Fair Exchange

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Public funding for social impact through the non-profit sector

by Marilyn Struthers

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The Metcalf Foundation helps Canadians imagine and build a just, healthy, and creative society by supporting dynamic leaders who are strengthening their communities, nurturing innovative approaches to persistent problems, and encouraging dialogue and learning to inform action.

From time to time the Foundation gives people of experience and vision the opportunity to conduct research into new ideas, models and practices that have the potential to lead to transformational change. The Foundation is very pleased to have supported Marilyn Struthers in her thoughtful examination of public funding practices for the non-profit sector.

Marilyn Struthers

Marilyn Struthers has more than 40 years' experience working with the non-profit sector. Her work has spanned community organizing, organizational management, research, teaching, and consulting in participatory approaches to governance, learning, and program design.

Marilyn was a funder with the Ontario Arts Council in the 1980s and has worked for the last 14 years with the Ontario Trillium Foundation. Marilyn has also worked as a researcher and writer on funding processes with the Voluntary Sector Initiative, the federal Task Force on Community Investments, and behind the scenes with the Blue Ribbon Panel on Grants and Contributions and the Ontario Partnership Process.

Marilyn recently accepted a position with Ryerson University in the Faculty of Community Services as the inaugural John C. Eaton Chair of Innovation and Entrepreneurship. Marilyn is a founding member of The Circle on Philanthropy and Aboriginal Peoples in Canada.

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Introduction

The non-profit sector is so much a part of our lives that we often don't realize it. Try this at any gathering where you can take the floor for a few minutes: Ask people to hold up their hands if they work in the sector. A few hands will rise. Then ask people to raise their hands if they donate, volunteer, or sit on the board of a non-profit. Ask again if their children play soccer or compete in a music festival, or if an elder family member has used a day-away program, Meals on Wheels, or a community centre. Inevitably a sea of hands will rise. Sector organizations create a rich tapestry of public benefit in which almost every Canadian participates and from which all of us benefit.

After 30 years of working for non-profit organizations, I joined the Ontario Trillium Foundation in 1999. The Foundation was just ramping up to serve a new role in the disbursement of public funds across the non-profit sector. For me, it was an opportunity to learn the mechanics of holding public purse strings. What does it mean to fund well? How is the flow of money to the work of the sector changing?

Every year now, for almost a decade and a half, I've had the opportunity to examine the most innovative work of the sector — from networking operations and shared administration, to the emergence of social enterprise and the social economy. I have spoken with people about perhaps a hundred new approaches to civic life each year. I've reviewed their applications and had the privilege of offering recommendations to decision-makers. At any given time, I have followed some 60 or 70 change-the-world projects — provincial or national in scope — through the process of their work, learning with them from their failures and their triumphs. I have had an extraordinary view over the landscape during an extraordinary time of social change.

The changes in the sector have been riveting. Civic organizations are emerging as solution-generators to the most complex problems that plague communities, in part because of their capacity to work in partnership with others, often quite different from themselves.[1] We have only recently, through the Satellite Account of Statistics Canada and the sector-scoping work of Imagine Canada, gathered data about Canada's non-profit sector as a whole and understood that it is the second largest in the world. We have just barely begun to grasp its economic impact, diversity, scope, and unique role in Canadian society, taking up the work that neither government nor business can do.

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[1] For an exploration of changes in the sector, see Marilyn Struthers, "Of Starlings and Social Change: Funding the Nonprofit Sector in Canada," *The Philanthropist* 24, no. 4 (2012). http://thephilanthropist.ca/index.php/phil/article/view/945

The sector depends on gifts of time and money provided by the 13 million people who volunteer and the almost 95% of Canadians who donate. As well, sector organizations often rely on funds from philanthropic gifts or grants and funds from the public purse, or taxpayer dollars. Those of us who are public funders bear the responsibility of distributing these funds. It is a matter of trust that we bear this responsibility well; that we are thoughtful in our decisions, efficient in our processes, and effective in our advice. We must remain acutely aware of the power we hold on behalf of members of the public whose money we invest, and toward those citizens who actually do the work of public benefit. This paper examines public funding practices with the aim of ensuring that our methods and processes — how we fund — are providing sector organizations with the best opportunities to achieve their mandates. Mandates that are aimed at solving problems and making the world better.

Public funding practice: the case for reform

The world *is* changing faster than before. Civic organizing, often much faster than government policy, is pointing the way to the future and offering solutions to the "wicked"[2] problems facing communities. Increasingly, governments seeking vital information about what they should be doing next are turning to sector organizations as partners. Non-profits, with their capacity for partnership, together with public funders, are engaging philanthropic and private-sector funding partners to augment or sustain public investment in services and innovation. As the sector grows and diversifies its reach through wider networks, it generates new opportunities to create public benefit, along with new demands for funds. This is the nature of the exchange: public funds in return for work that generates public benefit.

Government and the sector have also begun to experiment with new tools to fuel innovation, taking the first steps beyond funding to social financing. Traditional funding programs are shifting, too, toward newer notions of social investment. This shift — from support for particular organizations to investment in initiatives that achieve specific outcomes — requires new ways of assessing opportunity and measuring social impact. As organizations increasingly draw funds from multiple funders for single initiatives and support their core operations from the administrative portions of a patchwork of project grants,

[2] "Wicked" problems refers to social problems that have multiple causes, are tough to describe, and aren't solved easily by traditional processes. Stakeholders with an interest in the solution may well include those who contributed to the problem. This idea was originally put forth by Rittel and Webber in 1973 and has been used to describe complex problems such as global warming, guns and gangs, and problems created by the failing US public school system.

Horst Rittel and Melvin Webber, "Dilemmas in a General Theory of Planning," *Policy Sciences* 4, Elsevier Scientific Publishing, Amsterdam (1973): 155–169. Also Reprint No. 86, The Institute of Urban and Regional Development, University of California, Berkeley, California.

public funders must be able to respond to applicants faster and with more flexibility, while also being more predictable.

At the same time, economic conditions are placing constraints on the funding capacity of most public funders. Public policy-makers face uneasy choices between streamlining processes to gain efficiencies or curtailing the programs that often support those most vulnerable to the impacts of economic downturn. The last decade has brought internal pressures on public funders to reduce costs and improve transparency and accountability. Yet, changes to how the sector is working are making our investment reviews and decisions more complex. We must simultaneously meet periodic political critique of public funding, while streamlining our systems and building Web portals to make funding programs accessible online. As a funder, if you feel like you are dancing as fast as you can to stay in the same place, you are not alone.

To maximize opportunities and be as efficient as we can, we need to align the nuts and bolts of funding programs. Our processes must link directly to recipients' abilities to have the best shot at achieving results. Otherwise, public funders risk creating conditions that work against the very things that make sector organizations attractive partners: their capacity to innovate, to deliver social programs efficiently, and to join with multiple partners in producing work of public benefit.

New narratives recognize that social finance and private investment partnerships can work in combination with public funding by expanding financial opportunities, rather than replacing them. They hold the promise of a wider range of public investment tools and new opportunities to support the work of the sector in ways that improve the flow of capital and leverage government investment.

It simply makes no sense to spend taxpayer dollars to fund good work in ways that are more expensive than necessary, create delay, limit other funding opportunities, or make it harder for recipients to achieve outcomes. How we do this is the topic of this paper.

Practice reform: not about *what* we fund, but *how* we fund

This paper is not about *what* we fund. It's about *how* we fund. It is for public funders — municipal, provincial and federal — and those in the non-profit sector who share an interest in *how* money from public treasuries flows to support work. We call our funding products different names, use different processes, and evaluate outcomes by different measures. Yet together, we pin our hopes on the same 165,000 organizations that spin our investments into gold for public benefit.

How we fund has been a patchy conversation, on and off the public agenda, for some 30 years. While good conceptual work has been done on the relationship between the non-profit sector and Canadian governments, discussions about the technical aspects of implementing funding practice reform — where the rubber meets the road — have been more challenging.

With no formal credentialing, no college diploma, no little red schoolhouse of professional funding practice and ethics, I, like other public funders, learned to fund in the context of the systems and values of the organizations where I have worked. Unlike the other two fields of resource management in non-profit practice — fundraising and volunteer management — public funding practice has never been "professionalized." This doesn't mean that we're not professionals. It means we have no common training, language, frameworks or ethical standards, and few opportunities for the exchanges that enable a field of practice to grow and mature. No single Canadian organization champions the broad aspects of public funding reform or hosts a debate on our changing practice. Yet a great deal of what makes civic life good in this country hinges on how effectively we advance the flow of capital to a vibrant non-profit sector.

Several times over the last decade and a half, I have had opportunities to participate in practice reform projects. I've contributed to three federal, one provincial, and several ongoing initiatives at the Ontario Trillium Foundation. In 2005 I worked for eighteen months inside the federal government's review of its non-profit sector funding practices with the Task Force on Community Investments. I also participated in some of the work behind the Blue Ribbon Panel on Grants and Contributions. These opportunities to work on the reform of practice within different funding cultures have been invaluable. I remember an early wine and cheese event with federal civil servants during the Task Force on Community Investments. Wine glass in hand and eager for the opportunity to share across funding cultures, I struck up a conversation with a departmental funder I didn't know. "When we make grants…" I said, only to watch his face fall. "Oh, we don't make grants," he responded, clearly uncomfortable as he turned away, his eyes scanning the room for greener conversational pastures.

In the weeks after that exchange, I studied the difference between the grants I managed and the contribution agreements inside the Grants and Contributions (G's&C's) structure of federal funding. In the G's&C's world, a "grant" was something that had no accountability mechanism; it was a gift and politically problematic. What I knew as a "grant" was, in federal parlance, a "contribution." Without shared language within a field of practice across different kinds of organizations, public sector funders converse with each other in a form of broken telephone, unable to share experiences or learn from one another. This disconnect can inhibit our efforts, since the most important work of the sector is now most often supported by multiple funders contributing various kinds of investments.

Language matters: setting the terms

Since that conversation I have listened to my own conversations, and those of other funders, looking for the places of disconnect that hinder meaningful professional exchanges. There are several. Sometimes we don't see the non-profit sector broadly enough and generalize to the whole from our own corner. Sometimes we lack common language. We certainly lack common typologies of programs, which would give us the ability to compare apples to apples. We lack common frameworks of practice to allow us to drill down into the detail of effective disbursement practice. Sometimes conversations stall because it would be too risky to suggest practice improvements or because the political climate is not right. Sometimes our programs evolve through a hodgepodge of responses to drivers produced inside our organizations that are not related to enabling recipients to better produce outcomes. We also lack common measures of impact — knowing exactly what results from our investments and whether it's what we funded for.

For this paper, I have chosen language carefully. I want to avoid some funders thinking I am referring only to that *other* set of public funders, or that their program is unique and different and not the subject of this discussion.

I use the words "**funding transaction**" to mean a transfer, a contribution agreement, or a grant. A "**funding program**" refers to an organization or program that makes funding transactions. The "**funding process**" refers to the mechanics of making funding transactions. Every funding process includes three basic components:

- **administrative processes**,
- **relationships with applicants and recipients,** and
- **risk management**.

Although in practice we use different language and have different challenges and reasons for funding, we all rely on the same three components — administrative processes, relationships, and risk management — to make funding transactions. The unique way we create and combine these three components determines the effectiveness of our funding.

Public funding can be described in several broad "types." **Core funding** implies a long-term commitment to an organization delivering a program or service in response to policy. **Project funding** is short-term, sequential, or one-time support for an organization that is building capacity, honing a project concept, or launching a new idea in a particular area of interest. Both require variations of practices within each of the component areas.

Top-down and **bottom-up** funding is another distinction. **Top-down** funding programs support a funder's objective. Funders seek organizations to carry out activities that support a specific policy objective. A **bottom-up**

funding program holds broader criteria that enable organizations to apply for projects that fit their own objectives. This kind of funding supports innovation and requires a more flexible funding process.

A map of the terrain: what this paper covers

This paper begins with a short story of public funding reform in Canada. This is followed by an overview of how the non-profit sector is changing and its growing importance in achieving outcomes of mutual interest with governments. This sets up the case for why funding practice reform is imperative now. We also examine how to evaluate the mechanics of funding processes that either support or hinder recipients' abilities to achieve the outcomes for which we provide funding.

In the second section of the paper, we leave the philosophical and turn to the pragmatic. What are the tools of the funder's trade? How can we actively design funding processes to best support the achievement of results? We will look at lessons learned from the intense examination of federal funding programs and the sector critique of funding practices generated over the last decade. Finally we conclude with a look to the future and a reminder of why getting the practice right matters so much for now and for what is to come.

Section 1:
A short history of public funding reform

A history and a literature of funding practice reform

The relationship between government and the non-profit sector has a history and a literature that makes the case for practice reform. Over the past 35 years there have been four reviews in the federal government alone. Three have been in the last decade and a half, culminating with the Blue Ribbon Panel, which addressed grants and contributions across all areas of federal funding (see Figure 1). Despite the time span, all four reviews include some version of the call to improve public funding practices.

FIGURE 1.
Four federal reports reflect on funding practice

1974:	National Advisory on Voluntary Action: People in Action (1977)
1999:	Voluntary Sector Initiative (VSI): Accord & Code of Good Practices on Funding (2001)
2006:	Task Force on Community Investments (TFCI): Achieving Coherence in Government of Canada Funding Practices in Communities
2006:	Blue Ribbon Panel on Grants & Contributions Programs (BRP): From Red Tape to Clear Results

In recent years, funding reform conversations have shifted to the provinces and territories. By 2010, eight provinces and the Northwest Territories (NWT) had launched initiatives to improve their relationships with the non-profit sector. Ontario, New Brunswick, and British Columbia have focused specifically on funding practice reform. This shift is important because provincial and territorial governments have the biggest influence over the largest part of the sector — organizations that deliver services. Social service organizations make up almost a quarter of the sector's contribution to the GDP.[3] Getting the funding practices right provides multiple benefits. The services they offer buffer the impact of economic downturn on the most vulnerable, and the jobs they create in the service industry are an important part of the provincial employment picture.

[3] Statistics Canada, "Satellite account of nonprofit institutions and volunteering," *The Daily* (2010) http://www.statcan.gc.ca/daily-quotidien/101217/dq101217b-eng.htm

Through the late 1990s and the first half of the 2000s, during what some termed a "funding crisis," funders moved away from core funding to project and outcome-based funding. The sector became much more entrepreneurial — developing new ways to supplement public funding with earned revenue and expanding its capacity for partnership. Now that these new ways are entrenched, social entrepreneurship is beginning to yield a host of new ways of doing business. For example, capacity-building projects help service organizations market their expertise. This allows them to generate revenue to support core operations, while also meeting their mission. One such project is the Adoption Council of Ontario's development of a fee-for-service training. The training helps professionals working in the area of adoption better understand the long-term mental health, educational, and relationship issues of adopted children and their families.

Constructing a field of good funding practice is not just about funders sharing practices and experiences, but also about funders becoming more aware of how the sector works and the impact of our practices on fund recipients. There is a substantial literature of critique on public funding practice from the perspective of applicants and recipients. (See Appendix A.) This view of the consequences of our practices is an invaluable resource.

Public funders and non-profit organizations are joined at the hip. We are flip sides of the same coin. We depend on each other to achieve outcomes of mutual interest, complete cost-effective transactions with minimal administration, and manage risk appropriately to maintain trust in the public eye. Yet funder-to-recipient conversations, like funder-to-funder conversations, can be difficult. They easily become too wide-ranging, moving from critique of practice to critique of policy. On the sector-side they can shift to lobby or withdrawal; on the government side, to go-it-alone internal processes.

I learned a difficult lesson about the dangers in one-off opportunities for exchange some years ago when I encouraged managers in my own organization to attend a sector release of a new report on the administrative burden facing grant recipients. It was a timely discussion for us, as our own administrative staff had started to see the link between additional requirements we were placing on our grantees and their own burgeoning workloads. Unfortunately, the tone of that meeting quickly turned sour. Like a pressure valve letting off steam, sector representatives moved to lobby tactics and criticism of funders. The result inside my organization was, as in any public bureaucracy, caution. The yellow light was on and the comfort zone for mutual learning narrowed for a time.

When the landscape is changing and the road map is less than clear, it is often helpful to default to principle. Our roles are different, the funder and the doer, but our relationships are based on shared interest and trust. This includes trust that the money will flow as promised and that it will be used as agreed, to the best of the recipient's ability, to achieve outcomes of mutual interest.

Not business as usual: how the sector is changing

Whether the focus is global warming, political change, or social endeavour, how people organize is changing dramatically. In 25 years, conversations have moved from the kitchen table to the Internet and scaled from local to global. Community-based work that is focused on supporting individuals takes on new dimensions on the Web. For example, the World Blind Union, an Ontario-based non-profit of people with sight impairment, is building a resource to support employment-seekers and employers looking for accommodation advice. Because they can achieve scale through the Web, they can scan the globe for resources. And while they use Ontario investment to support sight-impaired Ontarians, they are also building for global access.

Increased scale creates new dilemmas for funders and organizations. Recently, Tides Canada, in its support of public dialogue on the Northern Gateway Pipeline, found itself in the eye of a storm as governments realized that public interest and willingness to donate to environmental causes is not confined to national borders. Big ideas are getting bigger, scale is increasing, connectivity is multiplying opportunity, and the Web is streamlining and accelerating people's abilities to organize.

The Internet has revolutionized the potential for connectivity and scale, making it easier for those concerned with a specific issue to share resources and collaborate. But this is not the only shift. Non-profit organizations have also moved away from dependence on single funders with policy-based agendas, towards multiple funding relationships found in a marketplace of diverse project funding opportunities. Large charities now often manage a hundred or more funders as well as their donors, and also supplement their bottom lines with earned revenue or social lending.[4] Core funded services — those that rely on transfers from government for their existence — are using project-based funding for public education, prevention, and community learning to supplement their work at the edges of their mandates. These shifts have loosened the ties between many non-profits and government policy, freeing them to set independent agendas. While fund-seeking is now more time consuming for organizations, there is also an increase in creativity and innovative solutions to social problems.

Over the last two decades the sector has capitalized on its traditional values of sharing and collaboration. Shifting organizational gears during the "funding

[4] A small social enterprise firm, AJAH, has developed a Web-based service. Fundtracker "scrapes" and aggregates CRA data making it possible to readily see how many sources of funding a charity is currently using to fulfill its mission. www.ajah.ca

crises" of the early 2000s, the sector used its enormous adaptive capacity to create new and hybrid organizational forms. For funders, this means that the best funding opportunities now require us to evaluate not only the merits of good projects, but also the capacity of highly mobile groups of organizations that are working together, sometimes in unusual organizational structures.

Sometimes organizations are coming together to achieve specific common objectives. Sometimes networks of networks are working collaboratively to shift an entire landscape. For example, a group of organizations affiliated with OSER, the Ontario Social Economy Roundtable — itself a network of networked organizations with an interest in community economic development, cooperatives, and social enterprise — set out to expand the province's social enterprise infrastructure. In not one but two overlapping applications they sought and received funds for a host of activities, from research to training to Web-based network building, in order to link to national initiatives and spur the development of provincial and regional networks for learning. The result will be more accessible information for and about non-profits and individuals earning revenue from social endeavours, as well as new ways of marketing the tangible "products" of social change. Led by CCEDNET (the Canadian Community Economic Development Network) and the ONN (Ontario Nonprofit Network), the work began with a collaborative network of 35 organizations. Within a year, as organizers galvanized a new way of working, organizational participation grew substantially, garnering interest from other funders.

Non-profit organizations functioning across local, regional, national, and sometimes global networks can quickly combine the long view of a social issue with the close view of work in communities. They are able to produce knowledge about what works much faster than the traditional policy processes of governments. Working in collaborative structures allows them to share capacity and resources to gain effectiveness, increase efficiency, and reduce costs. It also enables them to bring new and often unusual partners to the work.

How the sector is thinking about money is changing too. As part of the Voluntary Sector Initiative in the early 2000s, as governments shifted to project-based funding, I was able to pull out the binoculars to look closely at how organizations were adapting. We produced a number of case studies of Canadian organizations that were doing well financially — the outliers in the "funding crisis." I studied them closely to identify the capacities that made these organizations unique. What I found was that they were able to:

- build relationships,
- nurture participation,
- reflectively plan with diverse groups,
- communicate stories about their work,
- develop financial literacy skills, and

- create well thought out models for sustainability.[5]

These organizations were thinking about public money very differently from the entitled approaches of more traditional organizations. What was emerging was a highly entrepreneurial approach. While some organizations saw crisis in the shift away from core funding, financially vibrant organizations saw opportunity. They were creating compelling value propositions. They worked from an assumption of abundance rather than scarcity, and they were finding resources everywhere.

These were the early adapter non-profits. They foreshadowed the organizations that have proven to be adept at working in today's much broader, more diverse funding economy. When they called, they would offer not one but three good projects to see which one had resonance with the Foundation's funding objectives. If they drew a blank on established funders to support their interests, they became adept at creating unusual partnerships around shared interest. In the process they developed access to new sources of funds. Now, of course, we see initiatives with multiple and unusual partnerships all the time, gaining not just new sources of funds from one another but also entirely new perspectives on public benefit.

For example, what does a children's aid society have in common with a mosque? Answer: a deep concern for children across very different family storylines. I recently had the privilege of working with the Muslim Resource Centre for Social Service and Integration (MRCSSI), one of a new class of "intermediary organizations." MRCSSI deliberately brokers the tricky terrain of child welfare by creating multiple connections and then linking and mediating relationships between the Muslim and the child welfare community. Working from common interest, both faith and service communities are providing resources, and their shared commitment leverages the interest of other funders.

Particularly during times of economic downturn and government funding constraint, it is important to recognize common interests in public benefit between funder and recipient. This requires not only using practices that work when a funding organization is one funder amongst many, but also keeping an eye on the environment for organizations experiencing what the sector calls a "perfect storm" scenario. A perfect storm scenario is when organizations are managing increased demand as a result of fiscal conditions, at the same time as those same conditions lead to funding cutbacks. You can see what happens to demand in an organization like Unemployment Calgary following the 2008 market downturn (see Figure 2).

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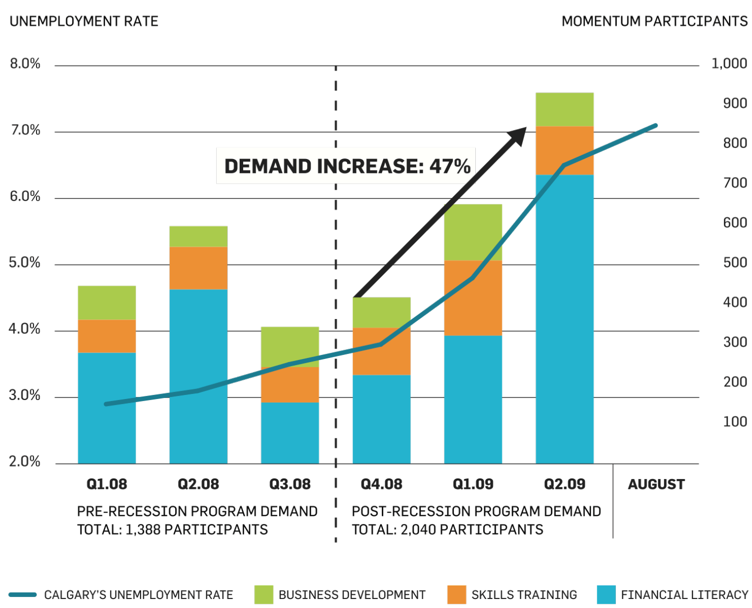
[5] Marilyn Struthers, "Supporting Financial Vibrancy in the Quest for Sustainability in the Not-For-Profit Sector," *The Philanthropist* 19, no. 4. (2004) http://thephilanthropist.ca/index.php/phil/article/view/39

Ironically, as increasing numbers of newly unemployed Albertans sought employment training, funding for Momentum's programs was reduced as the province redirected resources to welfare programming. If, as often happens in times of economic woe, we also tighten accountability measures on public spending, then the cost to the recipient organization to receive funds also increases. When the economy gears down and the inevitable gaps appear in the social safety net, non-profit service organizations play an invaluable role in buffering the impact on the everyday lives of Canadians. Yet as the work demand increases, funding does not necessarily follow suit.

FIGURE 2.
A perfect storm scenario[6]



Recently, in my own work as a capacity-building funder, I found the need to think hard again about the capacities that are most important for sector organizations now, in the reach for innovation. Working my way through literature and experience, I identified six capacities that are the hallmarks of organizations that are creating the future (see Figure 3).

[6] Data and graphic from Jeff Loomis, Momentum Calgary, AB. www.momentum.org

FIGURE 3.
Six points of starling wisdom

1.	**Generative relationships:** seek new work, resources, and vision through diverse relationships.
2.	**Emergent:** constantly developing — never quite arriving at stability.
3.	**Networked:** in constant touch with the rest of the flock creating a flow of information and opportunity.
4.	**Hybrid shapes:** organizations that are not a single type, but a combination.
5.	**Entrepreneurial:** independent and venture seeking.
6.	**Collaborative:** ability to couple with others and then uncouple when the work is complete.

I call these capacities the six points of starling wisdom,[7] as organizations working in these ways remind me of the flocks we see in the fall — fleet and able to shift shape and direction with the slightest change in sunlight and wind. These birds, like many complex groups in nature, have simple mechanisms for watching the few others closest to them, making many small adjustments that translate rapidly to the entire flock. This is what sector organizations are doing now, increasingly moving in interrelated ways at a speed that parallels the pace of change on the social landscape.

Organizations with all of these capacities are the "out there" thinkers — the ones you may not be ready to fund unless you are in a position to search for innovation. So pervasive are these ways of working now that even the most traditional organizations have adopted some of them. An organization with none of these capacities is likely having trouble staying on the landscape. I am sure you see them in your practice, as I have in mine. Larger, older organizations — those that once defined stability — are now struggling to reposition in a landscape of adaptive and highly flexible organizations. As funders, we need to recognize new ways of working and adapt our funding processes to ensure that our funds flow in ways that maximize the contribution to public benefit.

Outcomes, outcomes, outcomes: evaluating funding programs

While we sometimes evaluate our funding programs for their impact, we seldom evaluate our programs to see if ***how* we disburse funds is the most effective way to enable grantees to achieve outcomes**. Grantmakers for Effective Organizations (GEO)[8] — the US organization supporting foundation funding — does just this. They have a standard method for collecting data and

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[7] Marilyn Struthers, "Of starlings and social change: funding the nonprofit sector in Canada," *The Philanthropist* 24, no. 4, (2012). http://thephilanthropist.ca/index.php/phil/article/view/945

[8] GEO is a membership organization of grant-makers that is challenging the status quo in the field to help grantees achieve more. They have an excellent publication list and regular learning conferences. Their website is www.geofunders.org/

provide valuable feedback to Canadian and American foundations about how grantees experience their processes. What GEO has discovered is that we usually think we know more about what our grantees think about our practices than we actually do. Paying attention to the surprises that result from understanding our recipients' experiences better is a good way to discover *how* we can improve the way we disburse funds.

Four goals of funding reform

Reading across the funding reform literature developed by both government and the sector, I have identified four consistent goals for funding practice reform (see Figure 4). These goals reflect what recipients tell us is important to them in order to be able to achieve outcomes. These goals can be measured and evaluated. And when we create metrics to track these four areas, we keep our eyes on the prize of outcome achievement.

FIGURE 4.
Four goals of funding reform

1.	**Increased flexibility**
2.	**Increased predictability**
3.	**Reduced administrative burden**
4.	**Strengthened relationships**

The first goal is **increased flexibility**. Sometimes our transaction systems are too "hard-wired" to accommodate the changes that organizations need to make to capitalize on learning or new opportunities. Recipients can make better use of awarded funds when we are able to evaluate a request for change and have simple mechanisms to alter the details of an agreement — all while staying true to the original purpose. "Rules and Regs" approaches to transaction management limit flexibility. Stronger relationships between funder and recipient expand flexibility. In a fast-changing world, relationships are often the lever to finding the best opportunities for investment.

Increased predictability is a second goal. Non-profits relying on multiple sources of funding for the same work must stitch together crazy quilts of contingent funds and prospects. If they cannot predict a funder's decision-making time frame, they risk funding gaps, or worse, losing out on a funding opportunity altogether. Lack of predictability creates a problem for other funders as well. There is nothing harder than having to decline a good funding opportunity because you cannot pin down another funder's time frame.

In a recent review on my desk, another funder's delay not only increased administrative workload for the applicant and for me, but increased my organization's risk as well. It was a dynamite initiative but recent financial statements clearly indicated that the organization was heading for trouble. After asking for more detailed information, I learned that the problem was due to a months-long delay in a government department's decision-making. The review and recommendation was complete — but the ministerial announcement process had stalled. Rather than put their clients and their own reputation into limbo, the organization was stretching to manage the funding gap and scrambling to launch contingency plans with community loan financing. The situation had become perilous in a matter of months because they had so little "fat" to trim — the very thing that makes them attractive for public investment.

Administrative burden is perhaps the best known issue in public funding. The Blue Ribbon Panel report *From Red Tape to Clear Results* drew a straight line from reducing red tape in funding processes to improved accountability. It recommends that "not only is it possible to simplify administration while strengthening accountability, it is absolutely necessary to do the first in order to ensure the latter."[9] As we will explore later in the paper, the administrative burden of our transaction processes creates workload costs not only for recipients but also for funders. Changes in administrative burden to both can be measured.

The fourth goal, **strengthened relationships between funder and recipient**, is intrinsic to the other three. A clearly defined program officer role, appropriate to the type of funding and constant through the funding transaction, reduces red tape and increases flexibility and predictability. Relationships are the hidden tool in the funder's tool box, the grease on the wheels that help our processes move along more effectively. For some, it may seem counterintuitive that the human elements of our funding processes could be key to boosting outcome achievement. "Funders" have usually been understood to be funding organizations, not the individuals within. Little attention has been paid to the different roles program officers play in managing continuity and creating understanding, or to the skills and sector knowledge that are important to the work. Symptomatic of an undefined field, the individuals who carry out the work of investment-making are sometimes considered more or less interchangeable, cogs in the wheels of the administrative process. Later in this paper we will look more closely at how we can expand our understanding of funding relationships, designing the role in a particular program to specifically support the type of outcomes we fund to achieve.

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[9] Blue Ribbon Panel on Grant and Contribution Programs. "From Red Tape to Clear Results: the Report of the Independent Blue Ribbon Panel on Grant and Contribution Programs." Government of Canada, Treasury Board of Canada Secretariat, Ottawa, ON (2006).

The role and limitation of public audit in evaluating funding programs

Public audit is the traditional means of evaluating public funding programs. While we may not always be certain about what is good in our practices, a public audit points out what is wrong and can certainly attract media attention. Public audit processes are powerful and potentially political, the gold standard for evaluating public funding programs. But does what a public auditor think is "good" about good funding practice really produce better investment outcomes? In Ontario's sweeping review of public service, the Drummond Commission report casts a first doubt, suggesting that the current framework is "subject to diminishing returns" and that the province should shift emphasis from evaluating contract compliance to measuring outcomes.[10] While fiscal compliance is important, it does not tell the whole story. Figure 5 sets out five assumptions of an audit view of funding practice that can actually limit good investment or risk management.

FIGURE 5.
Five limitations of the audit view of good funding practice

1.	**Singular focus on financial compliance with contract:** shifts the emphasis away from outcome achievement and limits flexibility to adjust for course changes.
2.	**"Objective" audit-style assessment tools:** are less effective in complex projects and miss subjective information on context and risk.
3.	**Relationships are an opportunity for bias:** misses the value of opportunities to add contextual knowledge, generate trust, and mitigate risk as it arises.
4.	**More checks and balances in the transaction reduce risk:** overly burdensome processes create risk and drive up both disbursement costs and administrative burden.
5.	**Failed projects are a waste:** innovation requires failure and learning.

The federal government's "billion-dollar boondoggle" in 2000 is a case study of the impact of a public audit process. Following the dollar meant the entire country lost sight of outcomes. It is an old story now — but it shaped a generation of funding officers. The audit of a Human Resources Development Canada (HRDC) job creation program faulted the program for inadequately monitoring project spending and its decision-making processes. Neither misappropriated funds nor the ethic of non-profit recipients were at issue, but the audit did point to a lack of financial control — a definite shortfall in funding practice.

[10] Drummond, Public Services for Ontarians: a path to sustainability and excellence. "Commission on the Reform of Ontario's Public Services," Ontario Ministry of Finance. (2012): 273-274; 359.

In the partisan political firestorm that played out in the media, the Canadian public was left with incorrect impressions of gross mismanagement and cheating charities, neither of which were actually part of the audit story.[11] But the impact on funding practice was dramatic. Funding programs across the federal government rapidly increased risk management processes. Six years later, by the time of the Blue Ribbon Panel, departmental funding programs were mired in a morass of red tape, risk management had become a new outsourced industry, and no one was counting the cost to the public purse of swelling transaction costs. Without a good theory of funding practice, financial controllership and risk management had become the primary focus of funding processes, more important even than outcome achievement. The federal story helps us see what happens when fiscal accountability becomes the most important measure of program performance.

Program and value-for-money audits are key tools in ensuring oversight of government spending. Their role is essential. However, the expertise of the public auditor is in the technical aspects of financial controllership. This is only one aspect of our work. Auditors seldom have expertise in the non-profit sector or the mechanics of the complex task of *how* to make effective investment in social change. But there is opportunity here too. Independent and developmental reviews of public funding programs, working from good theory of funding program design and practice as well as financial stewardship, would be enormously helpful in developing a richer field of practice. In the next section we look at a funder's tools and how we can use them to make our investments more effective.

[11] Canadian Broadcasting Corporation. Votes Canada. "The billion-dollar boondoggle," (2004). Retrieved from: www.cbc.ca/canadavotes2004/politicalcanada/hrdc.html
Arthur Kroeger, "The HRD Affair: Reflections on Accountability in Government," speech to the Canadian Club of Ottawa, Ottawa, ON, December 12, 2000.

Section 2:
Examining the tools of our trade

As Canadians become more aware of the economic importance of the non-profit sector and its ability to generate solutions to produce public benefit, how do funders best support work that only the sector can do? How can our practices create an enabling, rather than a disabling, environment for activities of public benefit? What are the tools of our trade and how can we hone them to make our practice more effective? Separating practice from policy — the *how* from the *what* — helps us to see how the design of funding programs, and our practices, affect what our recipients are able to achieve. Achieving *what* we fund for has a great deal to do with *how* we disburse funds. *How* we do our work is critical to each transaction and to the overall capacity of the sector.

In this section we explore the three key components of a funding program:

- administrative processes,
- relationships, and
- risk management.

We will use these components to think about how the design of funding programs can maximize outcome achievement. Drawing on the history and literature of funding reform, and incorporating the feedback of recipients, we will examine lessons learned.

Designing funding programs to maximize outcomes

Few funders set out to consciously "design" new funding programs, yet every program has a design that accounts for how effective it is. "Design thinking" is the kind of thinking that Steve Jobs brought to Apple products. Design-thinkers use collaborative and engaged approaches with stakeholders. They create experimental design prototypes that can be tested in changing environments. This is the same way that funders of innovative work fund the best ideas; they learn from the experiences of multiple stakeholders and then scale up the most effective designs.

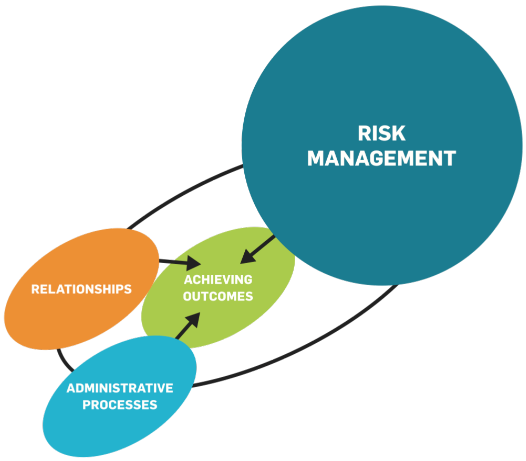
Design-thinking helps us to see a funding program as a whole system. It requires that we broaden our view of stakeholders to include recipients and funding program staff — all working within a shared landscape of social change. It invites us to think about how the three components of a funding process —

administrative processes, funding relationships, and risk management — work in concert (see Figure 6).

FIGURE 6.
Components in balance

When one component of a program becomes out of balance, either the program costs rise or the opportunity for outcome is diminished. This is because both funders' and recipients' resources flow disproportionately to one area, to the jeopardy of the others (see Figure 7). Balance does not require equal emphasis on each component, but it does require the right amount of effort being applied to each. There is no one-size fits all design; instead we need to customize the three components to fit the context and the purpose of the program.

FIGURE 7.
Components out of balance



In the federal government, in the years following the "billion-dollar boondoggle," worry about risk led to templated approaches that made risk management more important than achieving outcomes. A key to more recent federal reform processes has been to bring risk management back into reasonable alignment with the degree of risk in a specific program.

Inadvertent design processes abound in funding organizations. The larger the bureaucracy and the more dispersed the elements of the program, the harder it is to see how a small change in one corner will have a substantial (and likely unintended) consequence on another part of the process.

We can identify three inadvertent design traps (see Figure 8). **Accretion, resistance,** and **cost accumulation** are potential trouble areas in the design of any program. Being aware of these design traps helps us develop countervailing measures in the evaluation of our programs. It also helps encourage a "less is more" approach, which is the heart of elegance in design. Asking what we can eliminate, reduce, or not add to a program design is a powerful countervailing measure. Ask any line program officer, and I guarantee that he or she can generate a list.

FIGURE 8.
Three design traps in funding programs

Accretion: accumulating risk management and accountability measures, without eliminating others.
Resistance: systemic resistance to innovation. Returning to what is familiar, including the "tried and failed."
Cost accumulation: gradual increase in the administrative costs to disperse funds over time.

When we understand that administrative processes, funding relationships, and risk management have a direct cause-and-effect relationship to outcomes, we can determine how they best interconnect in a specific program. For example, what style of funder relationship is most helpful in mitigating risk? How much risk management is really required for a particular outcome? How do we gear administrative processes to the right level to be accountable but not burdensome? Viewed this way, administrative and risk management processes become the tools of a funder's relationship. This is similar to the way we balance internal interests of accountability and risk management with opportunity to invest. These processes must be geared to fit the funding opportunity, whether it is core funding of a service or a solution-seeking project. This is where the art and the science of good funding practice meet.

We now turn to the detail of each of these three components and how they interrelate.

Administrative processes: the nuts and bolts of our business

The basic lifecycle

When funders talk about *how* they fund, they are usually talking about administrative processes. The most familiar framework for administrative processes is the lifecycle framework.

FIGURE 9.
Lifecycle framework

The framework includes: the offer, the application process, decision-making and agreement, and monitoring and evaluation (see Figure 9). Every funding transaction has some variation of these four functions. Within each function, there is a host of possible ways of doing the work. The mix of practice elements we choose to implement each function creates the unique bones of a program. This is how we customize the lifecycle to fit a particular context and funding objectives.

Think, for example, of the application process. Your program might launch a broad public call for proposals, or you may invite specific organizations to apply. You might require a letter of intention for review and then ask specific organizations to submit a full application. Through your network you might engage directly with select, promising organizations. Selecting practice elements is a design choice. Ideally, the choices will be the best practices for outcomes the program hopes to achieve and for the audience of organizations who will do the work.

Which practice elements you adopt will determine the administrative load, cost, time frame, and degree of flexibility of your program. It will influence how well recipients are able to produce outcomes. It will also determine the stewardship costs — how much a funder is expensing the taxpayer to disburse the funds in their trust.

Imagine these scenarios:

A department makes a call for proposals to seed innovation, seeking small project applications from youth to engage together on the issues they face as clients in a child welfare program.

A government officer reviews the annual submission from the agency that provides those services.

A public foundation receives an application from a collaborative group of child-serving agencies wanting to examine their practices together, mindful of high risk young people who fall through the cracks between services.

Each of these very differently purposed funding programs follows a variation of the same lifecycle even though the amounts of money, the outcomes they seek to achieve, and the relationships necessary with the recipients are quite different.

A quick call to seed innovation looking for young applicants will have a simple application process, short time frame, and small amount of money; will require a simple contract or letter of agreement; but might offer an opportunity for more intensive monitoring and evaluation to harvest learning.

Renewal of an annual service agreement takes place within a context of prior funding. It may require minimal review but substantial legal contracting and standard evaluation metrics.

A collaborative group of agencies reaching to shape the future requires a more intensive review. This includes evaluating not only the project and recipient organizations but also the capacity of the collaborative group to work together. Also requiring review is whether the outcomes they propose are the right ones within the current environment.

Looking at different types of programs helps us see that variations in design are what make funding programs function quite differently from one another.

The variable capacity of the lifecycle framework offers a tremendous opportunity across departments or across programs to standardize some practices — such as accountability and customer service — in funding programs, while varying others. System-wide standards can set out the minimum requirements of a funding transaction. A skeleton design, with a “menu” of practice elements, enables planners of specific funding programs to select practices based on a corporate standard of what is most suitable for lower- or higher-risk ventures. In this kind of mix-and-match approach to design, those closest to the work, who have contextual knowledge about recipient organizations and relevant issues, can choose elements that best support desired outcomes. This creates the flexibility to suit the nature of the funding on offer while maintaining corporate-wide standards of accountability and risk management across funding programs.

During the time I worked for the federal Task Force on Community Investment, the department launched a call for proposals to support the scale up of significantly innovative initiatives in the sector. We wanted to try out a new design approach. We got the official go-ahead to experiment and to implement what we had been learning from the sector about innovation in program design. It seemed a perfect opportunity. Our design intentions were to encourage a developmental approach with applicants that encouraged new ways of working and allowed more flexibility with timelines and budgets.

The junior analyst tasked with preparing the Treasury Board Submission for the new program was located just a line of office pods away from us. Month after frustrating month the analyst saw his drafts returned with some version of the message: "This is not how we do things." Each time, the design innovations were removed until the program was whittled back to the tried and failed — to business as usual.

Some months later I spoke with a number of innovative organizations that had decided not to apply. Their interpretation was that this was indeed business as usual — long and cumbersome application forms, extended processes with uncertain time frames for decision, rigid budget parameters, and highly detailed reporting requirements. Not, they said, the kind of funds they needed. The lesson was clear: without a systems approach to design, and without agreement on a design framework, what is good for the work is quickly lost as people return to how they are used to working.

A program design approach enables us to hold fast to what is important for particular funding objectives while accounting for the bottom-line standards important to each funding organization. This is helpful when we are looking for ways to accommodate different programs into the standardized templates required by online portal design. Deliberate design can also address the need for collaboration between funding programs, with mechanisms such as coordinated time frames and common calls for proposals.

A principled approach to administrative processes

It's in our administrative processes that funders ensure the accountability required for good decision-making. Sector organizations often point out that they also have requirements to demonstrate accountability not only to the funder in a particular transaction but also to their membership, their communities, and other funders. Principled funding practices are those that recognize accountability requirements and allow funds to flow in ways that build trust, foster respect, and recognize mutual accountability.

Principles matter in a sector with few standards or regulations. Unlike the world of small business enterprise, which has standard measures of practice, in the non-profit sector benchmarks of financial review differ from funder to funder. Without industry-wide standards of practice, we must default to principles of mutual accountability and the desire to do no harm with our practices.

Mining the literature of funding practice reform and critique gives us ten "principled practices" of administrative processes (see Figure 10). These principled practices support the four goals of funding reform: increased flexibility, increased predictability, reduced administrative burden, and strengthened relationships.

FIGURE 10.
Ten principled practices

1.	Full cost recovery, recognizing the administrative costs of project funding.
2.	Multi-year funding commitments.
3.	Year-end fund roll-over flexibility.
4.	Reasonable budget-line flexibility.
5.	Consistency in funding relationships.
6.	Predictable timelines for decision, start-up, flow of funds and requirements.
7.	Reasonable monitoring requirements that recognize the burden of multiple funders.
8.	Risk management continuum to focus appropriate monitoring.
9.	Limit audits by using organization's annual audits.
10.	Adapt funding programs to "fit" changes in sector financing trends.

Not so very long ago I reviewed an application from MADD Canada. The *Toronto Star* had pointed a finger at MADD Canada with regard to their fundraising practices. The newspaper item named MADD's operating surplus a "war chest" of accumulated funds. Subsequent to the media surrounding the *Star's* story, the CRA asked MADD Canada to reduce their surplus. At the Trillium Foundation, six to twelve months of operating surplus is considered good financial stewardship. As one of Canada's largest charities, MADD's operating surplus was substantial but it did not exceed twelve months. This is an example of how, without standards, the same financial information can be interpreted very differently.

On the other side of the coin, some funding practices actually create financial risk. "Claw backs" of year-end operating surplus leave organizations with no ability to create a financial cushion and can limit access to funders who use different measures of financial health.

Another area without standards is the percentage of organizational administration that is acceptable in project funding. Some funders will not fund administrative costs. For others, the standard range might be 10 to 15 percent, often without consideration of why these percentages might vary among different recipient organizations. Imagine Canada is working with the sector to create financial standards — which will eventually impel practice alignment from funders.[12]

Four lessons learned about administrative processes

Looking across the history and literature of funding practice reform, we can see four lessons learned that guide sound administrative processes (see Figure 11).

FIGURE 11.
Administrative processes: four lessons learned

1.	Fragmenting administrative processes among different individuals increases cost and risk.
2.	The higher the administrative burden on fund recipients, the higher the funder's cost to disburse.
3.	Cost-to-disbursement ratios are a valuable funder accountability measure.
4.	Customer service standards increase predictability and accountability.

Lesson 1.

The first lesson is that **fragmenting administrative processes** among different program officers, each with a different relationships in the transaction, **increases cost and risk**.

In the difficult days inside the federal government when the main focus was risk management, we saw administrative processes that dispersed the functions of pre-application discussion, review, and financial and program monitoring amongst many staff positions. This was, in part, to reduce the chances of inappropriate influence. Decision-making became so dispersed that predicting time frames, particularly where ministerial sign-off was required, became impossible. Internally, risk was actually more likely to escalate as no one oversaw or could be accountable for the whole transaction. On the sector side, administrative costs rose as organizations found themselves trying to trace their

[12] http://www.imaginecanada.ca/files/www/en/standards/standardsprogram_overview_benefits_april2012.pdf

applications like lost parcels in the mail and telling the story of their work over and over again to people managing different parts of the process.

Lesson 2.

Spreading accountability across many people increases the burden on the fund recipient and also increases the cost of the transaction to the funder. This leads to the second lesson: **the higher the administrative burden on recipients, the higher the funder's costs** to administer the program. Every report requested must be reviewed and documented, and conclusions must be drawn. Efficient practice limits administrative requirements to those that are essential. Effective practice uses the funding relationship to understand the context and the story of the investment. This helps support good decision-making and provides flexibility to manage change and risk as they arise.

Lesson 3.

Cost-to-disbursement ratios, as a way of measuring the internal cost of funding processes, can be a **useful tool to manage** the **costs of a funding program**. There is an intense focus on the protection of the public purse in discussions of *what* we fund. But the cost of *how* we fund is often more related to conversations about reducing the size of government than about how much process is required to support outcomes. Cost-to-disbursement measures, common in the foundation world, are a useful measure for public funders. The ratio allows for comparison from one program to another. It invites discussion of when a program *should* require higher transaction costs.

For example, a simple capital grant to increase accessibility can rely on paper transaction and a municipal building inspection to monitor, resulting in low transaction costs. A complex investment in youth leadership requires more time, risk assessment, and relationships to manage, and the transaction costs *should* be higher. As the complexity increases, the practice elements selected across the lifecycle framework should allow for more depth in practice and therefore cost more to operate. As the cost of a charity's administration is as carefully watched as an accountability measure, cost-to-disbursement ratios are the parallel accountability measure for funders.

Lesson 4.

Introducing **customer service standards** is an effective way to **increase predictability** across systems. Being explicit about time commitments for review, decision-making, and scheduling helps organizations juggling multiple funding transactions be **accountable**. It also helps other funders with contingent requests make good decisions.

I once reviewed an application that proposed to create consultation toward agreement on the building of a northern tourism organization. The project was contingent on receipt of a major federal commitment for multi-year funds to get the organization up and running. During my review no one from the federal program would return my calls, so the organization asked their MP to try to find out if their application was under active review. This was to no avail. Finally we made the grant — conditional on approval of the federal component — but rescinded it a year and a half later when it became clear that the project had been declined. Customer service standards set internal expectations for how and when the work should be done.

Relationships: the human side of our work

Why relationships matter: trust, transparency and the reach for outcome

Public funders have relationships with the sector organizations they fund. These relationships are based on the history and the context of prior work. And program officers who do the work develop relationships with fund-seekers from entry to decline or investment to closure. In some funding programs, a single officer builds strong ties across all stages of the funding transaction. In others, the work is shared between different roles. Although we often don't think about it, the personal knowledge and skills of the program officers and the roles they are expected to perform have a critical impact on a fund recipient's ability to achieve outcomes.

The funding relationship is the outward face of a funder's work. It is a critical part of *how* we manage the administrative processes, from receiving funding requests through to monitoring and/or evaluating the result of our investment. Interaction with the people in the process shapes how applicants and recipients understand their experiences. Whether by program design or as a by-product of history and organizational culture, the role and skill of the funding officer affects the cost, efficiency, flexibility, and transparency of our transactions. This directly impacts what a recipient is able to achieve.

As sector organizations become increasingly interconnected in their way of working, relationships become more important. From a social investment perspective, good grant-making can mean reaching into our networks to link good actors to one another; convening around critical questions or gaps; or moving quickly to invite and encourage where opportunity presents. I once asked my own work-team to participate in a small study to look at how we use our networks to manage our funding transactions. In this study we looked at our experiences — the stories of our work — to uncover the role of relationships in good funding practice. This is one of mine.

I was sitting on the deck of a community centre in Kasabonica Lake, a remote First Nation some 1,500 kilometers from Toronto. Former Wawatay Native Communications Society broadcaster Jerry Sawanas was to interpret a workshop for me from English into Ojibwa and Oji-Cree, and across very different views of community. The invitation to be there was the result of some serious networking — part of an outreach strategy to Aboriginal organizations that we thought we should be funding but seldom heard from. As we sipped our coffee in the early morning sun, Jerry spoke about the link between spirit and voice. The idea of a radio show was mentioned. The show would tell the stories of people who went to a residential school and not only survived but continued on to become political, cultural, and spiritual leaders in the North. I encouraged. Over a lunch we met with a couple of Chiefs and the Executive Director of Tikinagan, a child welfare agency and one of the few non-profits in that part of the North. They agreed to write the application.

The result? *Your Spirit is Your Voice* is a year's worth of weekly radio shows about living and leading well despite the effects of residential school. It was broadcast on Wawatay Radio to communities and is archived on the Web.[13] Neither Jerry nor Tikinagan had ever applied for project funds before, but we negotiated the ropes together, building the capacities necessary to apply. As we went, we created the connections that were the beginnings of a network that has become a road map for others in remote First Nations. Slowly they are building the capacity to use project-based funds to support community agendas for change.

A complementary pairing: relationships and administrative processes

As we explored stories like this one, my colleagues and I were surprised to see just how widely we all use our networks to augment our agency's administrative processes. Our relationships provide valuable information. We develop them to support strategic initiatives. We use them for knowledge-building, learning, and gathering information for application review. They are critical to how we understand and manage risk.

Rather than focus, as we often did, on the tension between our relationships and our bureaucratic ways of working, we realized that a highly structured administrative process actually delineates the space for the funding relationship. However, unless we talk about and measure the value of *how* our relationships contribute, the human side of our work becomes invisible and its benefit is not accounted for.

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[13] Wawatay Radio, Your Spirit is Your Voice, (2009-10). www.wawataynews.ca/radio-shows/Your%20spirit%20is%20your%20voice (accessed October 10, 2012).

Good funding relationships generate six things that administrative processes cannot: information, flexibility, trust, opportunities to build capacity and to manage risk, and the ability to weigh the cost against the benefit in the applicant's context.

Administrative processes create ethical limits, transparency, and accountable decision-making. It's not an either/or, but a complementary pairing (see Figure 12). Once we were able to define the value of our relationships to our administrative processes, the organization was better able to support the time it takes to build relationships and became more mindful of the balance required between relationships and administrative processes.[14]

FIGURE 12.
Complementary processes

Relationship	Administrative
Generates information	Documents information
Creates flexibility to find/respond to opportunity	Creates permanence of process
Creates trust	Creates accountability
Develops capacity	Evaluates and adjudicates capacity
Mitigates risk	Evaluates risk
Weighs cost/benefit	Provides formal process of decision-making

Four lessons learned about funding relationships

Lesson 1.

Funding **relationships are the navigational guides** to the funding process. This is the first of four lessons learned (see Figure 13). As a guide they ease access, translate process and language, help to navigate systems, and provide clarity about funding interests and requirements. Because of a funder's long view over the landscape of non-profit work, we can also sometimes identify opportunity that cannot be seen by organizers focused on the detail of their work. Transparency, the watchword of good public process, is not achieved by posting documents alone, but in the daily explanation of what the language means, what is signalled about context and interest, and how it affects implementation. This is an interpretive function. Increasing transparency serves the goal of increasing predictability of funding processes, reducing time and cost for fund seekers.

[14] Marilyn Struthers and Liz Rykert, "Funding Relationship," (paper presented at ANSER Conference, Ottawa, ON, 2007).

FIGURE 13.
Relationships: four lessons learned

1.	The funding relationship is the navigational guide to funding processes. It's how we manage information, risk, change and expectation.
2.	The funding relationship creates trust; trust creates efficiency.
3.	Different kinds of funding programs require different kinds of relationships.
4.	Organizational culture, as well as design, shapes the funding relationship.

Continuity of relationships over the funding process provides an organization with the ability to try out a concept and then understand and pitch to the funder's context. Not so long ago I declined an application from an organization called WomenatthecentrE. It was an obvious decline as the ask was a traditional core funding request. Working from an old and now untenable proposition, they believed that if they could prove value, stable government funding would follow. The Foundation's funding context is project-based funding, and I had already learned this lesson the hard way. Funding a new organization's core funding request means another will follow. The road to financial dependence is paved with a funding officer's good intentions.

The decline discussion that followed was tough. They were intent on proving their concept and I was equally intent on describing the entrepreneurial and project-based way that non-profits are now achieving sustainability. We met several times, and at length, until they understood how other organizations were reaching their goals without stable funding. They successfully submitted a one-year planning application to figure out how they would sustain the good work they proposed. A going concern now, WomenatthecentrE has become one of the few organizations of survivors able to speak about violence against women in a way that strengthens learning in service agencies. They are making a substantial contribution to their field with a suite of projects and increasing donations. They look back to our hard conversations as a turning point.

Applications that are carefully prepared to a funder's context are also more efficient to review. Conversations early and often build learning, reduce complaints, and reveal risk and mitigation opportunity. They also help to manage everyone's expectations. This is possible because good relationships generate trust.

Lesson 2.

The second lesson is the **value of trust**. Stephen M.R. Covey, author of *Speed of Trust: The One Thing That Changes Everything*, suggests that in the business world, trust is a dividend. It can be translated directly into monetary value. As trust increases, so does transaction speed, meaning that costs go down.[15] This is an important principal as funders and recipients share a goal to reduce funding costs.

Good people-processes, perhaps counter intuitively, cost less and are more efficient. This is because trust generated between funder and applicant makes things go faster and better. When you can advise before an application comes in, can get reliable "landscape" information about a part of the sector in transition with a few phone calls, can learn alongside a grantee or be the first (rather than the last) phone call a grantee makes when the project runs into trouble, the time and cost savings are enormous. Over time, **relationships** between individuals **build trust** between funding and recipient organizations. This **creates efficiency** and reduces the potential for public friction and critique.

This is a difficult point to make to funders working inside onerous administrative processes, where human contact can become a rarity, or worse, is understood to be a risk to notions of objectivity. Mobilizing the funding officer's role to gain information quickly through relationships carries the ethical risks of subjectivity to be managed through conflict-of-interest policy. Far riskier are attempts at objective decision-making that limit obtaining or using information.

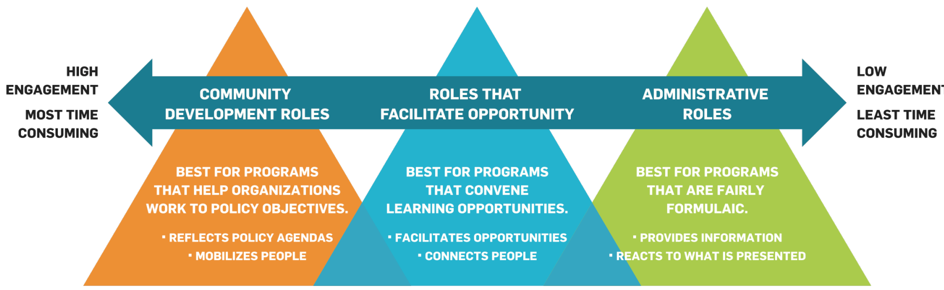
I was once asked to review files for another government funding organization. The process I was used to encouraged me to ask questions of applicants and call out across my networks. This had always allowed me, in very short order, to gain enough information from trusted sector colleagues to form an opinion about how a proposed activity fits on a particular landscape. But in keeping with this granting organization's review process, I did not contact anyone and relied on my own sometimes scant knowledge of the activities applied for. I completed a required template for each application by averaging some 32 clusters of rankings. I felt my eyes start to cross. It took more than two hours to score each application. In the end I was left with more questions about each application than firm opinions to offer on the wisdom of the investment.

Lesson 3.

Different kinds of funding programs require different kinds of relationships. Knowing how a program will mobilize the relationships of funding officers, and for what purpose, helps program designers create roles appropriate to the purpose (see Figure 14).

[15] Stephen Covey, "Stephen M R Covey on relationship trust and the 13 behaviors of high trust people," YouTube video. Retrieved Sept. 30, 2012, from http://www.youtube.com/watch?v=CciecbzzH-g&feature=related

FIGURE 14.
Relationship styles



Generally speaking, roles that manage highly developmental transactions, that mobilize recipients around a policy objective and require a tightly managed process of change, are the most time-consuming. These are the community development roles that seek or build organizations to work to a policy objective.

Roles that facilitate opportunity but do not predetermine the project are less time consuming. Still highly engaged, these roles connect people with common interests and convene learning opportunities, creating an enabling environment in order to fund the best of what is developed.

Low engagement or more administrative roles are a good fit for programs that require very little discretion or interpretation or are formulaic in approach, such as capital funding programs.

These three descriptions fit on a range with a host of gradation in between. As the role style shifts to the left toward higher engagement, the program design requires a role with greater discretion, more flexibility, lower file load, and higher cost-to-disbursement ratio than programs toward the right.

Lesson 4.

The final lesson about funding relationships is that **organizational culture**, perhaps as much as the program directive, **shapes what happens**. When the federal Treasury Board Secretariat was reducing its policy requirements for risk management, I had the opportunity to interview managers and program officers in funding departments. Interviewees suggested that the biggest resistance to change was actually getting program officers to back off a learned tendency to layer in additional risk management processes.

I noticed this tendency in my own practice and in the practices of my colleagues following a much kinder and gentler public audit. We asked for a little more detail and turned away from slightly edgier funding opportunities. This was not because we had to but because we were uncertain about what would be required and what we might have to account for.

Culture is important. What we do and how we do it is shaped as much by organizational culture and the collective understanding of our aims, as it is by formal processes.

Risk management: a systemic approach

Three kinds of risk: real, perceived, and program-related

For every public sector funder, risk management must be a critical preoccupation. We know we cannot avoid risk. It is the part of our practice that sector organizations know the least about, although they too have their own set of risks to manage. The obvious risk of financial mismanagement is addressed by administrative processes, through our assessment and reporting requirements. But there are several other kinds of risks that funders face. Risk can accrue from three sources:

- the recipient and their activities,
- the environment, and
- the design and practices in the funding process itself.

There are three different types of risk, which we can call **real risk**, **perceived risk**, and **program-related risk**. Sometimes funding programs default to generalized risk assessment — a sort of shot-in-the-dark approach to tallying up multiple sources of risk. But knowing what kind of risk we are assessing for enables us to customize assessment and develop effective mitigation strategies.

Real risks are those that will jeopardize the chances of an investment achieving its outcomes. This can occur in four ways. It can be a result of the applicant's lack of capacity (poor financial management, organizational instability, poor conception or planning). Second, missed review information can lead to a poor funding decision (duplicate investment, sudden changes in organizational circumstance or other project funding). Third, a request for funding can be inherently risky. New work is often like this. These are the risks we assess and decide whether or not to take, knowing that the methodology may not actually work, that the outcomes may not be reached, or that the partners may not be able to work together. Finally, risk can also result from changes in the environment over the life of the transaction. The degree of real risks can be, for the most part, either anticipated or managed throughout the transaction process.

Perceived risks are very real to a funder. They are risks that will affect a funder's ability to continue to fund. These risks include public exposure of liability for funded activities, criticism of funding practices, and anything that might jeopardize trust between the funder and the key stakeholder(s) or the public. These kinds of risks are sometimes played out in the media, without regard for fact or reasonable process. They can be the result of perceived, rather than confirmed, reality. In the "billion-dollar boondoggle," the perception of loss was much higher than any real loss.

Perceived risks are difficult to mitigate through the transaction process, but they can often be predicted if the funding officer has contextual knowledge. I once had a straightforward request to support a parent interaction website run by an Ontario organization, People for Education. At the time of application it all made sense. But when we were in full review, the province's teachers were actually at loggerheads with the government, threatening illegal walkouts. Political tension was high and there were all manner of new risks to consider between application and implementation. Knowing the landscape and what might generate perceived risk allows a funder to stay the course while being prepared to answer that media call.

Program-related risk is risk resulting from a poorly designed funding program. For example, unpredictable decision time frames can preclude the engagement of other funders. Delayed announcement of time-limited funding can force a recipient to shoehorn activities into a shortened time frame. The lack of ability to renegotiate budget lines can limit the recipient's ability to put new learning or opportunity into practice as their landscape changes. These funder-generated risks are also an important source of risk for fund recipients juggling many different projects. Program-related risk can also create real risk. For example, program officers without enough time or skill may fail to review or monitor effectively. Assessment tools designed to satisfy audit requirements for numeric scales can miss important contextual information in review.

The accretion of red-tape risk management measures is another example of program-related risk. Because we know from prior funding reform processes that we can link funder tendency to red-tape, directly to poor outcomes, we can deliberately create countervailing measures. Measuring our costs to disburse funds, monitoring our workload, and asking for recipient feedback helps us to create an early warning system. This system gives us the information to notice when the almost inevitable increases in red tape begin (see Figure 15).

FIGURE 15.
Three countervailing measures for red-tape in design related risk

1.	Cost-to-disbursement ratios: give a year-over-year view of program costs to monitor increases.
2.	Workload indicators: give an indication of increasing administration and a proxy for recipient administrative burden.
3.	Recipient feedback: tells us how they experience the funding process.

Four lessons learned about risk management

Lesson 1.

Relationships of trust, over the duration of a transaction and over time, provide a tremendous amount of contextual information. **Relationships are an under-recognized risk management tool**. The ability to network and gather sensitive information from other organizations on the same landscape can help with the management of risk that arises over the life of the transaction. Where the relationship is strong and well-crafted to the objectives of the funding program, the funding officer has opportunities to mitigate both real and program-related risk, and to predict perceived risk.

I once worked with a high-profile collaborative network of provincial organizations developing information systems for non-profits. At one point, after nearly a decade of investments, one of the players began to default on progress reports. I inquired as to why, and they invited me to a meeting of all of the players. I could quickly see that reporting delays were a symptom of tension between partners, caused by unanticipated changes in the work. There were all sorts of signs of a breakdown in the collaborative relationships. Not only was one particular transaction at risk of collapse — a process that would have by its nature been public and had impact on the Foundation — so too was the carefully built collective vision of the work. Suddenly, an apparently low-risk investment had developed into a situation where all three kinds of risk were present. It is not unusual for funders to be asked to broker the tricky terrain in which we invest. In that meeting and the several that followed, I was able to help the organizations build a new vision. I was able to do this not because I was an expert in their work but because we had a history of trust in our relationship.

Lesson 2.

The second lesson is that variable or **proportional risk management** is a strategy that **allocates the most resourcing to the riskiest investments**. This is a simple idea, but difficult to manage outside of a good program design framework. Appropriately designed administrative processes and funding relationships ensure that the capacity for risk management is a good fit for the potential for liability. Any investment has the potential to go off the rails, and in a changing landscape many things cannot be predicted. Yet the potential for loss is greater in some funding programs than in others. When we apply this idea at the program level, across a class of investments (rather than across individual transactions), proportional risk management means that less capacity for relationship and fewer funding practice elements are built into programs that fund small amounts of money and/or lower-risk projects. Effectively this lowers the cost of these transactions. More capacity for risk management is built into funding programs that invest larger sums, that extend over time, and where predictability is less or political sensitivity is greater.

Lesson 3.

Too much risk management limits outcomes. This is a result of watching funder and recipient costs balloon when high levels of risk management are implemented across the board, regardless of the potential for loss. Asking recipients for too much compliance activity, or over-templated one-size-fits-all reporting, drives up their costs and takes everyone's efforts away from outcome achievement.

Lesson 4.

Finally, **a systemic approach to risk management** with a continuum of risk management activities at every stage of the lifecycle, not just in the monitoring stage, **provides multiple opportunities to assess risk** and then manage the unexpected. From well-crafted pre-application processes through to transaction management and monitoring, opportunities for risk mitigation occur from end to end of a transaction. Good program design that creates strong relationships across the lifecycle increases the capacity for risk identification and mitigation. It gives funders a better understanding of risk from the recipient's perspective, and it provides opportunities to take a shared approach to risk management. (For summary, see Figure 16.)

FIGURE 16.
Risk management: four lessons learned

1.	The funding relationship is an under-recognized risk management tool.
2.	Proportional risk management allows us to allocate the most resources to programs with the highest level of risk.
3.	Too much risk management limits outcomes.
4.	Systemic risk management, over the lifecycle, is better than overloading one stage.

In conclusion:
Reading the tea leaves forward

This paper brings current discussions about public funding practice reform into the context of a national conversation that spans at least three decades. As the sector grows in economic and social impact, and as governments cope with increasing demand and decreasing revenues, the ability to work efficiently and collectively for public benefit becomes more important. Over the last two decades, governments have funded non-profits as efficient third-party deliverers of service. Increasingly now, public funders are also engaging with sector organizations in public-private partnerships. These partnerships leverage sector knowledge and capacity and attract corporate resources in highly collaborative ways that result in collective impact.[16]

The solution-finding work of the sector, in part because it is now less tied to single sources of funding, is faster and more adventuresome than public policy processes. Sector organizations are free to explore and innovate for public benefit in ways we have not seen before. To capitalize on the potential of the sector — the offer of public funds in exchange for services and solutions for public benefit — the exchange must be both flexible and predictable. It must be a fair exchange with minimal administrative burden and an appropriate degree of relationship based on achieving shared goals of social impact.

Some years ago now, I spent some time reflecting on my own responsibilities to create a fair exchange within the systems of my organization. As a funder with the Ontario Trillium Foundation, what value did I offer? Was I managing administrative processes so that they were as timely and as least burdensome as they could be? Was I creating relationships with recipients that gave me optimum opportunity to resolve problems and mitigate risk as they arose? Was I diligent about risk management? Were the grants I helped make in keeping with the Foundation's mandate to support the health and vibrancy of Ontario communities? Like most funders, I understood my work in terms of the successes or failures of individual projects. At very most our horizons span the relatively short life of a funding program or initiative. Few of us stay in one spot long enough to see the work change an entire landscape. Yet that is the essence of social impact.

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[16] John Kania and Mark Kramer, "Collective Impact," Stanford Social Innovation Review, (Winter 2011). www.ssireview.org/articles/entry/collective_impact.

I could have comfortably put a tick beside each question I asked myself, until I received an invitation to a private lunch with Lieutenant Governor James Bartleman, and then-Grand Chief of Nishnawbe Aski Nation Stan Beardy, to talk about young people in remote First Nations communities. In one of those blinding flashes of the obvious, I realized that none of the good grants I helped to make at the Foundation were going to the least healthy, least vibrant communities in the province. They did not apply and we did not grant. We were not on each other's landscape.

A week later the Lieutenant Governor created the landscape by inviting approximately 100 sector representatives to a public lunch. He described his mission to use literacy summer camps to reach into these remote communities and asked, "Who will help?" Over the next three weeks, I worked with a lightning-fast consortia of 18 non-profits to fund a summer literacy program in the remote North. It's a program that Frontier College continues to run to this day.

This was the beginning of what has been an extraordinary exchange. It's grown into a process of discovery and engagement between southern non-profits and funders and remote communities, to begin to enable First Nations chiefs and youth to make changes in their communities. The North South Partnership for Children, or Mamow Sha-way-gi-kay-win, is an organization built to convene difficult conversations about the "wicked" problem of conditions in the North. An intermediary organization, it tries to bridge the gap between the resources of southern Ontario non-profits and northern First Nations communities experiencing third-world living conditions and extraordinarily high rates of youth suicide. It does this by building relationships.

When Mamow Sha-way-gi-kay-win invited me north to a gathering of chiefs, I learned how some of the Foundation's criteria and processes inadvertently created barriers to the least healthy and vibrant communities making grant applications, a situation the Foundation was able to rectify quickly. This is where I first met Jerry Sawanis. This meeting eventually led to our being able to put money into his made-in-the-North strategy, which was designed to move beyond some of the wounds of the residential school experience. I had another blinding flash of the obvious on that trip, and it was this: Even if I had the power to move my organization's entire granting budget into these communities, it would not nearly enable the shift that was required. To change a landscape requires many players.

Conditions in these communities are the result of layer upon layer of issues that go back so far they well exceed the life span of a generation of funders. Public policy has been nowhere near to getting it right, but solutions are starting to appear. They are emerging from bottom-up funding of First Nations and organizations working in partnerships. Some of these initiatives are beginning to show us, from a policy perspective, where the best opportunities for top-down investment lie. Multiple funders are pooling resources not by policy or design but to the extent that their systems allow them to move toward opportunities created by others. They are building relationships, learning together, and collaborating to find emergent and promising solutions to fund.

Driven by networks of relationships, extraordinary respect, and a burning desire for improvement that is the hallmark of good people undertaking good work, something is shifting. Step by painful step, the North South Partnership for Children and other organizations like it — Right to Play, Save the Children Canada, UNICEF, Motivate Canada, the Red Cross and others — have come to know First Nations leaders and have been able to hear what they need. They have sent youth from the south to work with those in the north, and helped them to understand how public money flows in exchange for voluntary effort. They have also created a vehicle to make small grants to youth-driven projects to improve their communities.

Some First Nations have begun to organize projects with the support of non-profits. Projects include camps on the land to help with suicide prevention, housing to bring thousands of young foster children back to their own communities, and youth engagement and leadership and the recovery of tradition. The Foundation now funds on a more-than-per-capita basis to Aboriginal communities. The Circle of Philanthropy and Aboriginal Peoples in Canada has been created by philanthropic foundations as a forum to learn how to be effective funders of Indigenous people's projects.

The work is far from perfect. The administrative processes of many of these funding transactions are the result of a history of revision that reflects triumph, disaster, burnout, and evolution. Flexible and responsive capacity in funding processes is essential in landscape-changing work — there are too many moving parts to completely predict how things will go. But where there are outcomes, there are relationships. And where there are relationships, there is always possibility. Even when there is failure, there is learning. Is there risk? Absolutely, and risk management processes need to help us recognize what kinds of risk are worth taking. After all, there is clear and evident risk from doing nothing.

Being able to see how an individual funding transaction contributes to the work of landscape change is essential to understanding the impact of our funding. Each funder is one amongst many, all seeking impact according to their mission. The funds I am responsible for leverage yours and visa versa. It is an alive and messy process. As funders we act alone in our own processes, but we achieve impact collectively. This is the way of the future. Our funding processes must recognize the interconnectedness of our work, and our conversations must be geared toward finding methods of public funding that are most effective, building on experience to create best practices. The proposition is straightforward: We deliver public funds in ways that offer the very best shot at outcome achievement. What is given in return is the care, energy, and creativity of people in sector organizations who are working to change the world for the better. This is a fair exchange.

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