ACHIEVING FINANCIAL SUSTAINABILITY IN TODAY'S CHANGED WORLD

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This morning, a new generation of community leaders awoke to a fundamentally new reality than that of the generation that came before them.

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Our climate is changing. Our economy is in the midst of a fundamental transition. The roles of government, civil society, and the private sector are in a state of flux, as are fundamental assumptions of what society values and what society will support, from the arts to the welfare state. The cultural make-up of our country is vastly different due to seismic demographic shifts, and we struggle to bridge a growing socio-economic divide.

The new generation of emerging community leaders meets the day with a powerful, personal motivation to tackle these immensely deep-rooted issues and problems. They desire change with the same passion as the current generation of leaders that stands with us in fields, offices, community centres, and streets across the country.

But passion alone will not ensure success. We cannot achieve the change we seek without money. Alongside these tremendous challenges, we feel pressure to ensure we can keep the lights on, make payroll, and keep our programs running. Our present future looks a bit bleak: less government funding, fewer donations, constraints to earned income, and increased expectations.

This is a bottom-line issue that requires thoughtful consideration.

How can we work together to develop and deploy the capacity to secure sustainable and diverse sources of financing for operations and growth? Ultimately, stable and secure financing will allow us to achieve the change we seek and ensure the quality of life we desire for the different geographic, cultural, and interest communities we are a part of as advanced citizens.

The pursuit of sustainability for the nonprofit and charitable sector is gut-churning. It ranges from the sublime to the ridiculous: from tree-killing reviews of government grant financing in pursuit of renewal of annual funding to building competitive social enterprise business models within a maze of complex regulations; from months of writing and developing partnerships for new program grant proposals to sleepless nights awaiting the auditor's report. Tens of thousands of charities and nonprofit organizations struggle every day in a hyper-competitive funding environment.

We need to understand our current conditions and challenges and determine what we can do to build long-term financial sustainability for the sector.

By the numbers: Finances in the Canadian nonprofit sector

We know that the nonprofit and charitable sector is a large and remarkably important component of the Canadian economy. Total economic output for the sector, the third largest in Canada, was $106.4 billion in 2008, representing 7.1% of our total economic activity (Statistics Canada, 2010).

The majority of revenues for Canadian nonprofit organizations come from a variety of sources, including earned revenues (45.1%), government spending (20.9%), and contributions from households and businesses (13.3%; Statistics Canada, 2010). The proportion of income derived from earned revenues is a surprising figure. It has grown from 41.6% to 45.1% of total income since 1997; in real numbers, earned income has grown by 135.5% during that same period (Statistics Canada, 2011). We are quickly approaching the status of other nations that are well-recognized for social enterprise activities, such as the United Kingdom, where earned income represents over half (50.3%) of the income of charities (Pharaoh, 2008).

Challenges to sustainability

Despite our relative size and strength, there are major challenges to our sector's long-term financial sustainability.

There is growing concern about our ability to keep the lights on. The most important goal identified by a major survey of nonprofits in Ontario commissioned by the provincial government was to "improve financial sustainability" (Ontario Trillium Foundation, 2011, p. 19). This common concern is driven by many factors.

We face the risk of reductions in contributions from various levels of government in the face of deficit-reduction measures. For example, the federal government will undergo a 5% reduction in spending annually from 2011/12 to 2014/15, or $4 billion per year (Government of Canada, 2011). It will be necessary to respond appropriately to these changes given the significant proportion of income that is derived from federal, provincial, and local governments.

The funding derived from gifts made by individuals is also constrained and even showing evidence of decline. Although average donations have grown significantly (66.6%) since the early eighties, the relatively small but steady donor pool has shrunk over time, from 25.7% of tax filers in 1984 to 23.1% of tax filers in 2009 (Lasby, 2007; Lasby 2010). In addition, we have also seen a decline in total donations, with a steady reduction from $8.6 billion in 2007 to $7.8 billion in 2009, based on tax filings (Lasby, 2010).

The nature of giving is also changing rapidly, requiring increasingly complex fundraising strategies in order to meet revenue targets, and leaving some organizations behind. For example, when I entered the nonprofit sector over a decade ago, the organization I worked for had an advanced online engagement strategy for youth, but we didn't collect a single dollar online. Today, online donations are an increasingly integral component to any fundraising strategy. In 2010, 34% of Canadian donors contributed online (Burk, 2011).

In the face of declining government contributions and a constrained environment for individual and corporate donations, there is significant interest in expanding earned revenue activities. Despite this interest, many charities and nonprofits struggle to integrate these activities into their operations and lack an enabling and supportive environment in which to do so. In a recent study, over 50% of nonprofit organizations in Ontario indicated that the current legal and regulatory environment was a barrier to engaging in social enterprise activities (Malhotra, Spence, & Laird, 2010). There are also challenges for those seeking support: according to the same study, 45% of all nonprofits reported that lack of business development support for social enterprises is another very important barrier to social enterprise activity.

Beyond these challenges, there is also an increasing demand for increased performance and demonstrated impact. Nonprofit organizations and charities have a tremendous burden of proof to demonstrate they deserve the money given to them by funders. In some cases, they must demonstrate greater impact while being provided with fewer resources. There are also growing service expectations of many organizations because of the tremendous and unsettling problems we face in Canada and around the world. Many Western governments have reduced the capacity of the welfare state, and there is potential for further government withdrawal from areas of core service delivery at all levels in Canada. This will only add further pressure to many nonprofit organizations, particularly those in the social services sector.

So what should we do?

Achieving change through sustainable and diverse funding sources

There are a number of steps we could take to ensure that a new generation of community leaders and their organizations can survive and thrive.

We need to create an enabling environment for nonprofits and charities to increase earned income capabilities and attract much needed investment, in line with the recommendations of the Canadian Task Force on Social Finance (2010).

Business advisory services and support programs delivered by the federal government must be accessible to nonprofit organizations. These services and programs can support the effective development of successful business models to increase earned income. In addition, we need to eliminate or clarify regulatory and tax barriers constraining enterprising activities. These structures must be modernized and clearly articulated.

We must also develop alternative financial instruments as well as build financial literacy and fitness amongst nonprofit organizations in Canada. There is a need to experiment with and elevate knowledge of and interest in concepts like social impact bonds (or pay-for-performance bonds) and community bonds within the context of a supportive regulatory environment. There are already leading examples of these innovative financial instruments, from the United Kingdom's Social Impact Bond, focused on reducing re-offending rates, to the community bond developed by the Centre for Social Innovation (CSI) for the purchase and retrofit of new buildings. Sector staff and board members must also be well educated and prepared for new financial realities, from understanding debt financing to having the ability to prepare offering statements for structured securities-like bonds.

We need to make every effort to mobilize and maximize the capital available for the community sector. The assets of Canadian foundations are a great place to begin. In 2010, private and public (or community) foundations held a total of $36.2 billion in assets (Philanthropic Foundations Canada, n.d.). If we were able to leverage 10% of these assets for mission-related investing, we would be able to inject $3.6 billion into nonprofit organizations and charities.

We must be very clear that alternative financing and earned revenue activities are not a panacea nor will they be relevant to all charities and nonprofit organizations. They present an opportunity for an exciting and important hybridization of the work of social good organizations, but it may be reckless for some organizations to start a business or enterprising activity that forces them to drift from their core mission and ability to achieve positive impact.

In addition, we must recognize and mitigate the potential risk of growing social enterprise activities to solely or primarily meet demands left by the withdrawal of the state from public service delivery. Social enterprise activity should be undertaken as a means to increase financial sustainability and tackle our most pressing problems through innovative approaches. It should be undertaken as a complement to, not a replacement for, government programs and services.

We must ensure that the federal and provincial governments play a leadership role through effective public policy, ongoing and diversified investment, and a senior-level commitment to our work.

It is clear that our governments must play a leadership role in supporting our sustainability and identifying new revenue sources. This can include smart tax policy to further incentivize individual and corporation donations, preferred procurement advantage or access for nonprofit organizations and charities, and the further leveraging of available capital for debt financing in the sector, from loan guarantees to mortgage financing.

We also need governments to publicly assume leadership. There are examples of this in Canada and around the world. The Office for Civil Society (formerly the Office of the Civil Sector) in the United Kingdom and the Partnership Project in Ontario are excellent examples of leadership. Ideally, we should have a senior minister responsible for the community sector and a community sector strategy at a federal level, and in every provincial and territorial government.

Although we should pursue a shared agenda with government, we cannot be pushovers. We need to hold the line with government on our core principles and priorities.

We must drive a performance agenda focused on qualitative and quantitative impact.

Our long-term sustainability will also be achieved with a strong case for support for the sector, supported by a comprehensive, sector-wide performance measurement strategy focused on qualitative and quantitative impact. Beyond the work of a few leading organizations, we have left a vacuum that is being filled by a basic review of administrative ratios and the monetization of volunteer time. This in an overly simplistic analysis that yields little useful data and unfairly punishes many organizations through misrepresentation.

It will be difficult to find tools that are accurate, efficient, comparative, capable of verification or review, and meaningful to funders. Collectively, we will need to support the development of impact measurement methods, organizations, and even a small industry to drive this agenda.

Ultimately, our aim is a more vibrant and stable community sector with positive, demonstrable impact.

When we wake up tomorrow, we want to worry less about money. We want to be able to say that we have moved the needle on the various challenges we face and that we have improved the beauty and quality of our lives and the communities in which we live.

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