criteria. Nevertheless, these initial findings raise some interesting questions, not the least of which is: What is happening to management and decision-making for social programs that makes agencies feel that program merit/need is no longer the basis of decision-making?

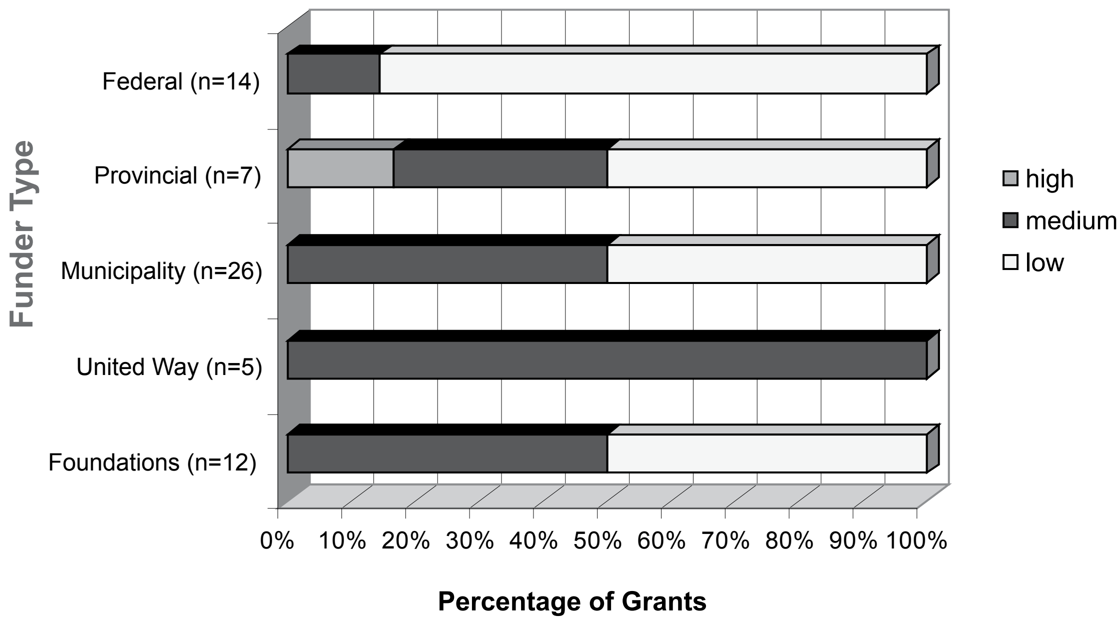


- The ***federal government*** (14 grants): 21% of the programs it funded were rated high for political vulnerability (i.e., are subject to political influence, intergovernmental disputes, etc.); another 71% were rated medium (i.e., subject to political interference on occasion due to public complaint or a news event); and only 7% were rated as low (i.e., they fly below political radar and are non-controversial).
- The ***provincial government*** (7 grants***)***: The provincial government is the major service funder in the province; 83% of the programs it funded were rated medium for political vulnerability) but, in this sample, were not subject to the political swings that affect other funders' programs. The remaining 17% were at low risk for political involvement.
- ***Municipal governments*** (26 grants*):* Municipal government are closest to communities and are always involved to some degree in local politics because of issues like homelessness and the location and operation of services for disadvantaged groups in neighbourhoods. They appear to be more politically hands-on: 42% of municipally funded programs were rated as being at high risk of political interference. The remaining 58%, however, were rated as being at low risk. No programs fell in the medium risk category.
- ***United Ways*** accounted for only 5 grants and are not seen by the agencies as being immune from political considerations in terms of shifts in funding priorities: 40% of their funded programs were rated as being at high risk for political vulnerability; 20% were rated as medium risk; and 40% were rated as low risk.
- ***Foundations*** (12 grants): 92% of foundation-funded programs were rated as being at low risk for political vulnerability. Only one grant was rated high. Private foundations are subject to much less scrutiny and, as a result, their funding is less susceptible to political pressures. Public foundations have a higher profile and may be more susceptible to political pressure.

Program and Financial Autonomy

Figure 15 and 16 examine the degree of autonomy given to agencies by funders, expressed as flexibility to make changes. Overall, the pattern reflects the combined findings presented earlier in this report. With the exception of the United Way, all funder types did not allow the agencies the flexibility to make changes in the majority of their grants and only allowed changes with prior approval in the other grants. The federal government provided by far the least flexibility; 88% of its grants allowed for no program changes, and 95% allowed for no financial changes.

Figure 16. Program Autonomy Allowed, by Funder Type

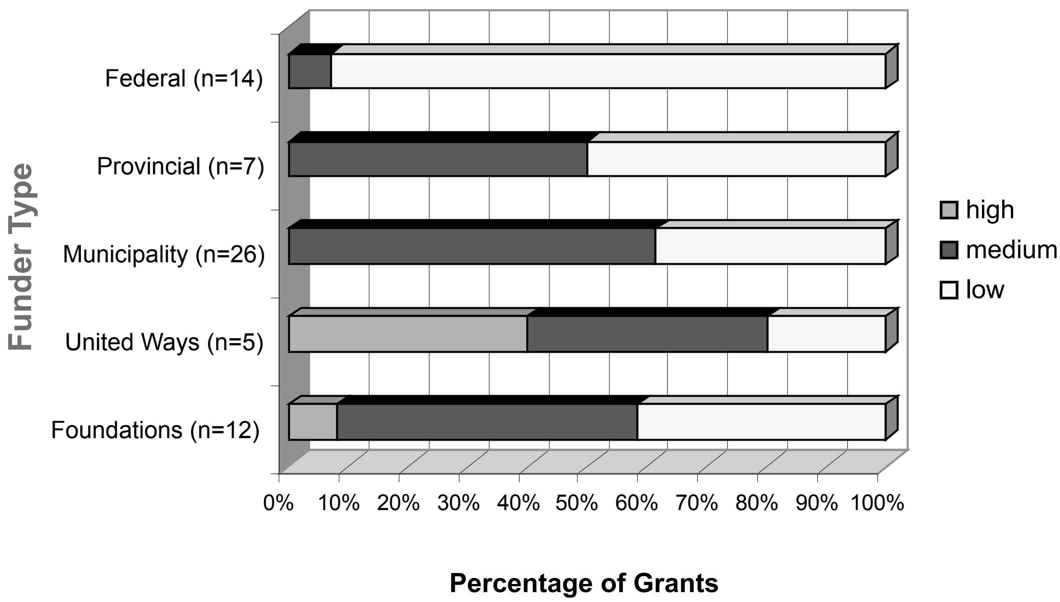


- The ***federal government*** is the most restrictive and inflexible funder; federal grants provide little or no flexibility; 86% of its grants allowed for no program changes, and 93% allowed for no financial changes. The agencies saw this as the legacy of the federal sponsorship "scandals."
- The ***provincial government*** restricts agencies from making changes for the majority of its grants (50%). Only 17% of provincial government grants provided high program flexibility to agencies and none provided high financial flexibility. The remaining grants (50%) allowed agencies to request financial or program changes, which the province would typically approve.
- ***Municipal governments*** provide little flexibility for program changes in 50% of grants. Financial flexibility is slightly easier to obtain; 62% of grants allowed organizations to ask for permission to re-allocate funds, and permission is usually granted. No municipal grants provided the agency with high program or financial flexibility.

- The three ***United Ways*** are the most consistently flexible funders (for program and financial autonomy). United Ways provided all grants with medium flexibility for program delivery (changes are typically approved). They provide even greater financial flexibility; 40% of grants allowed high flexibility and another 40% medium flexibility. Only 20% of United Ways grants provided little or no financial flexibility.

Foundations do not allow changes for a majority of the grants (50% were rated as providing low program flexibility and 50% as providing medium financial flexibility). No foundation grants provided high program flexibility. On the financial side, 42% of grants provided little to no flexibility, 50% provided medium flexibility, and provided 8% high financial flexibility.

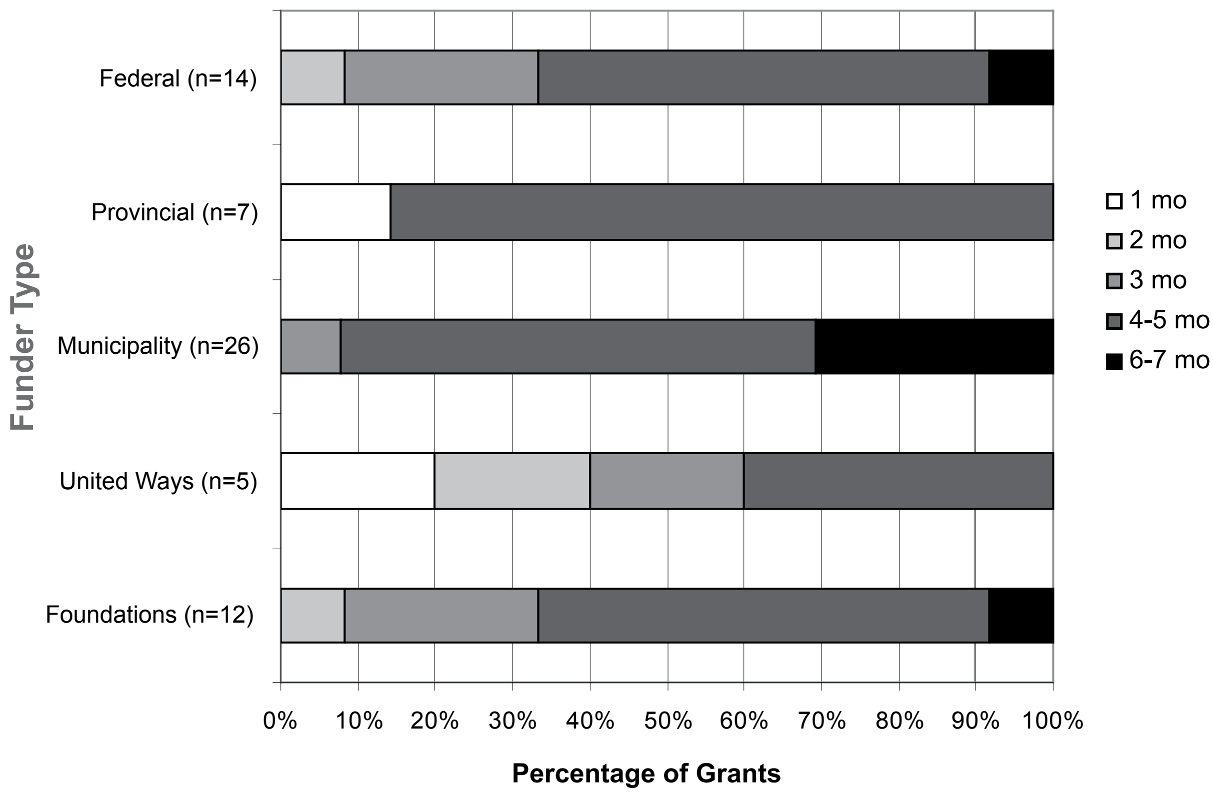
Figure 17. Financial Autonomy Allowed, by Funder Type



Funder Response Time from Application Submission to Acceptance / Refusal Response Time

Funder response time is obviously affected by the political or administrative systems in which funders work, but with increasing rigidity in managing grants, the length of time for approval has become a serious issues in service delivery. This is especially true with the federal government, which does not allow any backdating or extension of contract periods to accommodate late approvals. Figure 18 shows considerable differences in funder response time. Two thirds of federal government grants took more than four months to reach a decision, whereas the provincial government has greater flexibility to approve funding and allow for the continuation of service delivery. The provincial government gives early approvals and follows up later with final approvals. Municipalities have complex hands-on granting processes that involve committee and council approvals. This process may have been suitable in another era, but today the municipality is a major service funder and needs to be able to fund quickly and effectively.

Figure 18. Funder Approval Time



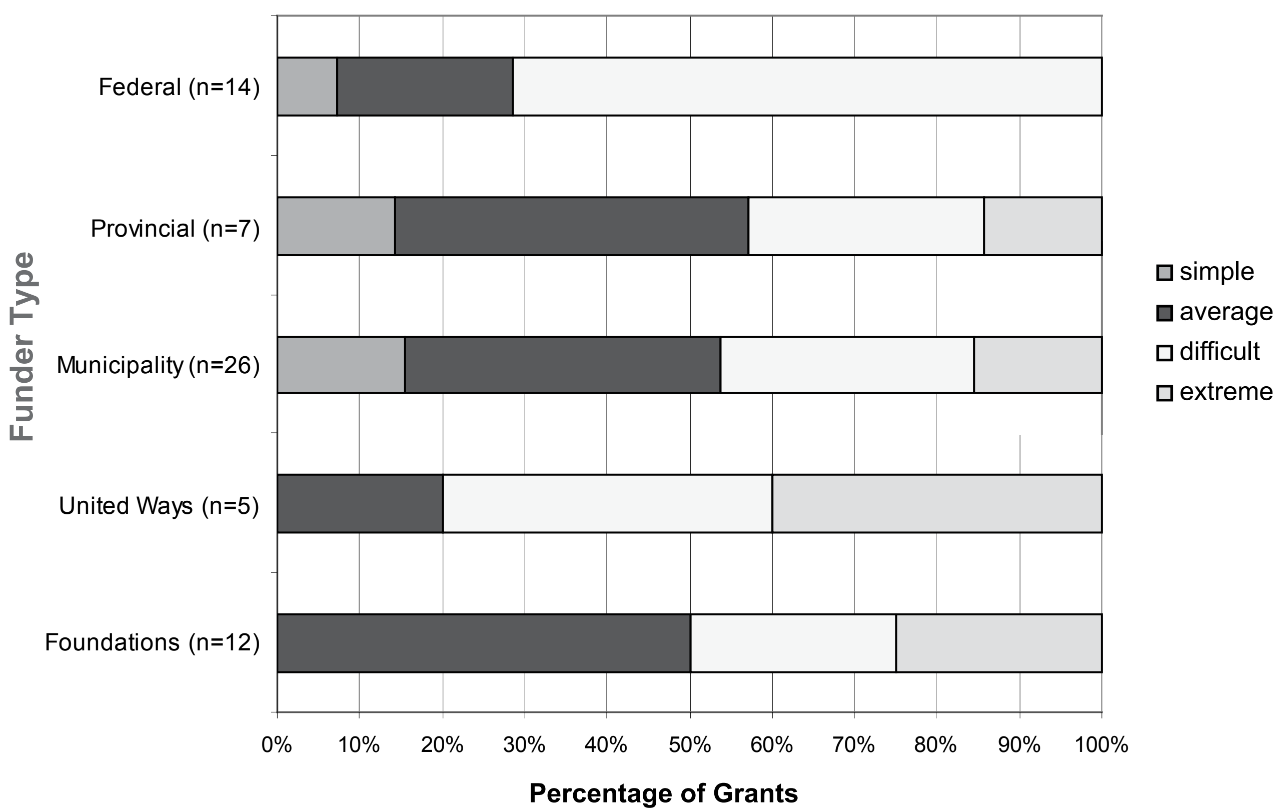
- ***Federal grants*** typically take more than four months to be approved (71% take this long). Since funding is usually for one year, the year is often shortened by many months. Agencies explained that federal contracts do not allow payment for any expenses outside the contract period and that contract periods cannot be made retroactive or extended. Delays in approving federal contracts make it difficult for organizations to retain skilled staff and maintain continuity in service delivery.
- ***Provincial grants*** are approved either within one month (14%) or within four to five months (86%). The agencies reported that much provincial funding is renewal funding, which means that agencies can continue to provide services, with the approval of their funders, pending the arrival of the new contract for the year.
- ***Municipal grants*** typically take more than four months to approve (93% take this long); 31% take six to seven months. Since many municipal grants are open calls, organizations cannot count on the funding being renewed. The agencies reported that this causes them considerable management difficulties.
- ***United Ways*** approve 60% of grants in less than three months; the remaining 40% are approved within four to five months.
- ***Foundation funders*** have a wide range of response times, but 66% of their grants take four months or longer to be approved.

Application and Reporting Complexity Rating by Funder

Figure 19 describes the differences in application and reporting complexity by funder type. It shows that all types of funders are able to work with application processes that are simple or of average complexity – they all do so for at least some of their grants. Agencies are adamant that an average application provides all the necessary information for decision-making. Our study shows, however, that many funders have difficult or extreme application processes. Although United Ways are more flexible, they nevertheless had difficult and complex application processes (80%), with 40% rated as extreme. Over 71% of the federal government's applications were rated as difficult. One quarter (25%) of foundation applications were rated as extreme, and another 25% were rated as difficult. The provincial government and municipalities fared better; more than 50% of their applications were rated as simple or of average complexity; however, the balance (43% and 46% respectively) were rated as difficult or extreme and asked for too much detail or for information that could not be reliably known.

Complexity ratings for reports were more consistent among funders. With the exception of federal government grants that require monthly reports that were rated as extreme, the vast majority of funders had simple or average reporting requirements and asked for reports only quarterly, semi-annually or, in some cases, annually.

Figure 19. Application Complexity, by Funder Type



Analysis and Discussion

The objective of this study was to gather baseline information on the administrative demands made by funders on the nonprofit organizations they fund. From several agencies that volunteered to participate, we selected three organizations with different funder profiles. Relying on agencies to volunteer limited our sample to those organizations that had the capacity to even consider participating in such a study. All three participating organizations had United Way membership funding, which gave them more flexibility and greater capacity than most nonprofit organizations. The sample, as the participants themselves point out, is therefore not representative and presents a *best-case scenario.*

Funding Trends

This research provides a detailed snapshot of the cumulative administrative burden resulting from the terms, conditions, grant practices, and accountability requirements placed on nonprofit community organizations that have multiple funders. The picture that emerges is one in which the actual impact of the funding process is directly at odds with the very reasons governments and other funders engage nonprofit organizations to deliver community services. Both funders and the Canadian public believe that community-based nonprofit organizations are in closer touch with their communities and have better reach than governments do.[26] These agencies are seen as having less bureaucracy and, therefore, as being more flexible and responsive than government or larger organizations. They are widely viewed as cost effective. The current grant process, however, works against these agency strengths and actively prevents agencies from effectively serving their communities and delivering effective, responsive services.

The following findings give credence to concerns raised by Katherine Scott and Marilyn Struthers in their study *Pan-Canadian funding Practices in Communities.* These concerns touch on the current effectiveness of community investments, the sustainability of the nonprofit sector, and our current capacity to address the complex problems facing Canadian communities:

- The reliability of funding sources for agencies remains tenuous. Some 42% of grants were rated as having little or no reliability. Only 13% were rated as reliable year on year, and 45% were rated as somewhat reliable.
- Funders maintain detailed management control over the majority of grants, preventing agencies from adapting to local circumstances. Some 55% of grants provided agencies with little or no flexibility to adjust programs or expenditures. Another 42% allowed changes that were pre-approved by the funder. Only 3% of grants allowed agencies to make decisions about adjusting program and expenditures to meet program objectives.
- Grant applications tend to be overly long, complicated, and difficult to complete. Some 55% of grant applications were rated as difficult or extreme; they asked for information the organizations could not reliably know and a level of detail that was not even required for internal management.
- Grant reporting, on average, is more reasonable and tends to be simple or of average difficulty. With the exception of one funder, reporting requirements tended to be more reasonable than application processes. However, the volume of reporting and complex interim and year-end reports increased the reporting burden.

[26] Muttart Foundation. (2006).

- Taken together, the cumulative administrative burden was all-consuming. The agencies respectively completed 182, 48, and 94 major funder reports a year. Each funder had its own report requirements and formats. The majority of funder report requirements were rated as difficult or extreme, each requiring many days of staff time to complete. One extreme report took experienced staff 15 days to complete.
- Multi-year grants fall short of expectations. Multi-year grants were uncommon; only one in five grants was multi-year. Moreover, of those, 40% were not renewable, and 60% required the same level of reporting on off years, so they did not save agencies any time.
- 66% of one-year grants (80% of all grants) required agencies to re-apply each year as if the program were new (64%) or prevented the agency from reapplying at all (2%), even though virtually all agency programs were ongoing. Requiring agencies to re-apply every year as if the program were new significantly contributed to organizational instability.
- Response time for 73% of grants was four to five months or longer from the time the proposal was submitted to the time funder either approved the grant or rejected the proposal. The slow response causes "gap" problems for agencies and often results in agencies have "nine months" to deliver "12 months" of service. If agencies retain staff during the "gap" and then do not receive the grant, they incur a significant debt.
- Agencies reported that the involvement of politicians and politics in grants and programs is increasing. As the political vulnerability of programs increases, programs become inherently riskier for agencies to run because they may be subject to unpredictable funding and program shifts and/or to onerous compliance and other demands.
- Large and small grants have similar program and financial flexibility profiles. Most large and small grants were equally restrictive and allowed agencies little ability to adapt programs or shift finances.
- A significant number of small grants placed a heavy application burden on agencies; 39% had application processes that were rated difficult or extreme. Reporting for small grants was more reasonable; 97% required simple or average reports.
- Large grants tend to have complicated processes; 83% of application processes and 60% of reporting processes were rated as difficult or extreme.

Funders, large and small, rarely give agencies any latitude to adapt or adjust programs or finances to meet local conditions and changing circumstances. Agencies reported that funders now require references from other funders, but that they have not collaborated with the other funders on defining the information required. Even within funder categories, different departments or ministries often ask for similar information, but do not collaborate on streamlining the funding process. There also appears to be little differentiation in processes to reflect the size of the grant or the ongoing nature of a relationship between a funder and an agency.

Agency Profiles

All three agencies that participated in our study had a unique portfolio of funders. All were seriously burdened in different ways. None had a portfolio of funders that supported them to get on with the task of delivering effective services and building communities, although there were a few funders with some exemplary and that were perceived as helpful by the agencies.

Of the three agencies, Agency A had fairly good funding reliability but the least flexibility to adapt programs or adjust expenditures. Its reporting burden was almost three times heavier per grant than that of the other two agencies. Agency C had the opposite profile. It had the least reliable funding but more flexibility to adapt programs and adjust expenditures. Its application processes were less complex and its reporting requirement were simpler and less frequent than those of Agency A, and it had twice as many grants as Agency A but only half the revenues. The end result for both agencies is the same; both have to run fast to keep pace on the funding treadmill.

If one were to look for a model community organization, Agency B would be it. It has several funders that provide significant amounts of funding for a wide variety of relatively stable programs. Moreover, it is located in a "designated" high-risk community that is being showered with funder attention. Despite its attractive portfolio of funders and funder interest in its community, it, too, is bogged down by complex application processes and reporting requirements. More than half of its grants are rated as providing low flexibility and little or no opportunity to tailor programs or expenditures to community needs. Moreover, with one exception, all of Agency B's grants require funder pre-approval prior to making changes. The agency finds itself constrained by the lack of flexibility to adapt grants to local conditions and the cautious lens through which funders assess requests for changes to grants. Agency B gave several examples of its inability to work with community agencies and local residents to meet community needs because of constraints on the use of grants.

All three organizations described themselves as "operating on the edge," with staff more than fully engaged. All three also described themselves as extremely vulnerable should a senior manager leave. These organizations have no capacity for cross-training and all three were operating without key staff positions in management or administration (the positions were unfunded as opposed to vacant). Grant application and reporting requirements and the challenges posed by funder practices and restrictions dominate the attention of senior management in all three organizations. Grant management, of necessity, takes priority over other management responsibilities.

In all three organizations, tremendous organizational energy is directed to meeting funder requirements, which, according to the executive directors, does not add value to the work of the organization. Indeed, executive directors describe an environment in which their key responsibility is to manage the demands of funders and the many constraints and problems funders impose on the organization so that their staff can actually get work done and meet community needs.

Funder Profiles

United Ways stood out among funders because they provide membership grants with the greatest level of reliability and program and financial flexibility. They also stood out because of the complexity of their application process.

The *federal government* was significantly more restrictive than other funders; almost 90% of its grants allowed little or flexibility, and 70% of application processes were rated as difficult. In addition, federal reporting requirements were three times more onerous per grant than those of other funders.

Interestingly, the *province*, *municipalities,* and *foundations* had similar grant flexibility profiles (the majority of all of their grants were rated as providing low flexibility). Foundations are viewed by the nonprofit community as funders of innovation, so it was a surprise when the data showed how restrictive foundation practices are. Foundation grants did not provide program autonomy, and only 6% allowed for financial autonomy. The majority of foundation grants allowed little or no program or financial flexibility (the same was true for provincial and municipality grants); most of the balance required pre-approval for any changes. Application complexity was significantly high for the provincial, municipal, and foundations grants. Half (50%) of foundation application processes were rated as difficult or extreme, as were 47% of municipal and 43% of provincial application processes

Response time was slowest for *municipalities* (90% took more than four months), followed closely by the *province*, the *federal government*, and *foundations*. *United Ways* had the fastest response time; 60% of grants were responded to within three months.

With the exception of two funders, the agencies reported they did not have regular opportunities to collaborate with funders on program design, delivery, and financing. The two exceptions were a foundation and a provincial funder. In one case, a foundation is participating in and funding a five-year collaborative pilot project. Foundation staff are involved in regular planning meetings with the agency, community participants, and external evaluators. In another case, the provincial government provides the agency with relevant demographic data tailored to the agency's catchement area and engages in discussion with agency staff on program design and reach. Much more common were reports of how funders undertook design work without involving agencies, which yielded poor results that the agencies then had to live with and try to make work, or reports of funder refusals for program changes that the agency saw as critically important.

All three agencies reported that the overload of information requests and filings, the lack of delegation of authority for decision-making to agencies, problems caused by the granting processes, and the failure of funders to consult with grantees contributed to the difficult administrative burden.

Implications and Conclusions

Three agencies, 66 grants, 46 different grant programs, seven categories of funders – this study set out to take a snapshot of the administrative burden placed on nonprofit community organizations by their funders.

The picture that emerges is this:

- *Agency leaders are consumed by and preoccupied with managing a funding burden that threatens to overwhelm their organizations*. They report that they are barely coping with the application and reporting burden and the strict limitations and constraints placed on them by funders and that the barriers imposed by current funding practice too often prevent them from creatively meeting community needs and effectively managing their organizations.
- *Senior agency leaders are seriously worried that there is no one ready, willing, or able to take their place*. Agency leaders have insufficient management depth in their organizations and insufficient time within existing job descriptions to cross-train or to develop the next generation of senior managers. Moreover, no one wants their jobs. Over the past 15 years the focus of executive directors and program managers has shifted from staff and program development, community engagement, evaluation, and program outcomes to a preoccupation with applications, reporting, and compliance with funder restrictions while juggling a portfolio of unstable funding that, year after year, fails to keep pace with rising costs.
- *Funders are almost universally adopting a controlling and prescriptive grant-making process that prevents agencies from adapting to local circumstances*. Too many funders require and receive excessive amounts of detailed information. In some instances, the information is of questionable reliability because it cannot be known with certainty. Only a handful of funders trust agencies to make decisions on their own within the grant objectives. The majority of funders allow agencies little or no flexibility to make program or financial changes to address changing circumstances; the balance require agencies to seek approval before making changes.
- *The grant-making process actively works against the outcomes funders expect from community agencies*. Funders expect that their grant will allow the organization to focus on improving program delivery and design, strengthening staff through training and support, and improving community outcomes and resilience through community networking and coalition building. Instead the leadership of community service agencies in the organizations we studied are focused on pulling together report after report to meet tight time lines, solving problems created by inflexible grant administration, and seeking creative ways to compensate for rigid program and financial restrictions that impede their work.

Using the findings of this report, funders and agencies can begin to revamp and streamline the administrative processes associated with grants. Simplifying application processes, reducing the frequency and complexity of reporting, and speeding up the turn around time for grants would be helpful in the short term. But, by themselves, these initiatives will prove insufficient in the long term.

The work of community nonprofit organizations that deliver services and support communities is buried under administrative demands, mired in regulations, and supported by unstable short-term funding that too often fails to keep pace with rising costs. Significant funding reform is required if we are to re-energize the nonprofit sector and free it up to work with communities to develop innovative solutions to the problems facing society. This is a big challenge, but it is important to those we serve that we make the effort.

In his remarks to the Conference on Policy Learning and Distributed Governance,[27] Eric Young describes the complex interactive relationships that underlie the challenges facing communities today. He said, "We know two things with absolute certainty: 1) In twenty years, even ten, our world will look very different than it does now; and 2) that the decisions and actions we take today will significantly shape our emergent future." But "publics and government are locked in a relationship that is inauthentic and ill suited to the modern condition. And it is obviously fuelled by the blood lust of today's media. This harsh climate of blame and mistrust has low tolerance for questions with no easy answers. Instead, it ratchets up the demand for accountability." He goes on to explain that cultures of accountability are different from cultures of adaptability and that today the world needs adaptive systems and agencies need to be freed up to be learning organizations.

As Robert Goodin argues in his article *Democratic Accountability,*[28] "Third Sector organizations (nonprofits) are motivationally and organizationally distinct and are therefore capable of doing many things that neither the state nor the market sectors can do reliably or well." Delivering social services in local communities is one of those areas in which the altruism of nonprofits is ideally suited. Nonprofit community organizations are ideally positioned to provide local services in local communities. Yet we know from this study that funders are not providing the agencies with flexibility to innovate or adjust services, to partner, or develop new way of responding to the complex challenges facing communities. We have too much of the wrong kind of accountability – too many administrative demands that sap productivity. Agencies need to be freed up to respond to local situations and search for new ways of meeting community needs. Moreover, funders need to involve their service providers in designing effective services and give them the flexibility to try new ways of doing things.

The data are clear: we can't afford to do business this way. It is in everyone's interest to reform the funding process to minimize the administrative burden and maximize the flexibility of agencies to adapt, respond, and innovate, with a focus on results, not controls. It is urgent that funders, nonprofit organizations, and local communities come together to address the complex problems facing communities.

27 Young, E. (2003), p 6.

28 Goodin, R., (2003). Democratic accountability: The distinctiveness of the third sector. Arch.Europ.Sociol.,XL1V3. p 359

Appendix A

PROGRAMS WORKSHEET

Classification	
Federal	Funding from federal government.
Provincial	Funding from provincial government or agent, e.g., LHINS.
City	Funding from city or regional government.
United Way	United Appeal funding.
Foundation	Private or public foundation.
Corporation	For-profit business.
Nonprofit	Other nonprofit.
Donations	Charitable donations, events, etc.
Sales/fees	Sale of product or services.
Other	

Time period	
	Time period – time of funding approval – may be conditional on meeting annual objectives/review and/or continued government allocation but funding is committed for the time period.
1 year	
2 year	
3 year	
4 year	
5+ years	

Renewal conditions	
None	May not reapply for same project/ funding not renewable, one-time grant.
Reapply	May apply again for consideration with all submissions as if new.
Renewal	May apply for funding to continue program.
RFP	Subject to competitive request for proposal.
New	Renewal conditions not known, unclear as yet.
Other	None of the above.

Reliability	Measure of the certainty that funding/program will continue.
3. Most	Most reliable: e.g., legally mandated government program, United Way membership (where model in operation), etc.
2. Some	Somewhat reliable: likely to continue but not assured, e.g., government per diem, purchase of service that has renewed for five or more years.
1. Little	Unreliable/not renewable: known end date , not renewable, or renewal most uncertain or not known, e.g., Trillium, innovation grants, most foundation grants.
0. N/A	One-time grant, one-time purpose, renewal not appropriate or needed, e.g., capital grant, special research grant.

Program autonomy	Gauges how much ability the agency has to address local conditions/needs.
3. Most	Most flexible: maintaining program intent, agency able to tailor program to local needs, permission to make changes not required in advance.
2. Some	Somewhat flexible: change possible within specific program framework/ objectives, funder typically approves change request.
1. Little	Little flexibility: program required to be delivered as specified, change permission rarely granted.
0. N/A	Nature of grant makes program autonomy not relevant.

Financial autonomy	Gauges the ability of the agency to meet expenses and reallocate resources.
3. Most	Most flexible: within approved budget, agency may reallocate within major budget categories or funder is open to major budget reallocation; easy process.
2. Some	Somewhat flexible: limited fund reallocation allowed within approved budget without prior permission, e.g., 10% between lines, funder approval required before major fund reallocation, difficult to obtain.
1. Little	Little flexibility: little or no flexibility between budget lines, reallocation approvals typically not considered or granted.
0. N/A	Nature of grant makes budget flexibility irrelevant.

Vulnerability	Some programs and client groups are inherently higher profile and are affected by political and news events. These programs are inherently more complicated and riskier to run.
1. High	Subject to political interference, intergovernmental disputes, public attention, e.g., anti-gang youth program, homeless hostel, safe site for drug injection.
2. Medium	Subject to interference on occasion due to client, community action, or news items, e.g., community health clinic, autism program.
3. Low	Stable, flies below political radar, non-controversial, e.g., after-school program.
N/A	

APPLICATION WORKSHEET

Application	Process of acquiring funds.
Letter followed by application	Letter of intent submitted, which, if accepted, is followed by a full proposal.
Full application	Detailed application process to be considered for funding.
RFP	Request for proposals - formal bidding process for specified service or services.
Renewal application	Application process specifically designed for organizations seeking renewed funding.

Application complexity	Application processes differ in their length and in the complexity and detail of information required.
1. Simple	Relatively short proposal requiring standard and easily accessible information. Straightforward program description and objectives. Can be completed by a senior staff.
2. Average	Moderate length of proposal requiring information that is, for the most part, readily accessible. Program detail required is more elaborate and detailed but known. Can be completed by a senior staff and finance person. Requires 3-5 letters of support.
3. Difficult	Complicated proposal. Requires data that needs to be amended or extracted from existing agency data. Can be completed only with difficulty and involves more than senior staff and finance person to assemble accurate information. Program and financial information required is very detailed. Many detailed letters of support are required.
4. Extreme	Very complicated proposal format that often places constraints on how an agency completes the proposal, e.g., allows only single staff to make entries or imposes a time limit for completion. Requires extensive data that is not readily available, new additional information collection, specificity on program and outcomes that cannot be predicted with accuracy, many people to assist with information gathering/ proposal completion, and many detailed letters of support.

Approval time *(and rejection time)*	Lag time: time from submission of completed application to receiving approval or rejection in writing. Long lag times can impede program delivery as agency cannot spend without approval and cannot plan until it knows funding has been approved.
1 month	Within a month.
2 months	More than one month but less than three months.
3 months	More than two months but less than four months.
4-5 months	More than three months less than six months.
6-7 months	More than five months but less than eight months.
8 months	More than seven months but less than nine months.
9+ months	more than eight months.

Off years	In multi-year approvals, some funders ask for different information on the “off years” Sometime this information is onerous, so there is no “off year” from reporting.
N/A	Not relevant.
Service and finance	Service and financial data update.
Special report	Special report providing detailed information of interest to funder, e.g., evaluation.
Update report	More comprehensive than the service and financial report. Requires more information not readily available.
Full application	Requires same application every year, regardless if it is an “off year”.
Renewal application	Requires the modified renewal application every year regardless of “off year”.

Off-year complexity	Definitions use degree of difficulty similar to proposal complexity scale.
1. Simple	Relatively short report requiring standard and easily accessible information. Straightforward program description and objectives. Can be completed by a senior staff.
2. Average	Moderate length of proposal requiring information that is, for the most part, readily accessible. Program detail required is more elaborate and detailed but known. Can be completed by a senior staff and finance person.
3. Difficult	Complicated proposal. Requires data that needs to be amended or extracted from existing agency data. Can be completed with difficulty and involves more than senior staff and finance person to assemble accurate information. Program and financial information is very detailed.
4. Extreme	Very complicated report format that often places constraints on how agency completes report, e.g., allows only single staff to make entries or imposes a time limit for completion. Requires extensive data not readily available, additional data information collection, specificity on program and outcomes that cannot be predicted with accuracy, and many people to assist with information gathering/ proposal completion.

REFUSED FUNDING WORKSHEET

Classification	*See description for "classification" in "Program" worksheet, above.*
Application	*See description for application in "Application" worksheet, above.*
Application complexity	*See description for application complexity in "Application" worksheet, above.*
Rejection time	*See description for "approval time" in "Application" worksheet, above.*

REPORTING WORKSHEET

Daily / weekly / monthly / bi-monthly / quarterly / interim / year end	
Simple	Data are readily available and simple to complete.
Average	Data are reasonably available, requires some internal communication to gather data from different people.
Difficult	Data are not readily available, requires staff review and judgements, multiple staff, multiple communications to complete creative writing.
Extreme	Data are very difficult to obtain, requires many judgements, extra collection, outside involvement, is very demanding of staff time, imposes time pressures for obtain the required detail.
None	This report not required.

Appendix B

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