

IMAGINE  
CANADA



## CORE FUNDING

Supporting nonprofit missions, resilience and impact



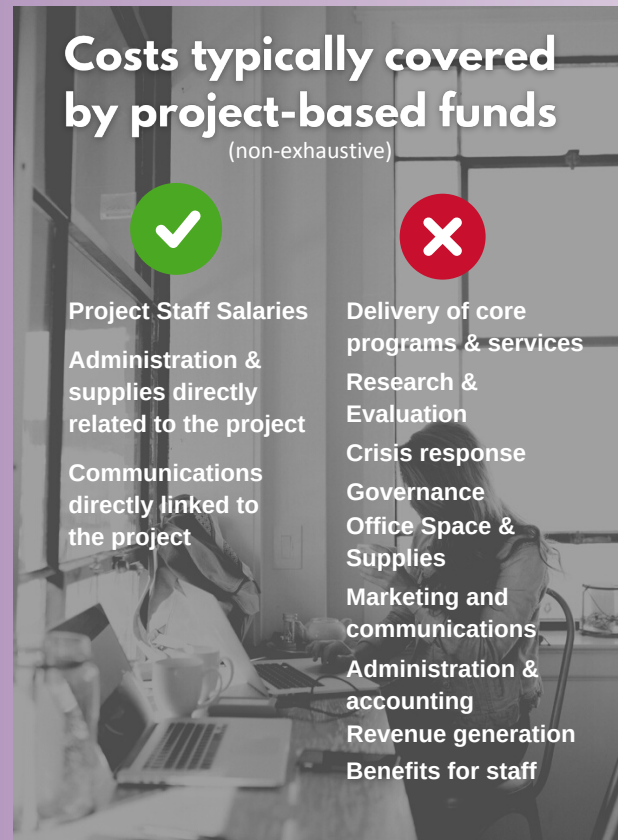
# CORE FUNDING

## Making Government Funding Work for Canadian Communities

Organizations in the charitable and nonprofit sector have the same needs as organizations in the private and public spheres. They need to invest in staffing, financial management, governance, research and evaluation, communications, revenue generation, technology, and office space and supplies.

Many of these **basic** needs are ineligible to be covered by project funding from the federal government.

As a result, generating revenue to cover these core expenses remains a major challenge for many organizations. While these costs are not necessarily direct program costs, they are essential to providing quality programs and services to communities and upholding good governance standards, employment, and financial management.



### The need for core and unrestricted funding

Funding agreements between the sector and the federal government often have rigid and inflexible terms with conditions for performance and reporting and auditing. Often, project-based funding fails to cover the direct costs associated with delivering a program, service, or project.

Usually, these funds cannot be used to cover core costs, such as computers, insurance, rental spaces, and communications that are required for the organization to function as it delivers the funded initiative. The complex application, reporting, and renewal processes associated with project-based funding create a significant administrative burden, which is usually not covered by the funding.



*"The lack of core funding has a direct impact on our organization's ability to serve our community and pursue our mission. Due to financial unpredictability, we cannot offer long-term programming which, in turn, makes it difficult for us to maintain a consistent relationship with our community."*

- Naoual Laarousi, Girls Action Foundation, Montreal



*To ensure the sector can continue to deliver high-quality programs and services, we recommend that the federal government reallocate 30% of all project-based funding that is destined for charities and nonprofits to core funding.*

Using the spectrum we've outlined on the next page, most federal funding falls into the category of "Project-based funding without full core cost coverage". **Imagine Canada is advocating for the federal government to progressively move towards the greener end of the core funding spectrum.**



Unrestricted funding	Core operating funding	Initiative-based core funding	Program funding with full core cost coverage	Program funding without full core cost coverage
Funding that can be used in any way, as long as it furthers the organization's charitable mission.	Funding used to cover any aspect of an organization's core operating costs. It cannot be used to cover program costs.	Funding used to cover specific aspects of an organization's core operating costs. The funds cannot be used to cover other costs.	Funding that covers the core operating costs associated with delivering a program, service, or project.	Funding that covers most of the direct costs associated with delivering a program, service, or project. Core operating costs may be partially covered.

Federal funding is often designated for new or short-term initiatives rather than ongoing core programs and services or the core operating expenses needed to sustain them. Organizations often have to respond to narrow calls for proposals reflecting government priorities, rather than being able to find funding for priority initiatives for the communities they serve. Due to short funding terms, charities and nonprofits must consistently allocate resources to apply for new project-based funding to stay afloat. Access to core funding will allow organizations in the sector to hire grant writers and fundraisers or to develop earned income activities that would allow them to generate funds for core operating costs.

Examples of the operational and financial difficulties associated with project-based funding:



**Quality of Programs and Services:** A lack of core funding shifts the focus away from long-term planning needed for program improvement. Often an organization can not re-apply for the same funding program. This makes it difficult to invest in core programs and services as organizations are forced to switch up their activities to attract new funding regularly. With limited resources, organizations must shift focus from day-to-day tasks to instead apply for grants or complete funding reports.



**Emergency Preparedness:** Project-based funding leaves the sector vulnerable. When economic and public health emergencies arise such as the Covid-19 pandemic, organizational health becomes extremely volatile as many charities and nonprofits experience extreme fluctuations in revenue generation. Due to limits on in-person gatherings during the pandemic, many organizations experienced difficulty raising funds and generating earned revenue. For many organizations, core funding was the only dependable source of funding during the pandemic.



**Racialized Work and Income Inequality:** The nonprofit sector workforce is highly gendered and racialized. Over 77% of our workforce are women, 50% are immigrants and 34% are racialized and Indigenous. Project funding has contributed to low wages and precarious work for those in the charitable and nonprofit sector.



"A lack of core funding stunts [our] impact possibilities from an organizational, psychological and community trust perspective. Project-based funding creates and perpetuates an environment of lack of confidence from society that the organization will survive beyond the end of the funded project; thus fulfilling stereotypical narratives about the success trajectory of Black businesses"

- Candies Kotchapaw, DYLOTT, Toronto





**Financial Instability:** The short-term and restrictive nature of project funding does not allow an organization to build new revenue streams (e.g. through improving fundraising capacity or creating new earned income activities), creating financial instability.



**Equity:** Smaller organizations are often unable to access government funding because they lack the resources and expertise to identify and complete funding applications. Additionally, many equity-seeking organizations are underfunded due to systemic inequities. The Network for the Advancement of Black Communities and Carleton University recently published a report [Unfunded: Black Communities Overlooked By Canadian Philanthropy](#), which found that less than 0.7 percent of funds from major foundations were disbursed to Black-led, serving and mandated organizations.



**Staff Retention:** In many public and private organizations, salary costs typically make up 85% to 90% of organizational costs, but salary costs in several charities and nonprofit agencies account only for 71% of organizational costs. In Canada, the average annual salary for those working in community nonprofits is \$38,716, compared to the economy-wide average of \$57,137. Often charities and nonprofits manage underfunding by reconfiguring staffing levels; one of the few areas where the budget is flexible. This is done by laying off core staff or hiring staff on contract so their employment can be terminated when funding ends or during a funding gap.



**Innovation:** The federal government prefers to fund new projects over ongoing activities, but is hesitant to fund the innovative approaches and research required to develop them. Without innovation, our sector may struggle to address complex social and environmental problems.



**Service Deserts:** These occur when there is difficulty accessing a service or program in a given region. Decades ago, the federal government provided core funding to organizations in the sector to ensure access to specific programs and services. Federal funding is needed to ensure organizations continue to exist in communities across the country (especially in rural and remote areas) to deliver federal services and programs.



*"Without core funding, it's much harder to maintain a presence among various business-related communities and with our current and potential candidates. The future is looking bleak, even though our service is valued and fulfills a need in our community. Who will pick up the slack when we are no longer here?"*

**- Anne Kresta, Level IT Up Manitoba**

*"When the core of our organization isn't properly resourced, it puts a greater burden on existing staff, leading to burnout and retention issues. It also means we have fewer resources to invest in staffing, professional development, and upgrades – like tech systems - that would allow our organization to grow our impact and operate more effectively."*

**- Marla MacLeod, Ecology Action Center**



2 Evans, Bryan, Ted Richmond, and John Shields. "Structuring neoliberal governance: The nonprofit sector, emerging new modes of control and the marketisation of service delivery." *Policy and Society* 24, no. 1 (2005): 73-97.

3 Statistics Canada. "Non-Profit Organizations and Volunteering Satellite Account: Human Resources Module, 2010 to 2019." (2021) and "Labour statistics consistent with the System of National Accounts (SNA), by job category and industry." (2022)

## Our recommendations:

Unrestricted and core funding sources from the federal government are vital. We recommend that the federal government:

1. Reallocate 30% of all project-based funding that is destined for charities and nonprofits to core funding; Reallocated funds should have a longer, multi-year term, to offer organizations stability.
2. Improve project-based funding as recommended in the 2019 Senate Report. These recommendations will streamline reporting requirements, reform project length, and ensure full coverage of associated administrative costs.
3. Apply an equity lens to the provision of core funding to address historical inequities.

These recommendations stem from broad consultations with Imagine Canada members, a recent story-gathering exercise from frontline organizations, and the steps taken by the Canadian government documented below:

## Momentum for Federal Funding Reforms:

**'From red tape to clear results: the report of the Independent Blue Ribbon Panel on Grant and Contribution Programs' (2006)**

- #15: Treasury Board should encourage funding departments to revisit the issue of whether and under what circumstances core funding is warranted to supplement project-specific funding.
- #16: Treasury Board should establish as a principle that, to the extent that the policy objective underlying the grant or contribution program is the delivery of federal programs through a third party, funding levels should reflect the full cost of program delivery.

**"Catalyst for Change: A Roadmap to a Stronger Charitable Sector" The Special Senate Committee on the Charitable Sector report (2019)**

- #10: Treasury Board must develop policies that require departments and agencies to compensate full administrative costs associated with delivering the services being funded in transfers to charitable and non-profit organizations.
- #12 That Treasury Board ensure that grants and contribution agreements cover a minimum of two years, renewable as appropriate; and that the level of information required for both application and reporting on these agreements be commensurate with the level of funding, minimizing complexity for smaller amounts.
- In 2021, the government released its response to the Senate report indicating that it is supportive of recommendations #10 and #12 (above).

**LGBTQ2 Community Capacity Fund, the Supporting Black Canadian Communities Initiative, and the Community Service Recovery Fund**

- In the past 3 years, the government has taken encouraging steps to adopt unrestricted funding practices in certain funds, including capacity building funds. This needs to be systematized.

**We look forward to working with the federal government to establish an unrestricted funding approach to encourage investment in quality services and decent work in the nonprofit sector.**

# ACKNOWLEDGEMENTS

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## About Imagine Canada

Imagine Canada is a national charitable organization dedicated to providing charities and nonprofit organizations with programs, assistance, and resources designed to help them better support the Canadians and communities they serve. Altogether our sector adds 8.3 percent to Canada's GDP and employs more than 2.4 million people across the country with over 170,000 nonprofits and charities.

If you have any questions, please do not hesitate to contact us at [policy@imaginecanada.ca](mailto:policy@imaginecanada.ca)

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