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Evaluation of Foundations

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Evaluation of Foundations

Evaluation of Foundations Ottawa, March 14, 2007

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Highlights

A. Evaluation objectives and scope

This report presents the findings of an evaluation of the use of foundations as instruments of public policy. This evaluation study was conducted by KPMG LLP (KPMG) on behalf of the Government of Canada between September, 2006, and January, 2007. The study addresses the government's commitments to the Standing Senate Committee on National Finance and Standing Committee on Public Accounts to *undertake an evaluation of the use of foundations as tools for the delivery of public policy, particularly with respect to the use of up-front conditional grant assistance*.

Three aspects of the government's use of foundations were examined:

- Appropriateness of the foundation model as instruments of public policy.
- The effectiveness of foundations,
- Their cost.

We interpreted the objective relating to "appropriateness" as referring to the appropriateness of using foundations as instruments of federal public policy. "Effectiveness" was interpreted to mean progress in achieving objectives set in foundations' funding agreements and (where applicable) legislation, and "cost" to mean the relative significance and composition of foundations' administration and operating costs.

Our methodology for the study involved several lines of enquiry, to enable the evaluation issues to be assessed from several perspectives and to understand and balance the positions of the various stakeholders: foundations, funding departments, central agencies, and, to a limited degree, partners/beneficiaries. We used the following methods:

- A review of documentation pertaining to the establishment, operation and performance of foundations.
- A series of six cases studies to obtain more in-depth understanding of foundations' mandates, activities, results and costs.
- A program of key informant interviews involving 94 participants from among foundations' senior managers and board/council members, funding departments, central agencies and a limited number of other stakeholders.
- A limited literature review that investigated experiences in other jurisdictions with the use of similar organizational models. This research showed that the use of multi-year funding agreements with independent foundations to achieve public policy appears to be unique to Canada.

B. Defining characteristics of foundations

Our analysis identified six defining characteristics of foundations that are used as tools to deliver public policies:

- Independent autonomous organizations established by legislation or as not-for-profit corporations under the *Canada Corporations Act* or similar legislation.
- Created with the express purpose of delivering a focused service or range of services to satisfy needs that are not currently addressed by existing government programs or services.
- Funded by up-front payments of conditional grants that provide multi-year funding over a fixed time period or in the form of a perpetual endowment.^{[11](#)}
- Mandates and governance structures are established in their legislation or articles of association. Funding agreements between the Government of Canada and individual foundations establish the objectives, governance and accountability requirements, and terms and conditions for the use of the transferred funds.
- Operate, for the most part, by providing funding for third party projects and activities selected on the basis of merit. Selection processes typically involve assessments against comprehensive selection criteria and the use of peer review processes. Most foundations also require beneficiaries to obtain matching funding for their projects.
- Governance is provided by boards composed of members with relevant expertise and experience, and who come (for the most part) from outside the federal government although some foundations have government officials sitting as ex-officio members of their boards. A minority of board members are appointed by the government. In one case, the Green Municipal Fund (GMF), governance is provided by the Board of the Federation of Canadian Municipalities (FCM), which receives project selection and funding

recommendations from the GMF's Council, whose members are drawn from the FCM Board, federal government, and private and academic sectors.

These characteristics have a close degree of alignment with the guiding principles for using foundations that were issued in *Budget Plan 2003*:

1. *Foundations should focus on a specific area of opportunity, in which policy direction is provided generally through legislation and/or a funding agreement.*
2. *Foundations should harness the insight and decision-making ability of independent boards of directors with direct experience in and knowledge about the issues at stake.*
3. *Decisions by foundations should be made using expert peer review.*
4. *Foundations should be provided with guaranteed funding that goes beyond the annual parliamentary appropriations to give the foundations the financial stability needed for the comprehensive medium- and long-term planning that is essential in their specific area of opportunity.*
5. *Foundations should have the opportunity and hence the ability to lever additional funds from other levels of government and the private sector.* ^[2]

This structure means that foundations are not directly accountable to Ministers nor Parliament, and the government can only intervene in the operation of foundations if they are found to deviate from their formal mandates and the terms and conditions of their funding agreements.

Past reports of the Auditor General have generally focused on sixteen organizations that display the above characteristics, which also provided the focus for our analysis. These organizations and their levels of funding are:

Foundations With Fixed Term Funding Agreements			
Foundation	Funding (\$m.)	Foundation	Funding (\$m.)
Canada Foundation for Innovation	\$3,650	Aboriginal Healing Foundation	\$390
Canada Millennium Scholarship Foundation	\$2,500	Canadian Health Services Research Foundation	\$151.5
Canada Health Infoway	\$1,200	Canadian Foundation for Climate and Atmospheric Sciences	\$110
Genome Canada	\$600	Forum of Federations	\$30
Sustainable Development Technology Canada	\$550		
Foundations Funding Agreements Providing Perpetual Endowments			
Foundation	Funding (\$m.)	Foundation	Funding (\$m.)
Green Municipal Fund	\$550	Frontier College Foundation	\$15
Pierre Elliott Trudeau Foundation	\$120	Clayoquot Biosphere Trust Society	\$12
Asia Pacific Foundation	\$50	Canadian Institute for Research on Linguistic Minorities	\$10
Pacific Salmon Endowment Fund Society	\$30		

C. Key conclusions

1. Appropriateness of foundations as policy instruments

The sixteen foundations examined in this evaluation exhibited generally strong degrees of alignment with the guiding principles published in *Budget Plan 2003*, in that they:

- Respond to, and focus on, specific and actionable needs. These needs are often in areas where an independent organisation can enter into agreements with provincial-territorial governments without having to deal with the same range of jurisdictional factors that a federal department would be subject to and ensure funding reaches the intended beneficiaries in a timely and flexible manner. Five distinct categories of need are currently being addressed by foundations:
 - Establishment of specialised world class infrastructure.
 - Conduct of targeted research and development.

- Support for education.
- Community-based initiatives to improve community and environment health.
- International knowledge brokering and supporting research.
- Operate in areas where there is a capacity for independent, non-partisan decision making, and where such decision-making processes have a long tradition of use.
- Require multi-year funding to support the planning and implementation of longer-term projects or operate in areas where a long-term approach to planning is necessary for optimal delivery of short-term projects.
- May require multi-year funding to enable the generation of leverage from other levels of government, the private sector and non-government stakeholder organisations. (Requirements to secure matching funding vary, with some foundations having specific quantitative targets, others are encouraged to secure additional support and two have no leverage requirements in their funding agreements, due to the nature of the areas they operate in (Canada Millennium Scholarship Foundation and Aboriginal Healing Foundation).)

From this perspective, the foundation approach is appropriate in situations when there is a combination of specific multi-year needs, capacity for independent non-partisan decision making, flexible multi-year funding of supported activities and, ideally, opportunities to obtain additional funding for activities from third parties.

2. Effectiveness

a. Progress against objectives

The findings from evaluations of foundation activities and results, results reported in foundations' annual reports and comments from key informants indicated or concluded that foundations are generally achieving intended results and justified the use of foundations as a policy instrument in these instances. Projects supported by most foundations have long life cycles so information on outcomes and impacts is only now starting to become available, but initial results appear encouraging.

b. Coordination with related government programs

Most foundations operate in fields where their activities link to or complement the activities of related government programs. This is particularly true with regard to foundations with mandates to support public research and development, the establishment of specialised infrastructure, and education. We found that the boards and management of foundations are aware of the need to avoid duplication and have taken steps to ensure that areas of potential overlap and opportunities for cooperation with government programs are identified and factored into their business plans. Having said this, many key informants from departments, foundations and granting councils noted that the information sharing and coordination is generally effective but is an area that requires ongoing attention as policies and programs evolve, and management turnover occurs within these various organizations.

While some degree of coordination or integration of foundation activities with the program of other public complementary programs is likely, a high degree of coordination would suggest that a foundation is not addressing a need that was as specific and separable as anticipated at the time it was created. Generally, the evaluations of foundations that we reviewed did not identify any significant issues of overlap or duplication among the foundations studied.

c. Alignment with government policy goals

Mechanisms to modify or refine the alignment of foundation objectives with policy goals do exist and are applied. On the government side, new funding tied to modified policy goals or priorities can be offered to foundations, and the objectives set in funding agreements jointly re-negotiated as part of this process. On the foundation side, boards and senior managers of foundations use their contacts with funding departments and Ministers' offices to keep informed about the evolution of policy priorities and to use the knowledge gained to refine their priorities and resource allocations within the overall structure of their mandates. Foundations also have the opportunity to use their periodic evaluations of results to assess the degree to which policy goals are being met and to draw on these findings in their corporate planning. Foundations with perpetual endowments have a greater degree of freedom, by virtue of their open-ended terms, to set a course that may potentially diverge from government policy goals, and the Minister can only intervene if the terms of the funding agreement are not satisfied. (Note that this is not to say that any of these foundations appear to have objectives that are out of alignment with government policy goals.)

d. Functioning of accountability mechanisms

Various steps have been taken by the government to strengthen the accountability of foundations since their first use in 1997-98. These actions include introducing consistent expectations regarding the preparation of annual corporate plans and performance reports, the conduct of independent audit and evaluation studies, submission of these reports to the responsible ministers and their public disclosure, and discretion for responsible Ministers to commission their own independent evaluation and performance audit studies. Most of the sixteen foundations studied now have funding agreements that include these provisions as well as consistent conditions under which the Crown may intervene in the event of non-compliance with the requirements of funding agreements.^[3]

In addition, the Auditor General now has increased authority to inquire into the use of funds by foundations and data on annual disbursements for four foundations—Canada Foundation for Innovation, Canada Millennium Scholarship Foundation, Sustainable Development Technology Canada and Aboriginal

Healing Foundation—are now included in the government's annual financial statements. These changes to the accountability and transparency requirements for foundations were made in response to concerns expressed in the Auditor General's 1999 and 2002 reports as well as the experience gained with the establishment of foundations and administration of these arrangements.

3. Costs

Our analysis of the operating and administration cost structures of the six case study foundations found that these foundations work with very lean structures focused on structured and transparent processes for reviewing and selecting projects to support, and supporting systems for project tracking and financial management. Their operating and administration costs are driven by needs to efficiently manage project workloads and to provide timely support for governance and accountability requirements. Foundations' resource levels, and costs, appear to be closely matched to, or follow, the trends in the project workloads.

More broadly, and excluding the cost performance during initial start-up periods, the shares of operating and administration costs in total expenses of foundations with high average annual rates of disbursements (i.e., greater than \$100 million per year) range from 3% to 4%. These rates are not dissimilar to the 5% to 6% levels achieved by granting councils and Infrastructure Canada, which share similarities to some of the foundations but have significantly higher numbers of projects (in the case of the councils) and annual disbursements. For medium-sized foundations (~ \$40 - \$80 million per year), the share is of the order of 7% to 11% (plus one foundation with a share of 24%).

Foundations with low annual rates of project disbursements (below \$40 million per year) do not have the same opportunities to achieve economies of scale as the foundations with higher disbursement rates, and many also undertake other activities in addition to selecting and funding projects, such as, knowledge transfer, capacity building and outreach. The share of operating and administrative costs in their total expenses ranges from about 29% to 51%, except for one very lean foundation where the share averaged 6%. In some cases, the relatively high share of operating and administrative expenses in total expenditures may be due to the fact that annual disbursements are still ramping up to planned levels. This appears to be the case with Sustainable Development Technology Canada and Canada Health Infoway where both the elapsed times from project selection to commencement and the time periods over which funds for each project are disbursed are quite long.

The issue of scale is particularly relevant to foundations with perpetual endowments where the level of funding available for projects and administration is a function of the income generated from their endowments. Achievement of a reasonable scale of operations thus depends upon the foundation receiving (or building) a very large endowment.

D. Recommendations

Recommendation #1 – more structured criteria for assessing foundation proposals

The findings presented in the previous section, and in more detail in the body of our report, suggest that foundations provide an appropriate means of addressing public policy goals in situations where organizational independence, financial stability and special expertise enables more effective program delivery than would otherwise be the case. Currently, the only formal guidance for determining if the foundation approach is appropriate is provided by five guiding principles first published in *Budget Plan 2003*. While these principles provide useful general guidance for the use of foundations we believe that decision-making regarding the future selection and use of foundations could benefit from the development and application of a set of supporting criteria drawn from the experience with current foundations. These criteria should complement and extend the existing guiding principles and provide a consistent, more rigorous basis to assess proposals to use the foundation approach or to renew and/or revise existing funding agreements.

We recommend that the government formulate a more structured framework that provides guidance for the assessment of proposals to use a foundation to contribute to the achievement of policy goals, or extend or renew multi-year funding for existing foundations. This framework would extend the existing guiding principles by defining criteria to inform decision-making regarding the use of foundations and assessment of supporting business cases for their funding. Such criteria as the following should be considered in developing this policy:

1. Specific area of need or opportunity:

- Is there a specific national or regional need or opportunity that is not addressed by current government policy instruments or levers, or can be better addressed using a foundation?
- Is this an appropriate area for intervention or support by the federal government?
- Can the applicable policy direction and goals be defined in legislation and/or a funding agreement?
- Are there potential issues or concerns from other levels of government concerning the federal role or jurisdiction? If so, will the use of a foundation approach be acceptable to and supported by these other levels of government?
- Will the proposed activities have a high degree of overlap with existing government programs or require a high degree of integration with complementary programs? Could the proposed activities be delivered by an existing program delivery organization instead of a separate foundation?
- Are there mechanisms in place, or will mechanisms be required, to coordinate or integrate proposed activities with these existing programs to avoid overlap or duplication? Can this coordination be accomplished efficiently?

2. Capacity to establish an independent board with directly relevant knowledge and experience:

- Is there an appropriate capacity in place (or capable of development) to provide independent, non-partisan decision-making?
- Is there a willingness amongst the potential pool of directors to assume the anticipated role to be played by the board?

3. Need for funding beyond annual parliamentary appropriations:

- How will the availability of multi-year funding enable a more timely or cost-effective approach to the specific area of need or opportunity?
- Is guaranteed funding over the life of the envisaged multi-year projects necessary for efficient project and financial management?

4. Capacity for decision making using expert peer review:

- Is the peer review method and selection on the basis of merit accepted as the common basis for selecting projects for support?
- Is there an appropriate capacity in place (or capable of development) to enable the application of a peer review process?

5. Evidence that leveraged funding can be secured:

- Are there potential funding partners for the envisaged projects?
- What evidence is there that potential partners are willing to provide matching funding?

6. Timeframe to achieve intended results:

- What time period will be necessary to achieve the desired immediate and/or final outcome(s)?
- What is the government's exit strategy?

In applying these criteria, all proposals to use a foundation would be expected to satisfy criteria 1, 2 and 3, which are linked to the fundamental rationale for using the foundation approach. The application or importance of the remaining three criteria may vary in response to the particular context in which the foundation is to operate. This variability is also present in the current mix of foundations.

Recommendation #2 – use of fixed term versus perpetual foundations

Any decisions to use a perpetual endowment to fund a foundation should carefully assess the extent to which the characteristics of the need to be addressed differ from those addressed using fixed term funding agreements.

Seven of the sixteen foundations examined in our work operate with perpetual endowments, using investment income from their endowments to fund both program delivery and administrative activities. Approximately 7% of the funding transferred to the foundations studied was in this form. Foundations with perpetual endowments represent the most independent form of the foundation approach, in that the government has more limited opportunity to re-negotiate the terms and conditions of their funding agreements and, potentially, to ensure continued alignment with relevant government policy goals. (This is not to say that any are out of alignment at present, however.) Their reliance on investment income alone also means they are more exposed to interest rate risks and require a significant endowment if they are to maintain high rates of project funding. Based on the information reviewed, it was not apparent that the needs being addressed by foundations with perpetual endowments required noticeably different time frames to achieve results than the needs being addressed by foundations with fixed term funding.

Recommendation #3 – Consider the expected scale of activities and relative cost-effectiveness when evaluating foundation proposals

The relative cost-effectiveness of foundations is determined by the scale of operations relative to the cost of operations and administration, and the extent to which supporting activities are performed, such as outreach to and capacity building among targeted beneficiaries. In situations where these operations and administrative costs are expected to consume a significant proportion of the total funding available it may be more economical to use an alternative instrument to achieve the desired policy outcomes.

We recommend that the assessment process for proposed new foundations incorporate, in addition to the guiding principles and criteria proposed under Recommendation #1, criteria related to the assessment of expected administrative and operating costs for the proposed foundation and alternative policy instruments.

I. Introduction

A. Introduction

This report presents the findings of an evaluation of the use of foundations as instruments of public policy. This evaluation study was conducted by KPMG LLP (KPMG) on behalf of the Government of Canada between

September, 2006, and January, 2007. As such, this evaluation is not an evaluation of the effectiveness and relevance of individual foundations, but is a policy evaluation, intended to assess the degree to which foundations can be used to achieve public policy goals. As with all evaluation studies commissioned by the federal government it has two underlying purposes: to provide an assessment of policy or program effectiveness and impacts, and to help design or improve the design of policies, programs and initiatives.

At various times since the 1997 the Auditor General, the Standing Committee on Public Accounts, and the Standing Senate Committee on National Finance have each reviewed the use of foundations and made recommendations relating to the arrangements in place to ensure good governance of, and accountability by, these organizations to Parliament and Canadians. All three organizations recommended that the use of foundations as an instrument of public policy be evaluated, particularly with respect to the use of up-front conditional grants as the funding mechanism for these organizations. The specific recommendations and government responses were:

Eleventh Report of the Standing Senate Committee on National Finance, May 2005: *Recommendation 6: The Treasury Board Secretariat develop an evaluation framework and undertake a government-wide evaluation of the use of foundations as instruments of public policy. This evaluation should include the appropriateness of the use of foundations, what they cost, and how effective they have been. The results of the evaluation should be reported to Parliament. (p.19)*

Government Response, October, 2005: *The Government will undertake an evaluation of the use of foundations as tools for the delivery of public policy, particularly with respect to the use of up-front conditional grant assistance. Given the complexity of the task, the Committee's deadline is not feasible; the Government undertakes to report the results to the Committee no later than 31 March 2007.*

Twelfth Report of the Standing Committee on Public Accounts, June 2005: *Recommendation 11: That the Treasury Board Secretariat evaluate foundations as instruments of public policy and report the results of its study to Parliament by 31 March 2006.*

Government Response, September, 2005: *The Government will undertake an evaluation of the use of foundations as tools for the delivery of public policy, particularly with respect to the use of up-front conditional grant assistance. The Government undertakes to report the results to the Committee no later than 31 March 2007.*

B. Evaluation objectives

The objective of the study was to evaluate the use of foundations as instruments of public policy, focusing on three aspects of their use, as listed below. The evaluation framework developed for the study in early 2006 identified a series of evaluation issues that focus on various factors that may contribute to the overall appropriateness, effectiveness, and cost, which are also listed below.

Appropriateness of the use of foundations, particularly with respect to the use of up-front, multi-year funding arrangements.

1. In what ways has the use of upfront, multi-year funding arrangements with foundations facilitated or impeded the:
 - a. Achievement of applicable government policy goals;
 - b. Achievement of foundations' mandates and objectives;
 - c. Management and operation of foundations?Could the same or better outcomes be achieved using a different approach to the transfer of funds from the federal government to foundations?
2. Could the target objectives of foundations be achieved just as readily using existing funding approaches and organizational/governance structures available to the federal government while providing for a similar or higher degree of accountability to Ministers, Parliament and the Canadian public?
3. To what extent do the existing foundations satisfy the guiding principles established by Finance Canada to determine when a foundation is an appropriate vehicle for delivering public policy?
4. Is the multi-year transfer of funding to foundations necessary and/or useful to the effectiveness of these organizations?

How effective they have been.

5. To what extent have foundations followed their mandates and achieved their objectives? What are the key enabling, and limiting, factors encountered by foundations, and how have they been responded to?
6. To what extent do foundations:
 - a. Overlap or duplicate other programs and activities of the federal or provincial/territorial governments;
 - b. Complement programs of the federal or provincial/territorial governments, and if so, what is the degree of integration or coordination with these other programs?What costs and/or benefits do these instances of overlap, duplication or complementarity have for policy makers and/or foundations?
7. To what extent is the performance of foundations enhanced, or impeded, by their:
 - a. Governance structures;
 - b. Anticipated better access to staff and Board/Council members with expert knowledge & skills;
 - c. Accountability requirements, as defined in their funding agreements?
8. Have applicable government policy goals and priorities relating to the mandates of each foundation changed since their establishment? Have the affected foundations re-aligned or revised their own

objectives and priorities in response to these policy changes?

What they cost.

9. What does it cost foundations — relative to the size of their endowments and the scale of their disbursements — for:
 - a. Initial start-up;
 - b. Ongoing management and operation?What factors drive the level and significance of foundations' management and operating costs?
10. What costs do funding departments and central agencies incur in connection with the establishment and operation of foundations?
11. How do the costs of managing and operating foundations compare to likely costs if entities within the federal government were to administer the activities performed by foundations?
12. To what extent have foundations been able to attract partners and lever additional funding from other levels of government and the private sector? Would this leverage have been feasible using other potential funding structures/approaches? Why/why not?

In addition, the evaluation framework also identified two additional issues for consideration, the findings from which were incorporated into the discussion on appropriateness, effectiveness and cost:

13. Have foundations conducted required evaluations in accord with the requirements of their funding agreements and the Treasury Board Evaluation Policy? How have the findings from these studies been used:
 - a. To assess and improve the design, delivery and management of programs by the Boards and management of foundations;
 - b. To inform policy analysis and formulation by funding departments?
14. What lessons have been learned with the use of foundations, in terms of what has worked well, and what hasn't? For example, from variations in governance structures, involvement of different types of partners, use of perpetual endowments versus finite-term, disbursement-based endowments?

We interpreted the objective relating to "appropriateness" as referring to the appropriateness of using foundations as instruments of federal public policy and did not consider appropriateness from the perspectives of other levels of government. "Effectiveness" was interpreted to mean progress in achieving objectives set in foundations' funding agreements and (where applicable) legislation, and "cost" to mean the relative significance and composition of foundations' administration and operating costs.

C. Organization of the report

The report firstly presents a description of the methodology used for this study followed by a description of the key features of the way in which the "foundation model" has been applied as well as a brief review of the extent to which analogous models have been used in other jurisdictions. The next three chapters summarize our findings regarding the appropriateness, effectiveness and cost of foundations, respectively, which is then followed by a chapter presenting our conclusions.

D. Disclaimer

Our work was limited to, and our observations and recommendations are based on, the procedures outlined in the following Methodology chapter. The scope of our engagement was, by design, limited, and therefore the findings and recommendations should be considered in the context of the procedures performed. In this capacity, we were not acting as auditors and accordingly our work did not result in the expression of an opinion and does not constitute an audit engagement. We relied on information and representations of management and others and on management for the completeness of background information provided.

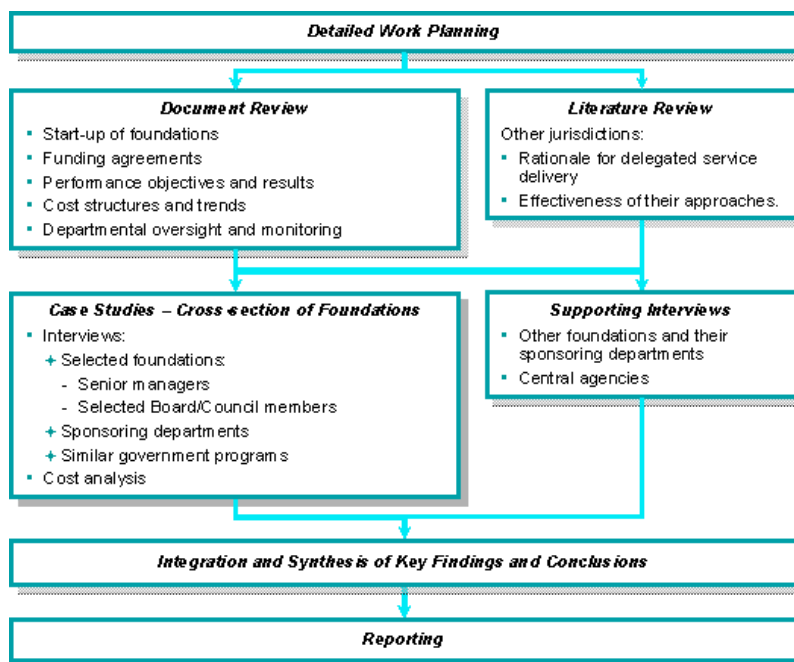
II. Methodology

A. Approach

Our approach to the collection of information for this evaluation relied upon four inter-related lines of enquiry, as shown in Exhibit II-1.

Exhibit II-1

Approach to data collection, analysis and reporting



This approach was designed to provide information from multiple sources to enable the evaluation issues to be assessed from several perspectives and to better understand the positions advanced by participants who are most closely involved with the use of foundations for public policy purposes. The study also had to be completed within a relatively short time period – from September, 2006, to January, 2007 – which necessitated a concentrated approach to data collection.

B. Methodologies

1. Documents review

Our evaluation team reviewed a broad range of documentation on the government's use of foundations to achieve policy goals, the evolution of the terms and conditions under which foundation funding has been provided, and the results achieved by various foundations. The principal sources of information included:

- Government of Canada Budget Plans and Economic Statements.
- Funding agreements between the Government of Canada and foundations.
- Finance Canada information relating to the selection of foundation candidates and use of the foundation model.
- Treasury Board documentation regarding the establishment and administration of funding agreements with foundations.
- Foundations' annual reports and corporate plans.
- Evaluation studies conducted on behalf of foundations.
- Reports of the Office of the Auditor General, and Standing Committee on Public Accounts and Standing Senate Committee on National Finance relating to foundations.

The review of documentation was used to identify information relating to the rationale for establishing foundations as instruments of public policy, governance and accountability requirements, results achieved to date, and characteristics of disbursements and operating costs.

2. Case studies

A series of six case studies of selected foundations were used as one of the two core data collection and analysis methods in the evaluation. The six case study foundations were:

- Canada Foundation for Innovation (CFI)
- Canada Millennium Scholarship Foundation
- Genome Canada
- Aboriginal Healing Foundation (AHF)
- Green Municipal Fund (GMF)
- Pacific Salmon Endowment Fund Society

The case studies were used to obtain insights into the appropriateness, effectiveness and costs of specific foundations, which were used, in conjunction with findings from interviews with other foundations and stakeholders, to identify common characteristics, themes and conclusions applicable to all, or most, foundations.

The methodology for the case studies involved:

- A program of 25 interviews involving 56 participants, composed of:
 - 26 senior managers of the selected foundations and selected board members (15 interviews) plus 3 interviews with 4 stakeholder representatives.
 - 28 officials from the case study foundations' funding departments with liaison and monitoring responsibilities (8 interviews).
- Reviews of supporting documentation related to the performance and effectiveness of foundations, which formed part of the overall review of documentation described in section 1, above.
- A high-level analysis of the case study foundations' costs, which was used to assess their cost structures, trends and cost drivers. To the extent possible, we also compared the foundations' cost structures to those of similar government programs, such as granting councils, Infrastructure Canada and the TEAM program (NRCan).

The case study foundations were selected on the basis of four primary criteria:

- *Type of foundation*, differentiating between foundations funded using fixed term agreements and foundations with perpetual endowments.
- *Relative scale of funding*, using three categories:
 - Large—Over \$500 million
 - Medium—Between \$100 and \$500 million
 - Small—less than \$100 million
- *Sector orientation*, differentiating between the various types of sectors/activities supported by foundations. The categories used are:
 - Infrastructure/Technology Demonstration
 - R&D
 - Education
 - Community-based initiatives (AHF, PSEF/PSF)
 - International information exchange and networking.
- *Form of funding provided to beneficiaries*, differentiating between:
 - Project grants (and loans, in the case of the GMF)
 - Research grants
 - Scholarships and bursaries
 - Funding for internal programs and operations.
- *Basis for creation*: legislation, Canada Corporations Act or Other.

In addition, the mix and balance of the case study foundations was also checked against three secondary criteria to ensure the six selected provided a reasonable representation of the full range of foundations in operation. These secondary criteria were:

- *Funding departments*, with the spectrum composed of: Industry, Human Resources and Skills Development (HRSD), Health, Natural Resources, Environment, Indian Residential Schools Resolution Canada, Foreign Affairs, Fisheries and Oceans, and Heritage.
- *Years in which the foundations were first announced*.
- *Number of funding grants received*, that is, the number of instances in which government funding was provided.

Exhibit II-1 provides a summary of the characteristics of the six case study foundations against the above criteria.

Exhibit II-1

Characteristics of the case study foundations

Case Study Foundations	Primary Criteria					Qualifying Criteria		
	Type of Funding Agreement	Scale of Funding (\$ mill.)	Sector Orientation	Form of Funding	Legal Basis	Department	Year Created	# of Grants
Canada Foundation for Innovation	Fixed Term	Large (\$3,650)	Infra-structure/Tech. Demo.	Project Grants	Legislation	Industry	96/97	5
Millennium Scholarship Foundation	Fixed Term	Large (\$2,500)	Education	Bursaries, Scholarships	Legislation	HRSD	97/98	1
Genome Canada	Fixed Term	Large (\$600)	R&D	Research Grants	CCA ¹	Industry	99/00	4
Aboriginal Healing Foundation	Fixed Term	Medium (\$390)	Community-Based Initiatives	Project Grants	CCA ¹	IRSRC	97/98	2

Green Municipal Fund	Perpetual Endowment	Large (\$550)	Infra-structure/ Tech. Demo.	Project Grants & Loans	CCA ²	NRCan & Environment	99/00	3
Pacific Salmon Endowment Fund Society	Perpetual Endowment	Small (\$30)	Community-Based Initiatives	Project Grants	B.C. Society Act	Fisheries & Oceans	00/01	1

1. I incorporated under the *Canada Corporations Act* as a not-for-profit organisation.
2. Parent organisation, Federation of Canadian Municipalities, incorporated under the *Canada Corporations Act*.

3 Key informant interviews

Additional interviews were conducted with representatives of other foundations, their funding departments, central agencies and selected programs operating in similar fields to foundations. These interviews were used to obtain breadth of coverage regarding the appropriateness of using foundations, their effectiveness, and approaches to the design of governance structures and administration of funding agreements. A total of 26 interviews with 38 participants were conducted, involving:

- 14 interviews with 19 representatives of other foundations:
- 5 interviews with 5 representatives of the other funding departments (plus 3 interviews with 6 representatives of 2 departments who spoke in relation to a case study foundation and a non-case study foundation).
- 7 interviews with 14 representatives from Treasury Board Secretariat, Finance Canada, Natural Sciences and Engineering Council (NSERC), Canadian Institutes of Health Research (CIHR) and the Technology Early Actions Measures (TEAM) program at Natural Resources Canada.

A list of the participants in the interviewing program is presented in Appendix A.

4. Literature review

In preparation for the evaluation, TBS commissioned a study to identify international best practices pertaining to the governance and accountability of organizations that shared many features of the foundation model, relating to what have become known as "semi-autonomous organizations" and "non-departmental public bodies" (or "quangos"). We reviewed the findings from this research and conducted a limited further search of the academic and "grey" literature (non-peer reviewed, usually government-sponsored reviews) to determine any lessons regarding the effectiveness of these approaches and their governance. A list of the key documents reviewed is presented in Appendix B.

C. Limitations of the approach

This evaluation study of the use of foundations draws on the findings from a series of cases studies; interviews with representatives of foundations, funding departments, central agencies and a small number of other stakeholders; and a supporting review of documentation and research literature.

In reviewing the findings from the work a number of limitations of the methodology should be borne in mind. Firstly, the participants in the key informant interviews formed a convenience sample, composed of people with direct roles in the management and monitoring of foundations, and their relationships with, and accountabilities to, the federal government. At a time when a number of the foundations are approaching periods where decisions regarding renewal and refunding, or winding up, will need to be made we had to be cognizant of the different degrees of possible self-interest at play and to seek to balance or cross-validate respective views.

Our sample of key informants had broad representation from across the spectrum of foundations and funding departments, which provided us with a good balance of perspectives on the appropriateness of foundations as instruments of public policy. However, the limited time within which the data collection and analysis was undertaken precluded us from including a larger pool of representatives of foundations' partners and stakeholders, particularly at other levels of government and within the public research community, who could have added to the richness of the analysis of effectiveness.

With regard to the analysis of what foundations cost, we had originally anticipated developing estimates of the costs of delivering foundations programs using departmental programs. However, we found that the very reasons why foundations have been established meant that undertaking these same activities within the departmental context would require a significantly different program design and delivery structure from that which foundations are able to use. In the time available, we were not able to develop a reliable basis for such comparisons and limited our analysis of costs to the cost structures and trends of foundations, particularly those of the case study foundations, and comparisons to the operating and administration costs of a number of similar government organisations. These comparators were chosen on the basis of the similarity of their programs and activities to those of some foundations, particularly those that research or infrastructure projects. We also supplemented this with a qualitative analysis that drew upon the foundation and departmental representatives' views of the cost differences that would arise if foundation activities were to be delivered using departmental programs.

III. Characteristics Of Foundations

A. Use of foundations as instruments of public policy

The introduction of foundations as a tool for the achievement of government policy objectives is generally linked to the creation of the Canada Foundation for Innovation (CFI), which was first announced in *Budget Plan 1997* and incorporated under Part 1 of the *Budget Implementation Act, 1997* on April 25, 1997. CFI was described, at that time, as an entirely new approach by the government to the support of research and development. From this starting point, involving a once-off investment of \$800 million, the federal government went on to create a variety of foundations that either receive conditional grants for disbursement over a finite number of years or to create perpetual endowments that use the income generated by the endowment to fund their disbursement programs and operations. Reports of the Auditor General concerning foundations have focused on sixteen such organizations, which were also used as the focus for our work. More recently, a number of conditional grants providing multi-year funding have also been made to a number of existing organizations to fund major initiatives expected to generate significant public benefits, such as, the Canadian Institute for Advanced Research and Precarn Inc's Phase IV, and at least one newly created foundation, the Canadian Council of Academies.

In Budget 2005, foundations were defined as *not-for-profit organizations governed by independent arm's length boards of directors made up of experienced and knowledgeable individuals with expertise in specific areas of research, development and learning. Their arm's length nature, financial stability and focused expertise allow them to address specific challenges in a highly effective non-partisan manner.* [4] This independent, focused, not-for-profit characteristic is not the only defining feature of a foundation, which may also be attributed to many other corporate interests of the Crown commonly categorized as Shared Governance Corporations. [5]

Our review of documentation relating to the establishment, funding and operation of these foundations identified six defining characteristics of foundations:

- Independent autonomous organizations established by legislation or as not-for-profit corporations under the *Canada Corporations Act* or similar legislation. [6]
- Created with the express purpose of delivering a focused service or range of services to satisfy needs that are not currently addressed by existing government programs or services.
- Funded by up-front payments of conditional grants that provide multi-year funding in the form of either a fixed term or perpetual endowment.
- Mandates and governance structures are established in their legislation or articles of association. Funding agreements between the Government of Canada and individual foundations establish the objectives, governance and accountability requirements, and terms and conditions for the use of the transferred funds.
- Operate, for the most part, by providing funding for third party projects and activities selected on the basis of merit. Selection processes typically involve assessments against comprehensive selection criteria and the use of peer review processes. Most foundations also require beneficiaries to obtain matching funding as a condition for receiving foundation support.
- Governance is provided by boards with members drawn from outside of government with expertise and experience in the fields in which foundations operate. A minority of board members are appointed by the government.

This structure means that foundations are not directly accountable to Ministers nor Parliament, and the government can only intervene in the operation of foundations if they are found to deviate from their formal mandates and the terms and conditions of their funding agreements. Recent changes to the *Auditor General Act* (2005), revisions to the definition of "control" in the Public Sector Accounting Board (PSAB) standard on the government reporting entity and some provisions of the *Federal Accountability Act* have resulted in modifications to the reporting and oversight arrangements for some foundations. That is:

- In 2005, the Auditor General obtained the authority to inquire into the use of funds by organizations, such as foundations, that have received \$100 million or more under funding agreements in any five consecutive years. The *Federal Accountability Act* (2006) modified the *Auditor General Act* by lowering this threshold to \$1 million.
- Revenues and expenses of four foundations—Canada Foundation for Innovation, Canada Millennium Scholarship Foundation, Sustainable Development Technology Canada [7] and Aboriginal Healing Foundation—are now included in the government's annual financial statements, and transfers to these organizations will not be treated as expenses until payments are made to the ultimate recipients. This change has no material bearing on the operations and activities of these foundations.
- Five foundations will be subject to the *Access to Information Act* and *Privacy Act* when provisions in the *Federal Accountability Act* come into force: Asia-Pacific Foundation, Canada Foundation for Innovation, Sustainable Development Technology Canada, Canada Millennium Scholarship Foundation and the Pierre Elliott Trudeau Foundation.

The new federal government also used *Budget Plan 2006* to indicate that the use of foundations would continue, to take advantage of their ability to address specific policy challenges in a highly effective manner, drawing on their independence, financial stability and focused expertise. The key characteristics of the foundations that provided the focus for this evaluation study are summarized in Exhibit III-1.

Exhibit III-1
Summary characteristics of foundations

Foundation (Year Established)	Type of Funding Agreement	Funding¹ (\$m.)	Resp. Dept.	Mandate	How Created	Primary Mode of Operation	Foundation Contribution (Leverage)
Canada Foundation for Innovation (CFI) (1996/97)	Fixed Term	96/97: \$800 98/99: 200 99/00: 900 00/01: 1,250 02/03: <u>500</u> \$3,650	Industry Canada	Strengthen the capacity of Canadian universities, colleges, research hospitals, and non-profit research institutions to carry out world-class research and technology development	Legislation	Project Grants	Up to 40% (More in exceptional circumstances)
Canadian Health Services Research Foundation (CHSRF) (1996/97)	Fixed Term	96/97: \$13.3 97/98: 13.3 98/99: 13.3 99/00: 13.3 02/03 <u>25.0</u> \$151.5	Health Canada	Support evidence-based decision-making in the organization, management and delivery of health services through funding research, building capacity and transferring knowledge.	CCA	Research grants and knowledge transfer	No maximum
Canada Millennium Scholarship Foundation (1997/98)	Fixed Term	97/98: \$2,500	HRSDC	Grant bursaries to students who are in financial need and who demonstrate merit, as well as grant excellence awards, in order to improve access to post-secondary education	Legislation	Bursaries, scholar-ships	100% (May accept donations)
Aboriginal Healing Foundation (AHF) (1997/98)	Fixed Term	97/98: \$350 04/05 <u>40</u> \$390	IRSRC	Encourage and support Aboriginal people in building and reinforcing sustainable healing processes that address the legacy of physical abuse and sexual abuse in the residential school system, including intergenerational impacts.	CCA	Project Grants	100%
Genome Canada (1999/00)	Fixed Term	99/00: \$160 00/01: 140	Industry Canada	Develop and implement a national strategy	CCA	Research Grants	50%

		02/03: 75 04/05: <u>225</u> \$600		in genomics and proteomics research			
Green Municipal Fund (GMF) (1999/00)	Perpetual Endowment ²	99/00: \$125 01/02: 125 04/05: <u>300</u> \$550	NRCan, Env Can	Stimulate investment in innovative municipal projects and practices to improve the environmental performance of Canadian municipalities.	CCA	Project grants and loans	Grant/loan combinations of up to 80% for capital projects; up to 50% for feasibility studies
Canadian Foundation for Climate and Atmospheric Sciences (CFCAS) (1999/00)	Fixed Term	99/00: \$60 04/05: <u>50</u> \$110	Env Can	Fund research and modeling in the climate system and atmospheric sciences, including extreme weather and air quality	CCA	Research Grants	No maximum (<i>Lever additional funds</i>)
Clayoquot Biosphere Trust Society (2000/01)	Perpetual Endowment	00/01: \$12	Env Can	Endowment fund income is to be used for local research, education, and training which supports conservation and sustainable development in the Biosphere Reserve Region.	Provincially incorporated: B.C. Society Act	Research, education & training grants	No maximum (<i>Lever in-kind and financial support</i>)
Canada Health Infoway (CHI) (2000/01)	Fixed Term	00/01: \$500 02/03: 600 04/05: <u>100</u> \$1,200	Health Canada	Foster & accelerate the development & adoption of electronic health information systems with compatible standards and communications technologies on a pan-Canadian basis, with tangible benefits to Canadians.	CCA	Project Grants	25% from partners (50% prior to 05/06)
Sustainable Development Technology Canada (SDTC) (2000/01)	Fixed Term	00/01: \$100 03/04: 250 04/05: <u>200</u> \$550	NRCan, Env Can	Develop and demonstrate new technologies that have the potential to advance sustainable development, including technologies to address climate change, clean air and water and soil quality issues.	Legislation	Technology Development & Demonstration Grants	Up to 50% on any single project; average over all projects of less than 33%

Pacific Salmon Endowment Fund Society (2000/01)	Perpetual Endowment	00/01: \$30	DFO	Support, conservation and sustainable use of Canadian Pacific salmon stocks.	Provincially incorporated: B.C. Society Act	Project grants	No maximum (<i>Increase the endowment returns</i>)
Frontier College Foundation (1999) (Frontier College established in 1899)	Perpetual Endowment	00/01: \$15	HRSDC	Promotes literacy in Canada by recruiting and training volunteers across Canada as literacy tutors to teach people to read and write and by carrying out programs to mobilize the resources of the community in support of literacy	CCA	Funds Frontier College Literacy programs	No specific requirement (Has extensive fundraising)
Forum of Federations (1998/99)	Fixed Term	00/01: \$10 04/05: <u>\$20</u> \$30	Foreign Affairs	The Forum offers to policy-makers and practitioners of federalism an arena in which to exchange information and compare experiences in managing federal systems.	CCA	Forum programs	No specific requirement (05/06 - ~25% from partners)
Pierre Elliott Trudeau Foundation (2001/02)	Perpetual Endowment	01/02: \$120	Industry Canada	Promote outstanding research in the social sciences and humanities, and to foster a fruitful dialogue between scholars and policymakers in government, business, the voluntary sector, the professions and the arts community	CCA	Scholarships and prizes	No specific requirement
Canadian Institute for Research on Linguistic Minorities (2001/02)	Perpetual Endowment	01/02: \$10	Heritage Canada	Promote research and data collection on issues that are vital to Canada's official language communities.	CCA	Research grants	No maximum (<i>Do lever additional funds</i>)
Asia-Pacific Foundation (1984)	Perpetual Endowment	04/05: \$50	Foreign Affairs	Developing the skills and networks, and disseminating the information, that Canadians need to become more successful	Legislation	Internal operations and research	May accept grants, contributions & donations

Sources:

Current funding agreements, annual reports of foundations, information on websites of individual organizations, and the *Public Accounts of Canada: Volume 1* (various years).

Notes:

1. Years shown are those in which funding was formally transferred.
2. Prior to March, 2005, consisted of the Green Municipal Enabling Fund (with \$50 million fixed term funding) and the separate Green

Municipal Investment Fund (with a \$500 million perpetual endowment). When the \$50 million allocated to the GMEF is exhausted all operations will be funded by income from the perpetual endowment.

B. Policy guidelines regarding the use of foundations

Decisions regarding the selection and use of foundations as instruments of public policy were made by Cabinet as part of the government's budget processes and, as such, there is no public information on the rationale for their selection. Similarly, there is no information on proposals that were rejected, except for that relating to two foundations announced in Budget 2001 that did not subsequently proceed.^[8]

Budget Plan 2003 established, albeit retrospectively, a set of guidelines for the selection and assessment of candidates for "foundation-based funding":

1. Foundations should focus on a specific area of opportunity, in which policy direction is provided generally through legislation and/or a funding agreement.
2. Foundations should harness the insight and decision-making ability of independent boards of directors with direct experience in and knowledge about the issues at stake.
3. Decisions by foundations should be made using expert peer review.
4. Foundations should be provided with guaranteed funding that goes beyond the annual parliamentary appropriations to give the foundations the financial stability needed for the comprehensive medium- and long-term planning that is essential in their specific area of opportunity.
5. Foundations should have the opportunity and hence the ability to lever additional funds from other levels of government and the private sector.^[9]

Budget Plan 2003 also included new commitments to improve the transparency and accountability of foundations to Ministers, Parliament and the Canadian public. These new obligations, which were implemented when changes to funding agreements with individual foundations were necessary, required foundations to:

- Submit copies of their corporate plans for the periods covered by their funding agreements to responsible Ministers. Summaries of these plans were to be made public by the responsible Minister and provided to Parliament.
- Provide information on significant results to relevant departments for inclusion in the departmental performance reports of their funding departments.
- Present annual reports to their applicable Ministers and, in the case of foundations created by specific acts of legislation, to Parliament. Annual reports were also to be made publicly available.
- Conduct independent evaluations of their program activities, with any significant findings to be incorporated into the performance reporting of the relevant departments.
- Conduct independent audits of compliance with funding agreements.

In addition, the government committed to:

- Seeking Parliamentary approval of purpose and funding through direct legislation for those foundations that are significant from either a policy or financial perspective, and in all cases, Parliament would approve funding for foundations.
- Introducing provisions in all new and re-negotiated funding agreements for intervention in the event that a foundation was judged to have significantly deviated from the terms of its funding agreement, including a dispute resolution mechanism and powers to recover any unspent funds in the event that a foundation is wound-up.

These changes to the accountability and transparency requirements for foundations were made in response to concerns expressed in the Auditor General's 1999 and 2002 reports as well as the experience gained with the establishment of foundations and administration of these arrangements. Writing in the 2005 *Summary Report and Financial Statements for the Public Accounts of Canada*, the Auditor General noted that improvements had been made in the accountability regimes of foundations but the government continues to be limited in its ability to make changes to foundations' mandates and objectives in the event of major changes to policy goals and priorities.

C. Experience with the use of analogous models in other jurisdictions

The use of new organizational and legal forms for the delivery of government services is a phenomenon of the late 20th and early 21st century in which a wide variety of new structures have been established with varying

degrees of autonomy, accountability and financial independence. In the case of other Commonwealth countries, notably the U.K. and New Zealand, the approaches taken tend to fall into two loose groupings:

- Agencies—organizations that are separated from core departments, have a degree of autonomy, are directly accountable to ministers and have budgets set and controlled by their parent departments. A notable example of this type of semi-autonomous or delegated governance organization is the U.K.'s Executive Agencies.
- More autonomous organizations that operate at arm's length from Ministers and departments and implement policies through the application of specialized knowledge and skills, but are still accountable to Ministers and Parliament for their performance and expenditures. Examples of these organizations include the U.K.'s Non-Departmental Public Bodies (NDPBs) and New Zealand's Crown entities.

Typical reasons for using agencies and other forms of delegated governance identified in international research include:

- Lessen political interference in order to let managers manage in a more efficient manner.
- Allow for impartial regulatory or quasi-judicial decision-making.
- Strengthen political oversight by creating separate, transparent organisations that can be given clear targets.
- Put public services closer to their users and thereby improve responsiveness.
- Enhance expertise by allowing specialization and thereby improving effectiveness and/or efficiency.
- Enhance flexibility and thereby improve the quality and efficiency of services.
- Facilitate the establishment of partnerships with other levels of government, NGOs and/or private enterprise.^[10]

At a more abstract level, the rationale for using these various alternative service delivery forms is grounded in what has become known as the New Public Management (NPM), which is based on the premise that the performance of public organizations will be strengthened if managers have operational discretion ("freedom to manage") and are held accountable for achieving results. For example, Schick noted that: *This quid pro quo – giving managers discretion in exchange for strict accountability – is promoted by carving out a specific area of responsibility for each agency and empowering its managers to operate as they deem appropriate. But having been given discretion, managers must openly account for what they have done and accomplished.*^[11]

From this perspective, the use of delegated governance arrangements is justified on the basis that they provide a more efficient means of delivering services by providing a focused approach to policy implementation, with policy making separated from policy delivery. The limited amount of published research on the efficiency of these arrangements is somewhat mixed. An OECD study on "distributed public governance" reported that government reviews of these approaches reported increased efficiency and innovation, and more effective partnerships between different levels of government, amongst others. However, Pollitt et al suggests in another review that *systematic, hard evidence for the increased efficiency of the agency form – in general – is not available. ... On the other hand, there seems to be plenty of practitioner evidence that, if a ministry is able to set attainable but demanding targets, agency performance often (though by no means always) responds.*^[12]

One of the apparent lessons from the international experience is the importance of having clear criteria on which to base decisions to establish delegated governance organizations, and thereby ensure an adequate balance between independence and accountability in the design and management of the organization. Another consideration is the question of when and on what basis should the organization be wound up or its life extended, that is, the basis for determining if the policy goals applicable to the organization have been satisfied. Equally important in this is the role of the funding department in liaising with and monitoring the performance of the new organizations.

What is clear from the approaches to delegated governance in other countries and associated research is that the foundation model applied in Canada is unique. Foundations created and funded to undertake activities in support of government policy goals, unlike such government agencies as the Canadian Food Inspection Agency, are totally independent of government, with direction and oversight provided by their own boards and their budgets determined independently of the annual appropriation process. Ministerial accountability is limited to decision-making regarding the use of, and public policy rationale for, foundations, their funding, and the accountability of a foundation to the minister and Parliament is defined by the terms and conditions of funding agreements and legislation, where applicable. In addition, the Auditor General now has the authority to inquire into the use of public funds by foundations that receive \$100 million or more under funding agreements in any five consecutive years, and to report the findings of such audits to Parliament.

IV. Appropriateness As An Instrument Of Public Policy

This chapter examines the issue of whether foundations represent an appropriate means for achieving public policy goals. The starting point for this analysis is the basis on which decisions are made to use a foundation versus other instruments or approaches available to government. We then examine the extent to which the foundations listed in Exhibit III-1 fit with this rationale, including their dependence on multi-year funding, and whether there are potential other factors that should be considered when making such choices. Finally, we

consider the question of whether foundations activities could be delivered just as readily using existing government program delivery structures.

A. Basis for using a foundation approach

Specific guidance as to when the use of a foundation approach is appropriate is provided by the principles announced in *Budget Plan 2003*. On closer examination, and drawing on comments by foundation and government representatives who participated in our interviews, it is apparent that the guiding principles are based on a set of underlying criteria that are used to determine if:

- Firstly, a specific and actionable need exists.
- Secondly, there is a capacity for independent, non-partisan decision making.
- Thirdly, multi-year funding is necessary for effective operation and attraction of leveraged funding.

This rationale is also consistent with comments made in various Budget Plans, for example, *Budget Plan 2005* makes reference to *their arm's length nature, financial stability and focused expertise allow them to address specific challenges in a highly effective, non-partisan manner*.^[13] Beyond the guiding principles and statements in the Budget Plans the only guidance as to the definition of specific challenges or opportunities is that provided in the Finance Canada *Background on the Accountability of Foundations*, which states:

Foundations have become important vehicles for implementing policy particularly in areas such as research and development and education, where expert knowledge, third-party partnerships, stable funding and peer review are especially important.^[14]

Some additional insights into this rationale are found in comments to the Standing Senate Committee on National Finance by the then Secretary of State for International Financial Institutions, Maurizio Bevilacqua, in June 2002. Speaking in the context of research, development and innovation, Mr. Bevilacqua identified five reasons for using the foundation approach to achieve policy goals:

- To focus on very specific issues and challenges whereas the granting councils, which are the principal funders of public research and development, have much broader mandates.
- To draw on direct experience and technical knowledge of people working in the applicable fields to provide direction at the board level and input to the selection of projects by expert peer review panels.
- To use up-front funding that avoids the risk of on-again, off-again funding through the annual appropriations process.
- To recognize the long-term nature of scientific research and development and its dependence on guaranteed and stable financial resources.
- To use the availability of guaranteed long-term funding to generate additional funding from other levels of government and the private sector.^[15]

Our interpretation of the guiding principles is that they rest upon a set of underlying criteria for screening potential candidates for the foundation approach, and are summarized in Exhibit IV-1.

Exhibit IV-1

Criteria underpinning the guiding principles for using foundations

Guiding Principles	Underlying Criteria
1. Foundations should focus on a specific area of opportunity, in which policy direction is provided generally through legislation and/or a funding agreement.	<ul style="list-style-type: none"> ▪ Is there a specific national or regional need or opportunity that is not addressed by current government policy instruments or levers? ▪ Can the applicable policy direction and goals be defined in legislation and/or a funding agreement?
2. Foundations should harness the insight and decision-making ability of independent boards of directors with direct experience in and knowledge about the issues at stake.	<ul style="list-style-type: none"> ▪ Is there an appropriate capacity in place (or capable of development) to provide independent, non-partisan decision-making? ▪ Is there a willingness amongst the potential pool of directors to assume the anticipated role to be played by the board?
3. Decisions by foundations should be made using expert peer review.	<ul style="list-style-type: none"> ▪ Is peer review method and selection on the basis of merit accepted as the common basis for selecting projects for support?

	<ul style="list-style-type: none"> ■ Is there an appropriate capacity in place (or capable of development) to enable the application of a peer review process?
4. Foundations should be provided with guaranteed funding that goes beyond the annual parliamentary appropriations to give the foundations the financial stability needed for the comprehensive medium- and long-term planning that is essential in their specific area of opportunity.	<ul style="list-style-type: none"> ■ Does the specific need being addressed require projects that extend over multiple year periods? ■ Is guaranteed funding over the life of the multi-year projects for multiple years necessary for efficient project and financial management?
5. Foundations should have the opportunity and hence the ability to lever additional funds from other levels of government and the private sector.	<ul style="list-style-type: none"> ■ Are there potential funding partners for the envisaged projects and to what degree are they willing to provide matching funding?

Comments by interviewees regarding the rationale for foundations were generally consistent with the elements of the rationale for using the foundation approach. These comments and information contained in foundation's annual reports and other documentation provide insights into the range of specific opportunities addressed by foundations and suggested a number of possible additional criteria to be considered when assessing potential applications of the foundation approach.

Foundations provide funding support for a range of specific issues and challenges:

- *Establishment of specialised world class infrastructure*, for research in universities and health institutions, environmental management in the municipal sector, and pan-Canadian electronic health information systems:
 - Canada Foundation for Innovation
 - Green Municipal Fund
 - Canada Health Infoway.
- *Conduct of targeted research and development* focused on specific vertical (e.g., health services research) or horizontal (e.g., genomics research pertaining to multiple sectors of the economy) needs:
 - Canadian Health Services Research Foundation
 - Genome Canada
 - Canadian Foundation for Climate and Atmospheric Science
 - Sustainable Development Technology Canada
 - Canadian Institute for Research on Linguistic Minorities.
- *Support for education*, e.g., provision of bursaries to students in financial need, funding to increase literacy levels:
 - Canada Millennium Scholarship Foundation
 - Frontier College Foundation
 - Pierre Elliott Trudeau Foundation.
- *Community-based initiatives to improve community and environmental health*, such as the legacy of residential schools in Aboriginal communities and restoration of salmon habitat in B.C.:
 - Aboriginal Healing Foundation
 - Clayoquot Biosphere Trust Society
 - Pacific Salmon Endowment Fund Society.
- *International knowledge brokering and supporting research*, for example, relating to the application of federal systems of government, promoting Canada's involvement in the Asia Pacific region:
 - Forum of Federations
 - Asia-Pacific Foundation.

The additional criteria suggested by, or apparent from, the comments of interviewees are:

- *Is this an appropriate area for intervention or support by the federal government?*
- Clearly, any foundation that is proposed should be in an area of legitimate federal government intervention or support, and the proposed role is consistent with established policy goals and priorities.
- *Are there mechanisms in place, or will mechanisms be required, to ensure coordination or integration with complementary or related programs and avoid overlap or duplication? Can this coordination be accomplished efficiently?*

Foundations' activities, particularly those involved in supporting research, often take place in areas characterized by the presence of a wide range of different government programs and players that result, in the words of one interviewee, in a variety of "intersections" between foundation activities and these other programs. In these situations, the extent to which coordination will be necessary and means by which it can be done should clearly be considered from the outset.

For example, research infrastructure enables, or becomes a condition for the conduct of, research projects funded by granting councils as well as requiring operating and maintenance funds. In this example, coordination is achieved at two levels. At the project level institutions applying for infrastructure funding are required to have

integrated research strategies that demonstrate how the proposed infrastructure will be used as part of the applicant's overall research programs. Above this, there is a need for broader coordination and information sharing among the granting councils and other players, such as Industry Canada, to ensure that funded research can be performed and infrastructure operations funded.

Coordination with other programs and foundations:

"Polar research is a major initiative. CFI has supported the infrastructure with matching funding from provincial government and others. NSERC is supporting the operation of the facility and we are supporting the science that is being done. The facility couldn't run without all of us but we aren't overlapping anywhere."

(Foundation Representative)

- *What time period will be necessary to achieve the desired immediate and/or final outcome(s)? What is the exit strategy?*

Approximately 93% of the funds transferred to foundations have been via fixed term funding agreements. The expectation with these foundations is that once the mandate and objectives are realized the foundation is no longer needed. The time frames required are expected to be long and likely, in many instances, to extend beyond the term of the foundations' funding agreements. If so, then it is logical to establish, at the outset, a basis for determining if the desired outcomes have been achieved or if an extension or renewal is necessary. If this question is left unanswered there is a risk that the question of whether "success" has been achieved may be re-defined in terms of demonstrating the need to continue using the foundations.

The remaining 7% of funding for foundations has been in the form of perpetual endowment funding. According to representatives of these foundations, the use of a perpetual endowment was justified by needs for sustained long-term action to bring about substantive changes. However, in reviewing the annual reports and corporate plans of both types of foundations it was not apparent that foundations with perpetual endowments were necessarily addressing needs that required longer time periods for results to be achieved than those addressed by fixed term foundations. Representatives of these foundations also described the rationales for their foundations in terms similar to those advanced by representatives of perpetual foundations.

- *Are there potential issues or concerns from other levels of government concerning the federal role or jurisdiction? If so, will the use of a foundation approach be acceptable to and supported by these other levels of government?*

A number of foundations operate in areas that, if they were within the federal government, would be subject to federal/provincial/territorial jurisdictional factors. These foundations are able to focus directly on the establishment of arrangements to select and support intended beneficiaries independently of these jurisdictional factors. However, in determining if a foundation approach is appropriate it is important to determine if other levels of government are likely to support the proposed approach and be willing and able to provide any expected partnership funding or support. In some instances, according to interviewees, funding for some new foundations announced in the late-1990s came after periods in which federal transfers to the provinces were reduced and foundations encountered initial difficulties in establishing operating arrangements. In other cases, they found that, while provinces/territories welcomed the commitment of federal funding to a foundation, the requirements for matching funding posed significant challenges for provinces that wished to support proposed projects.

B. Extent to which existing foundations are aligned with the guiding principles

Our review of foundation documents and interviews with foundation representatives found some variability in the degree to which the characteristics of some foundations are aligned with the guiding principles established in *Budget Plan 2003*. In summary, the foundations studied were consistently aligned with the principles relating to having a specific focus, using of independent boards with experience in relevant fields, and requirements for multi-year funding. Alignment with the other two principles – relating to the use of peer review processes and leveraging of additional funding from third party sources – was less consistent. The activities of some foundations are such that disbursement decisions are made on the basis of meeting or exceeding pre-determined criteria or the activities funded are performed by the foundation themselves rather than third parties. Specific requirements for leverage vary between foundations and some operate in fields where it is not feasible to generate financial leverage.

1. Focus on a specific area of opportunity

Mandates of the foundations reviewed all required a focus on a specific field of activity. At the same time, their funding agreements provided latitude for funds to be allocated in accord with priorities set by their boards. More recently, however, new grants from the government to some foundations have directed that the funding be used to support specific sub-areas within the scope of their mandates. While this approach may ensure a close alignment of foundations' activities with government policies and priorities it also has the effect of reducing the flexibility of their boards to set priorities in accord with foundations' own assessments of needs and opportunities. The foundation representatives interviewed did not report that these more directed grants had diminished the effectiveness of their resource allocation and project selection processes, although some noted that this approach poses potential risks of imbalances between needs and availability of project funding. We also

expect that decisions to provide more directed funding during the government's budget planning processes would have drawn on input from stakeholders in the particular fields and the foundations themselves.

Examples of more directed grants include:

- A requirement for the Green Municipal Fund to allocate half of a \$300 million addition announced in Budget 2005 to brownfield redevelopment projects.
- New funding of \$500 million provided to the Canada Foundation for Innovation in 2002-03 was directed to support for the establishment of state-of-the-art health research facilities.
- New funding of \$75 million granted to Genome Canada in 2002-03 was directed to support of large-scale projects for applied health genomics, to develop instruments and techniques to improve the prediction and prevention of disease.

2. Harness the insight and decision-making ability of independent boards of directors

Funding departments and foundations all reported that the boards of foundations bring together appropriate mixes of expertise and experience needed for informed decision-making and oversight of their organizations. They also noted that foundations typically have very active and engaged board members who take their responsibilities very seriously, and exhibit high degrees of transparency. This is supported, in the case of the Canada Foundation for Innovation, by a National Award in Governance in the Public Sector from the Conference Board of Canada and Spencer Stuart, which noted that: *the CFI demonstrates that a board of a public institution, working within the bounds of its mandated reporting and accountability relationship, can be creative and innovative in its approach to governance.*

3. Make project selection decisions using expert peer review

Most, but not all, foundations use peer review processes to select projects for funding. Funding departments and foundation representatives reported that these foundations have typically invested a significant amount of time and effort in developing their project selection processes. Their decisions are based on comprehensive screening processes for proposals and reviews by expert peer panels that recommend projects for funding on the basis of fit with transparent criteria regarding the merit and excellence of proposals.

A minority of the foundations studied have modes of operation that do not involve the use of peer reviews to select projects for funding. In the case of the Canada Millennium Scholarship Foundation agreements have been established with Provincial/Territorial ministries wherein recipients of student bursaries are selected using the same criteria used to select recipients of provincial financial aid. Frontier College Foundation funds the recruiting and training of volunteer teachers who provide literacy tutoring across Canada for Frontier College, and the Asia-Pacific Foundation funds in-house research and the costs of information brokering and international networking activities.

4. Provide guaranteed funding that goes beyond the annual parliamentary appropriations

As we noted in Exhibit IV-1, this guiding principle concerns the extent to which the activities undertaken by foundations involve multi-year projects and funding commitments. Our review of comments made by interviewees and foundation documents suggests:

- The majority of foundations, particularly those with significant levels of funding and supporting projects in the following areas all reported that these projects required multi-year timeframes to engage with prospective partners and secure matching funding (cash commitments or combinations of cash and in-kind support):
 - Establishment of world class infrastructure.
 - Conduct of targeted research and development.
 - (Some foundations providing) support for education.
 - Community-based initiatives to improve community and environmental health.

A number of these foundations reported that the availability of multi-year funding was critical to the efforts of proponents to secure third party funds once they had agreement in principle with a foundation. The fact that the foundation's funding is committed beyond the immediate fiscal year means that the partners, such as, other levels of government, can then factor these project commitments into their own budgetary planning.

- Among the foundations involved in knowledge brokering, and some of the foundations providing support for education, the activities undertaken may not be directly dependent on multi-year funding (or not in the same way as the foundations covered under the previous point). Multi-year funding does, however, enable them to take a long-term approach to the planning and selection of activities and to then manage these activities more efficiently.

Need for multi-year planning and associated funding:

The cost sharing investment model is considered by the majority of stakeholders to work well and support the achievement of outcomes. The three-year jurisdictional plans are seen to be an important contributor to making the model work.

(2006 Mid-Term Performance Evaluation, Canada Health Infoway)

Impact of multi-year funding:

You absolutely need multi-year funding. It takes a few years to get a scientific program up and running. This (foundation approach) is a big attraction for the research community. It allows both the donor and the recipient to plan properly. It gives you time to properly evaluate it. It gives you time to build capacity; graduate students need 3-4 years (of research) to graduate.

(Department representative)

5. Leverage additional funds from other levels of government and the private sector

Requirements for foundations to leverage additional funding for their projects from third party organizations vary considerably. Funding agreements for some foundations include very specific targets or caps on the percentage of project costs that can be funded by foundations. Foundations in this group account for almost two-thirds of the funding provided to foundations. These foundations have been able to meet, and in many instances, exceed their leverage targets, according to their annual reports.

Others contain very general parameters that expect the foundation to seek leverage without setting any targets, for example, *(foundation) has the ability to leverage additional funds from other levels of government and the private sector* and at least some of these organizations do require or seek leveraging on their project funding. These foundations account for approximately 2% percent of the total foundation funding. These foundations have also generated substantial leverage on their funding, in both in-kind and financial support, according to their performance reports. For example, the Canada Foundation for Climate and Atmospheric Science (CFCAS) reported in its 2004-05 annual report: *Support levered from other sources is mainly 'in kind'. The value of additional support to new initiatives, in cash or in kind, is estimated at \$12 million (approximately equal to CFCAS' 2004-05 disbursements).*

A third group do not have leverage requirements in their funding agreements. For two foundations, this is a recognition that it would not be realistic to expect proponents to secure additional funding, as is the case with the Aboriginal Healing Foundation, or they are operating in fields where there is already a high level of linked funding provided by the provinces and territories, as happens with the Canada Millennium Scholarship Foundation. These two foundations account for 29% of the total federal funds transferred. The remaining foundations in this group account for only 3% of the funds transferred by the federal government. In the case of these latter foundations, it is not apparent why there are no specific leveraging requirements, although it may be that at the time of their creation, neither the foundation nor the funding department could confidently predict the likelihood of securing leverage or if such requirements would impose a significant barrier to success.

Amongst the foundations with perpetual endowments two community-based foundations have non-specific requirements to attract additional funding and another four do not have any leverage requirements. Two of these provide educational support, one funds research, and the fourth supports international knowledge brokering and supporting research.^[16]

Interviewees from foundations with specific leverage requirements all indicated that they felt their ability to attract leverage was enhanced by their ability to support multi-year projects. This benefit was attributed to the ability of project co-funders to do their planning and budgeting for the project without the risk that the foundation's funding commitment could lapse if agreements are not reached within the applicable fiscal year, and that drawdowns could be closely, and flexibly, matched to project progress. Many of the departmental representatives we interviewed felt that departmental programs operating in similar areas to the foundations were also effective in generating leverage. It was also suggested to us that at least some foundations may have attracted different types of partners compared to the sources of leverage for departmental programs, particularly private sector partners. Further research would be necessary to verify this suggestion and the degree of leveraging success of similar departmental programs.

Link between multi-year funding and leverage:

Availability of multi-year funding means that (foundation) becomes the "lead funder" for projects. Once proponents have (foundation's) conditional acceptance they can then seek out and secure funding from other partners. The knowledge that the funding support will still be "there" (i.e., doesn't lapse at the end of the current fiscal year) when proponents have secured all the necessary partners and third party funding makes a crucial difference.

(Foundation representative)

Leverage:

We want to know how we are leveraging; we keep track of our partners, we track students who are being trained. We have determined that our leverage is at least dollar for dollar. We have also determined that 50 cents on the dollar goes to training personnel.

(Foundation Representative)

Génome Québec ... *With the participation of Genome Canada and other partners, investment since 2000 has totalled \$340 million. These investments have launched genomics in Québec, allowing for the establishment of infrastructure of international calibre and the realization of major projects, as well as spurring unprecedented acceleration of research. This research field is expanding rapidly and initial spinoff is convincing: 459 researchers are now employed, 256 scientific publications have been produced, 726 papers have been given, and 28 inventions and patents have been divulged.*

(p.29)

6. Proposals for foundations that were not accepted

In addition to assessing the degree to which existing foundations are aligned with the government's guiding principles for using foundations there may also be lessons for the future selection and use of foundations to be gained from explanations as to why foundations are not used to address certain public policy goals and issues. Only a limited amount of such information is available even though we were informed by Finance Canada representatives that many more proposals to the government to create foundations have been turned down than have been created. We were told that these decisions were typically based on the extent to which the proposed organizations aligned with policy goals and satisfied the guiding principles.^[17]

However, some insights are suggested by the experience with a commitment in Budget 2001 to create the Strategic Infrastructure Foundation but subsequently implemented using a departmental program the Strategic Infrastructure Fund. Subsequent to the Budget commitment, the Minister of Finance reported to the House that the complexity of issues involving provincial and municipal roles in infrastructure provision *meant that there had to be government to government negotiations and therefore, an independent foundation could not function.*^[18] Another reason, suggested by Aucoin, was that: *a number of federal ministers, and backbench MPs in the government caucus were aghast at the idea of an independent foundation beyond their control and perhaps even influence dispersing a \$2 billion fund on projects with huge political implications given their distributional effects on regional and electoral constituencies.*^[19]

Both of these statements demonstrate the importance of contextual factors in foundation selection as well as demonstrating that ministers can be held accountable for the design and organization of foundations. The areas in which the original foundations, and majority of funding transferred, operate are areas in which decision making and project selection processes typically involve expert peer review panels and advice from independent experts. Furthermore, they are fields in which similar approaches are often employed by the federal government, and stakeholders, including Ministers and departments, are accustomed to relying on arms length advice and decision making. This was apparently not the case with regard to the specific opportunity to be targeted by the Strategic Infrastructure Foundation/Fund.

C. Could foundation objectives be achieved as readily through "normal government delivery"?

A final consideration regarding the appropriateness of using the foundation approach for public policy purposes is whether foundation activities could have been delivered just as effectively using "normal government delivery" approaches. Participants in our program of key informant interviews provided opinions based on their own experiences and observations. The majority of these interviewees, including representatives of funding departments and managers of related programs, were generally of the view that the programs and activities of the existing foundations probably could not be delivered as effectively or efficiently within the departmental delivery structure. The main reasons suggested related to:

- The nature of the specific areas addressed by many foundations, which, if they were delivered through departmental programs, would limit the timeliness or effectiveness of delivery. For example:
 - Aboriginal Healing Foundation. Interviewees were of the view that a program delivered by the same government responsible for the residential schools program in the past would not engender a high degree of trust among Aboriginal groups and nor would it have provided the same opportunities to involve these same groups in the design and delivery of the program.
 - Canada Millennium Scholarship Foundation, Green Municipal Fund and Canada Health Infoway. The activities of these three foundations depend on agreements and cooperation with provincial and territorial governments to reach targeted beneficiaries. As independent organisations, these foundations can enter into such agreements without being subject to broader federal/provincial/territorial jurisdictional factors.
- Departmental programs would not have the same speed of response and flexibility that foundations have by virtue of their focused mandates, small sizes and flat management structures.
- Departmental programs operate within the annual appropriation cycle which involves a different pattern and level of administrative effort compared to the ability of foundations to commit to multi-year projects and administer them on a project life cycle basis. While foundations may point to the uncertainty of funding for multi-year projects within departmental programs as being a drawback of "normal government delivery" the bigger issue is probably the effect of the annual funding cycle on the timing of advances and ability to match drawdowns to the achievement of project milestones.

Foundation delivery versus departmental program delivery:

It's clear that there is no way the bureaucracy could have delivered what (foundation) has delivered over the past few years, ... If we had gone to the provinces to do that we would have done so in a bureaucratic fashion and with a lot of baggage, and provinces would not have cooperated with us to the extent they have with the foundations.

(Department representative)

V. Effectiveness

This chapter reviews the effectiveness of foundations from a number of perspectives. The first is the extent to which they are making progress in achieving the objectives set in their funding agreements, drawing on the findings from independent evaluations of various foundations and information in their annual reports. We then look at the extent to which they complement or overlap with existing government programs, mechanisms used to maintain alignment with government policy goals, and the functioning of accountability mechanisms.

A. Evidence of progress against objectives

In order to gain a sense of the progress foundations have made against their formal objectives we reviewed reports on evaluations of foundation activities conducted by independent evaluators as well as the information on results included in foundations' annual reports. Almost all foundations have requirements in their funding agreements to conduct independent evaluations of performance on a regular basis and to include information on activities, outputs and outcomes in their annual reports, which are submitted to their responsible ministers and may be tabled in Parliament. Ministers also have the option, in some instances, to conduct their own evaluations of the extent to which government policy goals are achieved as a result of the activities of foundations. Others do not have all these requirements in their funding agreements, depending on when the agreements were established, but do voluntarily publish information on their results. We also supplemented the review of evaluation reports with questions in our key informant interviewing program.

Key informants – representing foundations, funding departments, and other agencies, such as Granting Councils – almost uniformly felt that the foundations they were familiar with were achieving intended results and were a good choice as policy instruments. These views are supported by information contained in foundations' annual reports that point to a significant degree of success in ramping up operations and disbursing funding for supported projects. Projects supported by most foundations have long life cycles so information on outcomes and impacts is only now starting to become available, but initial results appear encouraging. Some key informants also noted that a number of the foundations have also added considerably to the understanding of the goals and issues they are addressing through the conduct of in-depth research programs, such as the Aboriginal Healing Foundation and the Canada Millennium Scholarship Foundation.

Exhibit V-1 summarizes the key conclusions from a subset of the independent evaluations and reviews of foundations' activities conducted in recent years as well as the Auditor General's performance audit of Sustainable Development Technology Canada. Common themes in the findings of these and other foundation evaluations suggest that foundations:

- Are responsive, flexible organizations.
- Have introduced innovative business models and approaches to the selection and monitoring of projects.
- Are results oriented and many have implemented performance measurement systems that provide detailed information on project implementation, progress and results. In this regard, we observed that the single purpose nature of foundations facilitates the implementation of performance measurement systems that are superior to the systems in place for many departmental programs.
- Have established effective working relationships with their partners and stakeholders.
- Have made good progress against their objectives set in their funding agreements.
- Are contributing to the achievement of related government policy goals, based on the initial evidence of impacts, and recognizing that it will be some years before significant impacts accrue due to the long term nature of most foundation activities.

The conduct of independent evaluation studies is not treated as a matter of commissioning an assessment to show compliance with the requirements of legislation or funding agreements but is viewed by foundation boards and management as a means of identifying needs for improvement. Foundations have made the reports from their evaluations publicly available through their web sites and responded to recommendations and findings regarding opportunities to improve the design and delivery of their activities.

Perhaps the best example of this is the response to the mid-term evaluation conducted for the Canada Millennium Scholarship Foundation (CMSF), conducted by the Institute of Intergovernmental Affairs at Queen's University in 2002. After reviewing the findings the Board directed the CMSF management to undertake a broadly based consultation with the wide range of stakeholders in the post secondary education system. A series of 18 consultation sessions involving approximately 500 participants across Canada plus an online consultation that resulted in about 250 submissions were conducted in 2004 and a synthesis report prepared for consideration by the CMSF Board. A series of changes and modifications were made in response to the findings.

These included changes related to the timing of bursaries for students in the first year of their studies (in courses of at least two years duration) and the introduction of new need-based bursaries designed to improve the access of under-represented student groups, such as students from low-income households and Aboriginal students to post-secondary education. The findings also contributed to the design of the foundation's pilot projects testing alternative means of fostering entry to post secondary study.

Exhibit V-1

Key findings and conclusions from independent evaluation studies

ObjectivesSet in Foundations' Funding Agreements	Findings From Independent Evaluation And Review Studies
Canada Millennium Scholarship Foundation	
<p>1. To grant scholarships in a fair and equitable manner to students who are in financial need and who demonstrate merit, in order to improve access to post-secondary education;</p> <p>2. To reduce financial barriers that impede access to education of qualified Canadians of all ages; and</p> <p>3. To help Canadians acquire the knowledge and skills necessary to fully participate in a changing economy and society.</p>	<p>Mid-Term Evaluation - May, 2003</p> <p>"Overall, we believe that the CMSF is an effective, innovative organization that, within its mandate, has accomplished much. It managed to come quickly to agreements with all the provinces and territories, agreements that allowed its bursary programs to start earlier than had been expected. It recognized the issue of displacement early on and came to side agreements with the provinces on the reinvestment of displaced funds. Nonetheless, these agreements are quite vague, in some cases, and thus may not lead to reinvestments that directly help students. The leverage of the Foundation in negotiating more specific reinvestment agreements was limited, however, by an announcement by the Government of Canada that implied that provinces were free to spend displaced funds in whatever way they chose. The partnerships between the Foundation, and the provinces and territories, are functional, if not always without tension. Indeed, the Foundation considers itself to be "province-friendly" but the majority of the provinces either believe that (the) Foundation is not "province-friendly" or are neutral on the question. The Foundation has clearly met the accountability requirements imposed by Parliament; the existence of "Members", however, does not seem to be working as a way of holding the Foundation accountable for improving post-secondary access."</p> <p style="text-align: right;">(p.9)</p> <p>Cessation of the Canada Millennium Scholarship Fund: Provincial/Territorial Perspectives on Issues and Implications - 2006</p> <p>"In many respects, the CMSF allows for a more outcomes-focused framework than that offered by the CSLP (Canada Student Loans Program) alone, which, in many respects is more geared to the 'hows' of delivery within a homogeneous one-size-fits-all framework, rather than toward the achievement of policy outcomes. Unlike CSLP funding, Millennium bursaries are distributed through individual agreements with all ten provinces and three territories, which allows funding to be allocated in different ways to meet diverse challenges and goals."</p> <p style="text-align: right;">(Executive Summary)</p>
Genome Canada	
<p>1. The development and establishment of a co-coordinated strategy for Genomics research to enable Canada to become a world leader in areas such as health, agricultures, environment, forestry and fisheries</p> <p>2. The provision of leading edge technology to researchers in all Genomics related fields through regional Genome Centres across Canada, of which there are</p>	<p>Interim Evaluation - March, 2004</p> <p>"Genome Canada's Overall Objective is to initiate and effectively manage a major nationwide program in genomics research. The hope was that, starting from a position of lagging behind many other countries in genomics research (e.g., the United States, the United Kingdom), Genome Canada would enable Canada to catch up with these countries, at least in selected sectors. The indications from this study are that this is happening and that Canada is now recognized as a potential world leader in certain areas (i.e., GE³LS (ethical, environmental, economic, legal, and social issues), agriculture, aquaculture, forestry, proteomics.</p> <p>In order to accomplish this in a relatively short period of time (three to five years), Genome Canada introduced an innovative, business-oriented program model. This model is based on the funding of considerably larger research projects than are generally funded by other Canadian research programs, the identification and funding of the required scientific support infrastructure, and a major emphasis on the management of the research."</p> <p style="text-align: right;">(p.i)</p>

currently five, on each in BC, the Prairies, Ontario, Quebec and the Atlantic.

3. The support of large scale projects of strategic importance to Canada which are beyond current capacities by bringing together industry, government, universities, research hospitals and the public.

4. The assumption of leadership in the area of ethical, environmental, economic, legal, social, (GE³LS) and other issues related to Genomics research and the communication of the relative risks, rewards and successes of Genomics to the Canadian public.

5. And the encouragement of investment by other persons in the field of Genomics research.

Pacific Salmon Endowment Fund Society / Pacific Salmon Foundation

1. Receiving and managing donations to support projects to conserve, restore and protect pacific salmon and their habitat and to stewardship of the resource including increasing public knowledge and awareness;

2. Coordinating projects with other partners that contribute to healthy and sustainable Canadian Pacific salmon stocks;

3. Obtaining and maintaining charitable organization status;

4. Undertaking to increase the capital and the revenue returns of the PSEF through such measures as contributions, partnerships and charitable donations;

5. Encouraging and facilitating citizen

Five Year Program Evaluation – August, 2005

"The SSRP (Strategic Salmon Recovery Program) is funded by PSEF, with the PSF serving as Program Manager, and by funding and professional assistance from watershed stakeholders. Partners include Fisheries and Oceans Canada; provincial, municipal, regional and First Nations governments; forestry and other industries; and community, stewardship and conservation stakeholders. The recovery plans are coordinated and collaborative watershed-based plans for high priority streams. ...

The SSRP programs were run according to clearly defined, scientifically based recovery plans with prioritized project lists and schedules. Decisions about projects and direction are made in a collaborative way, which ensures good communication, partnership and transparent decision-making. This approach has brought together most watershed stakeholders so that the "tools of salmon recovery (i.e., habitat, harvest, enhancement, volunteers and land use practices)" work toward the goal of salmon recovery. ...

The projects, plans and PSF as an organization scored well in the evaluation. Habitat and salmon status trends are improving in watersheds where there is recovery planning."

Executive Summary)

engagement and cooperating with relevant stakeholders in order to achieve the purposes of the Society;	
6. Abiding by strict principles of due diligence, transparency and accountability.	
Canada Foundation for Innovation	
1. To support economic growth and job creation; as well as health and environmental quality through innovation;	<p>Evaluation of CFI Innovation Fund (IF), University Research Development Fund (URDF), and the College Research Development Fund (CRDF) – May, 2003</p> <p>"Overall, the programs have had marked positive impacts. There is every indication that these programs are meeting their objectives of building Canada's capacity for innovation, and thus improving Canada's economic and social well-being. The IF, URDF, and CRDF programs have first transformed the quality of infrastructure. Where more than half of the infrastructure in the case studies was poor or fair prior to the awards (and none was world-class), 90% of case study respondents now rate it as excellent or world-class in the disciplines affected by the awards. The projects enabled by the CFI have contributed significantly to the creation of national and (especially) regional "knowledge clusters", and have had an exceptionally strong positive impact on the nature of research that is carried out: more cutting-edge research, conducted faster, with more multidisciplinaryity, and with substantially more collaboration (nearly twice as much as before). Smaller institutions in particular reported increased visibility and credibility both nationally and internationally as a result."</p> <p style="text-align: right;">(p.ii)</p>
2. To increase Canada's capability to carry out important world-class scientific research and technology development;	
3. To expand research and job opportunities for young Canadians; and	
4. To promote productive networks and collaboration among Canadian post-secondary educational institutions, research hospitals and the private sector.	
	<p>Council of Canadian Academies, "The State of Science and Technology in Canada", Ottawa, 2006</p> <p>"CFI has allowed Canadian researchers to acquire internationally competitive capital equipment infrastructure. Despite some recent limited operation funds to support this, there seems to be a great discrepancy between the sum invested in capital equipment and in money invested in operation, in particular manpower. This will, if not fixed, in a few years lead to an exodus of top researchers and the recognition that billions of tax dollars were invested without significant benefit to Canadian society."</p> <p style="text-align: right;">(Fellow, RSC Academy of Sciences, quoted on p.99)</p>
Green Municipal Fund	
FCM shall disburse funds from the Fund Assets in the form of grants, loans and/or loan guarantees to Eligible Recipients carrying out Eligible Projects which, in the opinion of the Board, have the potential to result in significant environmental improvement on air, water and soil quality, including greenhouse gas emissions	<p>Marbek Resource Consultants, "Environmental Impacts of Canada's Green Municipal Fund (GMF) Implementation Projects – 2006 Update", Ottawa, 2006</p> <p>Analysis in this report includes estimates of the potential environmental impacts of all 93 GMF implementation projects, focusing on impacts on greenhouse gases (GHG) and air contaminants that affect local air quality. Key estimates:</p> <ul style="list-style-type: none"> ▪ The projects funded to date will result in estimated net annual GHG emission reductions of 1,210 kt CO₂e (kilotonnes of carbon dioxide equivalent), including 820 kt CO₂e from direct emissions (fossil fuel or fugitive reductions) and 390 kt CO₂e from indirect emissions (electricity). The largest contribution to annual GHG emission reductions is expected from 9 landfill gas (LFG) projects that have an estimated 570 kt CO₂e reduction (47% of the total). This is followed by 22 building/facility energy efficiency projects at 410 kt CO₂e (36%), and 21 renewable/clean energy supply projects at 190 kt CO₂e (16%).

<p>reduction, in one or more of the following categories of activity:</p> <p>(a) Energy (b) Water (c) Waste (d) Sustainable transportation (e) Brownfields (f) Integrated community projects</p> <p>The Board shall consider in addition to potential environmental benefits from Eligible Projects, the potential for economic and /or social benefits, ...</p>	<p>(p.16)</p> <ul style="list-style-type: none"> Anticipated annual reductions of air contaminants include: <table> <tr> <td>Nitrogen oxides (NOx)</td><td>641 tonnes</td></tr> <tr> <td>Sulphur dioxides (SOx)</td><td>65 tonnes</td></tr> <tr> <td>Fine particulate matter (PM10)</td><td>512 tonnes</td></tr> <tr> <td>Volatile organic compounds (VOC)</td><td>12 tonnes</td></tr> </table> <p>(p.17)</p>	Nitrogen oxides (NOx)	641 tonnes	Sulphur dioxides (SOx)	65 tonnes	Fine particulate matter (PM10)	512 tonnes	Volatile organic compounds (VOC)	12 tonnes
Nitrogen oxides (NOx)	641 tonnes								
Sulphur dioxides (SOx)	65 tonnes								
Fine particulate matter (PM10)	512 tonnes								
Volatile organic compounds (VOC)	12 tonnes								
<p>Sustainable Development Technology Canada</p>									
<p>1. Act as the primary catalyst in building a sustainable development technology infrastructure in Canada.</p> <p>2. Fund the development and demonstration of new Sustainable Development technologies related to GHG reduction, clean air, clean water, and clean soil in order to make progress towards Sustainable Development.</p> <p>3. Foster and encourage innovative collaboration and partnering amongst diverse Persons in the private sector and in academic and not-for-profit organizations to channel and strengthen the Canadian capacity to develop and demonstrate Sustainable Development technologies with respect to GHG reduction, clean air, clean water, and clean soil.</p> <p>4. Ensure timely diffusion by funded recipients of new Sustainable Development technologies in relevant market sectors throughout Canada.</p>	<p>Interim Evaluation Report – June, 2006</p> <p>"The evaluation found general agreement that SDTC occupies 'a clearly defined niche' among government funding programs. Any overlap with other programs is minimal and well-managed with hand-offs or referrals in both directions. "</p> <p>(p.5)</p> <p>"The evaluation found strong evidence of a continuing need for SDTC's funding support. The funding gap remains a major barrier to emerging technologies. While SDTC's initiatives may be strengthening the Canadian infrastructure for new technologies, without SDTC, the existing infrastructure is unlikely to access the financial resources required to bring these technologies through the development and demonstration phase."</p> <p>(p.6)</p> <p>"Based on the results from the demonstrations completed by the first seven projects, the environmental audits of those results and proponents' market projections, the projected benefits are substantial relative to the SDTC contributions. While the projects must survive significant market and business risks before the projected impacts can be achieved, based on the results to date, SDTC investments are on track to return positive benefits for Canadians."</p> <p>(p.8)</p> <p>Commissioner of the Environment and Sustainable Development, "Managing the Federal Approach to Climate Change", Office of the Auditor General, Ottawa, 2006</p> <p>"1.123 We found that the federal government's relationship with STDC is reasonable given the distinctive nature of this relationship. In our view, the federal government has taken reasonable steps to ensure that SDTC's climate change activities are effectively aligned with other federal climate change programs and that SDTC is operating in a specific niche area.</p> <p>1.124 We determined that SDTC's strategic decisions related to its climate change activities are consistent with its mandate and its applicable funding agreements. We found that SDTC has taken reasonable steps toward fulfilling its climate change mandate. We concluded that SDTC's processes for selecting and managing climate change projects are satisfactory."</p> <p>(p.45)</p>								

B. Coordination and integration with related government programs

Foundations have been created with specific mandates and narrow spans of operations intended to address gaps and unmet needs in the existing mixes of government support programs. This means that foundations should have programs that do not duplicate or overlap with the activities of government programs. At the same time, most foundations operate in fields where their activities link to or complement the activities of related government programs. This is particularly true with regard to support for public research and development, where foundations supporting research projects and infrastructure development have to position themselves amongst the programs of the federal granting councils, various departmental programs and provincial research councils and programs. For example, the Canadian Health Services Research Foundation (CHSRF) and Canadian Foundation for Climate and Atmospheric Sciences (CFCAS) have specialised niches that link to the broader mandates of the Canadian Institutes of Health Research (CIHR) and Natural Sciences and Engineering Research Council (NSERC), respectively. Similarly, the overall effectiveness of federal support for publicly funded research depends on the extent to which infrastructure projects supported by the Canadian Foundation for Innovation are integrated into institutions' own research strategies and the various project funding programs of the granting councils.

The boards and management of foundations are aware of the need to avoid duplication or overlap of activities and consequently take steps to ensure that areas of potential overlap and opportunities for cooperation with government programs are identified and factored into their business plans. What appears to result is that foundations operate with "points of intersection" with other programs where two or more organizations with distinct mandates may target the similar areas or interest or activity but the majority of their resources are allocated to meet separate objectives. In these instances, in the words of one granting council president, *there's coherent and integrated planning, and there's a strong will and interest in working together*. Key informants from departments, granting councils and foundations noted that the need for information sharing and coordination between complementary programs was recognized and generally effective but the success of such activities depended on sustained effort and communications by all affected organizations.

We would expect that some degree of coordination or integration would be necessary if foundations are responding to very specific needs within a broader mix of initiatives and activities each addressing distinct elements of a set of public policy goals. However, in the event that a significant share of a foundation's activities needed to be coordinated with other organizations' programs it suggests that the need being addressed by the foundation may not be as specific nor separable as was anticipated at the time the foundation approach was chosen.

We are aware of one instance where it has been suggested that an existing foundation – the Canadian Health Services Research Foundation (CHSRF) – be merged with the more recent, and larger, Institute for Health Services and Policy Research (created with support from the Canadian Institutes for Health Research). An international review panel considered this question as part of their evaluation of CHSRF in 2001 and recommended that *CHSRF should be maintained separate from CIHR for the immediate future. The question of whether it should be merged with IHSPR and brought under the umbrella of CIHR should be re-examined, however, in 5 years or thereabouts.*^[20]

C. Alignment with government policy goals

The 2005 report of the Auditor General on the accountability of foundations concluded: *Inadequate provision has been made for the government to adjust foundations' mandates or policy directions where circumstances have changed considerably.*^[21] As part of our research we asked key informants if they were aware of any instances where foundation mandates were out of alignment with government policy goals, how foundations kept informed about government policies and adjusted their priorities to match shifts in related policies.

Many of the key informants prefaced their remarks with statements to the effect that foundations are working in areas where it would be difficult to foresee government policy goals changing so much that the foundations' directions would markedly diverge from new policy directions. They consistently argued that the Auditor General's concern was valid but largely hypothetical in reality. For example, the major areas of expenditure by foundations are linked to policies on innovation, the establishment or updating of critical infrastructure, the development of a skilled and knowledgeable population, and responses to community and environmental issues; areas where overall policy outcomes and circumstances are unlikely to change within the terms of most foundations. However, this does not mean that such considerations can be ignored, and any future proposals to create new foundations should consider the potential long-term development and evolution of the policy goals addressed by these proposals.

Within the overall mix of foundations, those with perpetual endowments have the greatest degree of independence, in that the government has more limited opportunity to intervene to renegotiate their objectives to maintain alignment with policy goals compared to foundations with fixed term funding. This is not to say that any of the foundations with perpetual endowments have objectives that are out of alignment with current policy goals; only that they have more freedom to set and maintain independent courses over the long-term.

Our analysis of foundation-related documents and interviews did not find any instances where foundation mandates were out of alignment with government policy goals. In a number of cases the government has intervened to extend or refine the strategic directions of foundations by providing additional funds tied to the achievement of more targeted objectives and shifts in the mix of projects supported. Examples of such actions include the addition of a brownfield initiative for the Green Municipal Fund, provision of funding earmarked for

health research infrastructure for the Canada Foundation for Innovation and the expansion of Sustainable Development Technology Canada's mandate to support clean water and soil technologies in addition to climate change and clean air technologies.

In addition to this formal means of modifying mandates and objectives, foundations also take policy developments and evolution into account in their corporate planning and resource allocation processes. Foundation boards obtain input on government policies and programs in a number of ways. In some cases, government officials are appointed as ex-officio members of the Boards of foundations and these members are able to provide guidance on relevant policy matters to their Board colleagues as part of their participation in board activities.^[22] In other cases, departmental representatives attend board meetings as observers and may be called upon to provide information to the boards on these foundations regarding government policies.^[23]

At a slightly more informal level, the senior managers and key board members of foundations often have regular contacts with departmental managers as well as Ministers and their offices. They also have contact with key partners at other levels of government. Information gained through these contacts provides intelligence on policy directions and facilitates the fine tuning of project selection criteria and resource allocations.

Funding departments use their participation in board activities and regular contacts with foundation managers to monitor the performance of "their" foundations against the objectives in the foundations' funding agreements. In this regard, some departments and foundations have established methods for regular meetings and information exchange, such as Natural Resources and Environment Canada with Sustainable Development Technology Canada and, separately, the Green Municipal Fund. Others have less systematic approaches and it appeared to us that there would be benefits to the government if funding departments maintained systematic methods of information sharing and liaison with foundations.

D. Functioning of governance and accountability mechanisms

A final aspect of the effectiveness of foundations is the extent to which they meet commonly accepted standards for external accountability, such as those presented in the Auditor General's 2005 and 2002 reports on foundations as well as guidelines and standards for public agencies and other forms of delegated authority in other jurisdictions.^[24] In essence, these frameworks define the outcomes to be achieved; the means by which plans and results will be reported; to whom, and when; means by which the Minister may verify the accuracy and reliability of performance information; and, the circumstances under which the Minister may intervene in the event of non-compliance with funding agreements and, as applicable, legislation.

In 2003, in response to the recommendations in the Auditor General's 1999 and 2002 reports on foundations and the accumulated experience in establishing funding agreements with newly created foundations since 1997 and monitoring their performance, the government introduced a set of accountability provisions for foundations. These provisions were intended to put all foundations on a common footing, and related to:

- Preparation of annual corporate plans, their submission to the responsible Ministers and provision of summaries to Parliament and the public.
- Preparation of annual reports containing audited financial information, information on results achieved, and findings of any evaluation studies. These reports are to be submitted to the responsible Minister and made available to the public. Annual reports of some foundations, including those created by legislation, are also to be tabled in Parliament.
- Appointment of independent financial auditors by foundations' members.
- Inclusion of provisions in funding agreements for the:
 - Conduct of independent evaluations to measure performance against the objectives set in funding agreements at regular intervals and the submission of such reports to the responsible Minister.
 - Responsible Minister to carry out independent evaluations of the extent to which achievement of foundation objectives contributes to the attainment of policy goals, and audits of compliance with funding agreements, at their discretion.
 - Intervention by the responsible Minister in the event of significant deviations from the terms of funding agreements.
 - Recovery of unspent funds in the event that the foundation is wound up.

These requirements were to apply to funding agreements with any new foundations and to funding agreements with existing foundations (for example, for new funding). These provisions could not be applied retroactively to existing agreements unless the applicable foundations agreed to negotiate the inclusion of suitable amendments. Departments are also required to include information on planned and actual results of applicable foundations in their departmental performance and planning reports to Parliament.

Our review of foundation documents found that many funding agreements have been updated or renegotiated to incorporate many of these provisions. Exhibit V-2 summarizes the current accountability requirements for the foundations examined during this evaluation.

We also asked key informants for their views on the suitability of the accountability requirements applied to foundations. In general, the key informants felt that the 2003 reporting requirements added a layer of public transparency and accountability to practices that were already in place to support internal management and board oversight and control of foundation activities.

Revisions to the accountability requirements for foundations introduced in *Budget Plan 2003* mean that new and renegotiated funding agreements contain a requirement for foundations to conduct periodic independent evaluations and provide the responsible Ministers with the discretion to commission their own evaluations of the

performance of foundations as instruments of policy. These provisions may potentially mean that a Minister could commission an evaluation at the same time as a foundation is conducting a mandated evaluation. Such a situation could conceivably arise towards the end of a foundation's funding term if questions are raised about the continued use of a foundation to achieve policy goals. Both studies would require input from the funding department, foundation, partners in foundation activities and beneficiaries, possibly giving rise to overlapping study parameters and data collection activities. We note, and endorse, the inclusion in the pro forma content of new and revised funding agreements a phrase requiring the responsible Ministers to consult with foundations prior to the commissioning of such studies.

Accountability mechanisms:

The independent review we did this summer confirmed what the (foundation's) evaluation told us. ... Requirement for business plans put the (foundation) on the hook, in terms of requiring them to specify what they want to achieve. It took a while for them to get their business plans up to speed; they are now very concrete, show how each individual program is complementing the objectives. ...

Having solid business plans with good (performance) measures is key. If you don't have that you are in trouble. We (department) don't have a business plan like (foundation); we are tougher on them than we are on ourselves. (Department representative)

Exhibit V-2

Current accountability requirements for foundations

Foundation	Audited Financial Statements	Annual Report ¹	Corporate Plan	Independent Evaluation Reports ²	Reports Tabled In Parliament	Discretionary Ministerial Powers		
						Compliance Audits	Evaluations	Intervention Mechanism
1. Canada Foundation for Innovation	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Default Provision and Dispute Resolution Mechanism
2. Canadian Health Services Research Foundation	Yes	Yes	Yes	Yes	No	Yes	Yes	Default Provision and Dispute Resolution Mechanism
3. Canada Millennium Scholarship Foundation	Yes	Yes	No	Yes ³	Yes	No	No	Dispute Resolution Mechanism
4. Aboriginal Healing Foundation	Yes	Yes	Yes	Yes	Yes	No	No	Dispute Resolution Mechanism
5. Genome Canada	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Default Provision and Dispute Resolution Mechanism
6. Green Municipal Fund	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Default Provision and Dispute Resolution Mechanism
7. Canadian Foundation for Climate Change and Atmospheric Sciences	Yes	Yes	Yes	Yes	No	Yes	Yes	Default Provision and Dispute Resolution Mechanism
8. Clayoquot Biosphere Trust Society	Yes	Yes	Yes	Yes	No	Yes	No	Dispute Resolution Mechanism

9. Canada Health Infoway	Yes	Yes	Yes	Yes	No	Yes	No	Default Provision and Dispute Resolution Mechanism
10. Sustainable Development Technology Canada	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Default Provision and Dispute Resolution Mechanism
11. Pacific Salmon Endowment Fund	Yes	Yes	Yes	Yes	No	No	No	None
12. Frontier College	Yes	Yes	No	No	No	No	No	None
13. Forum of Federations	Yes	Yes	No	Yes	Yes	Yes	Yes	Default Provision and Dispute Resolution Mechanism
14. Pierre Elliott Trudeau Foundation	Yes	Yes	Yes	Yes	No	Yes	Yes	Default Provision and Dispute Resolution Mechanism
15. CIRLM	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Default Provision and Dispute Resolution Mechanism
16. Asia-Pacific Foundation	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Default Provision and Dispute Resolution Mechanism

1. Not all funding agreements specify that the annual report should contain audited financial information, information on results achieved, summary details of planned future actions, and findings of any evaluation studies.
2. Some agreements specify a "program audit" or "review" rather than specifically requiring an "evaluation".
3. A single five-year review of CMSF's activities and organization.

VI. Cost Of Foundations

The chapter reviews the level and structure of foundations' operating and administration costs relative to their disbursements and compares them to the levels reported by a number of government organizations with programs that are similar to those of some foundations.

A. Relative significance of operating and administrative costs

Differences in the mandates, activities and funding of foundations mean that their respective operating and administration costs cannot be easily compared or inferences drawn about their relative cost-efficiency. However, a review of the general characteristics and patterns of expenditures on these costs provides some useful insights into their impacts on total foundation costs.

In general terms, foundations' operating and administration costs exhibit a similar pattern from their start-up to the attainment of what might be termed their "steady state" operating level. Our review of operating and administration costs reported in foundations' annual financial statements showed that in their first one to two

years, foundations' operating and administration costs accounted for a high proportion of total expenditures, as would be expected of any start-up organization, as they recruited people, secured space, and established their operating systems and processes. Thereafter the share of operating and administration costs quickly fell to a relatively stable level as projects were selected and disbursements ramped up.

Within this overall pattern, the relative significance of operating and administration costs varies considerably as a function of such factors as the scale of operations, complexity of project selection processes and the degree to which foundations undertake activities other than project selection, funding and monitoring. This can be seen in Exhibit VI-1, which shows the average share of operating and administration costs in total expenses for foundations, excluding their first two years of operation, and the reasons for the relative significance of their operating costs. The time periods for calculating the average shares range from three to seven years, depending on the time in which each foundation has been operating.

Key factors that influence the size and structure of foundations' operating expenses are:

- *Scale of operations.* The share of operating and administrative costs relative to project disbursements falls as the total amount of funding available to a foundation increases.
- *Type of foundation.* In general, operating costs are more significant for foundations with perpetual endowments than for foundations with fixed term funding, primarily because their operations are funded by the income from their endowments and the scale of their activities is smaller. Perpetual foundations typically have lower gross revenues – equivalent to about 5% of the endowment value – and operate on a much smaller scale than most foundations with fixed term funding. For instance, in 2005-06 the Trudeau Foundation generated operational funding of \$5.6 million from its \$120 million endowment. This is approximately equivalent to a foundation with \$50 million in fixed term funding disbursed in equal amounts over a ten-year term.

Exhibit VI-1

Relative significance of foundations' operating and administrative costs

Foundation	Share of Operating Costs in Total ¹	Key Factors Influencing Operating Costs	Average Annual Disbursements	
			Amount (\$m.)	# of Years
Canada Foundation for Innovation	3%	<ul style="list-style-type: none"> ▪ Relatively small number of large value research infrastructure projects. 	\$270	7
Canada Millennium Scholarship Foundation	4%	<ul style="list-style-type: none"> ▪ Arrangements with provinces/territories to administer bursary awards in return for fixed annual payments by CMSF. 	\$296	5
Canada Foundation for Climate and Atmospheric Science	6%	<ul style="list-style-type: none"> ▪ Relatively small number of long-term research projects. 	\$12	3
Green Municipal Fund	7%	<ul style="list-style-type: none"> ▪ Relatively small number of large value environmental management capital projects. ▪ \$50 million of \$550 million funding is fixed term, remainder is a perpetual endowment. 	\$68	4
Genome Canada	8%	<ul style="list-style-type: none"> ▪ Focus on selection and funding of research platforms and large scale research projects. 	\$79	4
Aboriginal Healing Foundation	11%	<ul style="list-style-type: none"> ▪ Selection and funding of community-based healing projects to redress the impacts of residential schools plus support for the development of sustainable healing capacity and processes. 	\$58	5
Canada Health Infoway	24%	<ul style="list-style-type: none"> ▪ Selection and support for multi-year projects to plan for and implement electronic health information and management technologies. ▪ Many CHI projects involve advance planning and design phases with implementation, and disbursement of the majority of project funding occurring the in later years of project lifecycles. Share of operating costs in total expenses should fall in future (05-06 share: 14.7%). 	\$64	3

Forum of Federations	29%	<ul style="list-style-type: none"> Projects are undertaken to facilitate the main mission of the foundation to exchange information and support best practices in countries with federal systems of government. 	\$3	3
Pierre Elliott Trudeau Foundation	34%	<ul style="list-style-type: none"> Foundation provides mentoring programs for research scholars, and fosters dialogue among scholars, policy makers and other stakeholders, in addition to funding scholarships. Perpetual foundation. 	\$3	3
Sustainable Development Technology Canada	37%	<ul style="list-style-type: none"> Relatively small number of large scale technology demonstration projects. Long lead times between project approval and start-up (average of 34 weeks) affects rate of disbursement. Long-term nature of projects also means disbursement rates are still ramping up. Share of operating costs in total expenses should fall in future (05-06 share: 32.5%). 	\$8	3
Canadian Health Services Research Foundation	41%	<ul style="list-style-type: none"> Significant level of operating expenditures support outreach and promotion activities to ensure that research findings are transferred to, and applied by, health care managers. 	\$8	7
Pacific Salmon Endowment Fund	51%	<ul style="list-style-type: none"> Supports capacity development of its program delivery partner and strengthen its effectiveness in facilitating salmon habitat rehabilitation. Perpetual foundation. 	\$0.9	3

1. Average operating and administration costs share in total expenses since receipt of conditional grant, excluding start-up period (assumed to be the first two years of operation).

Source: KPMG analysis of listed foundations' financial statements.

- Focus on project selection and funding versus broader ranges of activity.* Foundations that are primarily focused on the selection and financial support of large value projects – typically for infrastructure or research and development – typically achieve operating cost shares in total expenses of between 7% and 15%, with the Canada Foundation Innovation at a level close to 3% and Sustainable Development Technology Canada at 37%. Other foundations, such as Pacific Salmon Endowment Fund, the Canadian Health Services Research Foundation, Aboriginal Health Foundation and the Forum of Federations, engage in a variety of outreach, capacity building and knowledge dissemination activities that complement their core support for projects. As a result, the share of operating and administrative costs in their total expenses is higher.

B. Structure of selected foundations' costs

In order to obtain a better understanding of the structure of foundations' cost structures the management of the six foundations that participated in our case studies provided breakdowns of their operating and administration costs in recent years, on a confidential basis. Information on five categories of costs was compiled and reviewed:

- Program management and operations costs* – the costs of activities directly related to the delivery of foundation services, for example, ranging from soliciting proposals, screening and reviewing proposals, negotiation and due diligence processes for approved projects, administration of disbursements, project monitoring and project finalisation.
- General management and overhead costs.*
- Governance costs* – board activities and support from foundation management.
- Investment management fees* – fees charged by investment managers.
- Amortization charges for capital assets.*

Any comparisons of the trends in these disaggregated costs need to be carefully qualified, given the significant differences between the six case study foundations examined, in terms of their relative sizes (endowment funding ranging from \$30 million to \$3.65 billion), areas of focus, and numbers and sizes of projects supported. The average shares of total operating expenses for each of these cost items over the last five years and ranges across the six case study foundations are shown in Exhibit VI-2.

Exhibit VI-2

General structure of case study foundations' operating and administration costs

Cost Categories	Average Share of Total Operating Expenses ¹	Range
Program management and operations	46%	15% - 55%
General management and overhead	41%	27% - 70%

Governance Activities	5%	2% - 9%
Investment Management Fees	6%	1% - 12%
Amortization – Capital Assets	2%	1% - 4%

1. Simple average of each foundation's cost mix over the most recent 5 years of financial data.

In very general terms, these cost breakdowns are characterised by:

- Program management and operations costs are driven by such factors as the frequency of proposal calls, complexity of project selection and evaluation processes, project due diligence and monitoring activities, and supporting communications and outreach processes. A number of foundations also undertake extensive research activities to improve their understanding of program issues and measure emerging impacts. The relative significance of this cost category within the overall mix of operations and administration costs increases as the total value of project disbursements increases.
- General management and overhead costs are indirectly driven by the level and rate of growth in project disbursements as a function of requirements for enabling information technology, financial, human resource and project management systems. The relative significance of general management and overhead activities in total operating expenses was highest for smaller foundations and lower for the large foundations.
- Governance costs remained relatively constant throughout the periods covered for five of the six foundations. Four of the five had annual costs within the range of \$200,000 to \$300,000 per year, one varied between \$400,000 and \$500,000, and the sixth, which had a regional focus and representation on its board, was well below \$100,000 per year. Governance costs represented between 2% and 7% of the foundations' total operating and administration costs on average, except for one foundation where the board played a more significant role in the foundation's consultation and project selection activities where the average was 9%.
- Investment management fees are linked to the size of each foundation's investments. This means that foundations with fixed term funding that received a single grant have declining investment costs whereas those that received grants on a number of different occasions had investment costs that moved in line with the net impact of these new infusions and their rates of project disbursements.
- Amortization charges for capital assets are driven by costs of office equipment and space requirements, that is, the costs of office furniture and fixtures, computer equipment and software, and leasehold improvements. These requirements, in turn are a function of staff numbers.

In summary, the six case study foundations work with very lean structures focused on structured and transparent processes for reviewing and selecting projects to support, and supporting systems for project tracking and financial management. Their operating and administration costs are driven by needs to efficiently manage project workloads and to provide timely support for governance and accountability requirements. Foundations' resource levels, and costs, appear to be closely matched to, or follow, their project workloads, to the point where some evaluation studies have recommended that resource levels be increased to better control the processing and management of the volume of project-related work.

C. Relative cost-effectiveness of foundations

Another way of looking at the relative cost of foundations is to compare the relative significance of their operating and administration costs to those of similar governmental organizations and programs. In this regard it is possible to obtain indicative comparisons between some foundations, four government organizations – the three granting councils and one new department providing support for infrastructure development – and two provincial research foundations.

The Canadian Institutes of Health Research (CIHR), National Science and Engineering Research Council (NSERC) and Social Sciences and Humanities Research Councils (SSHRC) are granting councils that have similarities to Genome Canada, Canada Foundation for Climate and Atmospheric Science (CFCAS), Canadian Health Services Research Foundation (CHRSF) and the Canada Foundation for Innovation (CFI). At the same time, they have two significant differences. Firstly, they disburse much larger amounts of money each year - \$765 million by both CIHR and NSERC, and \$549 million by SSHRC in 2005-06 – than the foundations cited. Secondly, the average size of their research grants is much lower than the typical projects supported by foundations such as Genome Canada, CFCAS and CFI, and they have had many years of experience in developing streamlined processes to solicit, review and select projects to be supported. The average share of operating and administration costs in the total expenses of CIHR, NSERC and SSHRC over the last six years was between 5% and 6%.

Another possible comparator is Infrastructure Canada, which was established in 2002 to address the infrastructure challenges of Canadian cities, communities and regions, through research, policies and funding programs in partnership with the other levels of government. Infrastructure Canada's support for specialised infrastructure projects has some similarities to the Green Municipal Fund, Sustainable Development Technology Canada, and the Canada Foundation for Innovation. At the same time, Infrastructure Canada also has a broader role, in that it administers a mix of transfer programs involving a diverse mix of projects, both large and small.

Infrastructure Canada has only existed for three years and the share of operating and administrative costs in its total expenditures exhibited a similar pattern to the start-up periods of the foundations, going from 26% in

2003-04 to 15% in 2004-05. In 2005-06, as project disbursements ramped up – from \$199 million in 2004-05 to \$1,488 million in 2005-06 – the operating and administration cost share fell to 2.8%. During the 2004-05 and 2005-06 period Infrastructure Canada lapsed \$281 and \$260 million in contribution appropriations, respectively. Presumably at least part of this would likely have been due to timing issues involved in flowing support to complex long-term projects within the limits imposed by the annual appropriation cycle.

At the provincial level, two foundations – the Alberta Heritage Foundations for Medical Research, and Science and Engineering Research – are similar to a number of the small and medium-sized foundation supported by the federal government. The Medical Research Foundation disbursed an average of \$49 million in grants and awards per year over the last five years and the Science and Engineering Research Foundation averaged almost \$11 million in annual disbursements over the last four years. Administration and operating costs accounted for 12% and 14%, respectively, of total expenditures during the periods examined.

This comparative information, which should be treated as indicative only, suggests that the foundations have been able to achieve similar levels of administrative performance to somewhat analogous government organizations.

One could also look at cost-effectiveness of foundations by asking how the costs of delivery would compare if these same activities were delivered through a departmental program. In practice, the very reasons for establishing foundations as independent organizations with multi-year funding make such direct cost comparisons difficult. In particular, departmental programs do not have the same flexibility to match project disbursements to the achievement of key milestones, the timing of which almost always cannot be confidently predicted prior to commencement, but must administer project grants and contributions within the limits imposed by the annual appropriation cycle.

Foundation representatives who participated in our interviews were almost uniformly sure that their organizations would have lower costs compared to delivery of similar projects and activities by a departmental program. Departmental representatives were more circumspect and often pointed to areas where a departmental program should have lower costs but also noted that savings in one area are likely to be offset by higher costs in other areas or more time-consuming administrative processes. The core themes running through these comments, noted below, point to the difficulty of making comparisons of operating costs between foundations and departmental programs.

- Departmental representatives felt that foundations would have higher average salary costs, on average, because they have higher manager-to-staff ratios than departmental programs. Views also differed as to whether salaries for comparable positions would be higher or lower in departmental programs, especially once the costs of benefits available to government employees and the allocation of departmental management and overhead costs are taken into account.
- Foundations incur costs in a number of areas that do not arise in departmental programs, or not to the same extent. The costs of board operations and support, and investment management, being cases in point. Note however, that these costs account for a relatively low proportion of foundations' operating and administration costs; averaging about 5-6% of operating expenses, respectively.
- Departmental programs incur additional costs because of the need to manage contribution programs within the annual appropriation cycle rather than project life cycles, for example, the work involved in managing the annual planning and disbursement of funds for projects extending over multiple years has substantial staffing and cost implications. The emphasis in departments is on distributing grant funds within the current fiscal year – summarised by one departmental representative as being "to show that money is going out and things are being done" whereas foundations can take more measured approaches tied to the timing of project milestones.
- The nature of foundations' funding arrangements provides them with incentives to keep operating costs low and thereby maximize funding for projects and other program activities.
- Foundations were recognized as having greater flexibility in recruiting and, possibly, their ability to attract employees with specialized expertise required for their activities. Staffing levels in foundations also appear to be very lean and, due to their small size and focused operations, benefit from a cohesive culture and high degree of multi-tasking.
- The focused mandates and flatter management structures of foundations improves the access of their managers to senior decision makers and the timeliness of their decision-making.
- The independence of foundations from wider federal/provincial/territorial jurisdictional considerations and government-wide systems and processes for establishing new government organizations enabled them to get up and running very quickly.

These views suggest that the operating and administrative costs of foundations are, at worst, unlikely to be significantly different from the full costs of an equivalent departmental program and, at best, could be markedly lower. Further research on comparative cost structures and levels would be necessary to provide a more definitive answer on relative costs. Of equal or greater importance to considerations of the cost-effectiveness of foundations, we would suggest, has been their ability to become operational in very timely manner, including the establishment of operating agreements and arrangements with key partners, such as other levels of government, and the scope for more efficient financial management due to the availability of multi-year funding for projects.

VII. Conclusions And Recommendations

A. Appropriateness

Federally funded foundations were created as tools to enable the achievement of public policy goals in a number of narrowly defined areas. The guiding principles for assessing potential foundation opportunities issued in *Budget Plan 2003* identified a set of five factors that, in combination, define situations where the foundation approach has advantages over the use of normal government approaches to program delivery.

The sixteen foundations examined in this evaluation exhibited generally strong degrees of alignment with the guiding principles, in that they:

- Respond to, and focus on, specific and actionable needs. These needs are often in areas where an independent organisation can enter into agreements with provincial/territorial governments without having to deal with the same range of jurisdictional factors that a federal department would be subject to and ensure funding reaches the intended beneficiaries in a timely and flexible manner. We identified five distinct categories of need that are being addressed by foundations:
 - Establishment of specialised world class infrastructure.
 - Conduct of targeted research and development.
 - Support for education.
 - Community-based initiatives to improve community and environment health.
 - International knowledge brokering and supporting research.
- Operate in areas where there is a capacity for independent, non-partisan decision making, and where such decision making processes have a long tradition of use. Most foundations use decision-making processes based on the use of expert peer reviews of proposals with final decision making on the selection of projects being made by boards that bring together relevant combinations of knowledge and experience.
- Require multi-year funding to support the planning and implementation of longer-term projects or operate in areas where a long-term approach to planning is necessary for optimal delivery of short-term projects.
- May require multi-year funding to enable the generation of leverage from other levels of government, the private sector and non-government stakeholder organisations. (Requirements to secure matching funding vary, with some foundations having specific quantitative targets, others are encouraged to secure additional support, and two have no leverage requirements in their funding agreements due to the nature of the areas they operate in (Canada Millennium Scholarship Foundation and Aboriginal Healing Foundation).)

Our review of the characteristics of these foundations and their effectiveness in meeting their objectives indicates that the foundation approach is appropriate in situations when there is a combination of specific multi-year needs, capacity for independent non-partisan decision making, flexible multi-year funding of supported activities and, ideally, opportunities to obtain additional funding for activities from third parties. Unlike foundations, departmental programs are constrained by the annual appropriation process and related financial administration issues, have less flexibility to respond to federal-provincial-territorial jurisdictional considerations in a timely manner, and less flexibility to make project selection decisions on the basis of single-focus criteria such as scientific excellence.

The government's guiding principles provide general guidance for determining if a foundation approach may provide an appropriate means of responding to a particular policy goal. Beyond this, they lack supporting criteria to provide a rigorous and consistent basis for assessing foundation proposals versus the use of other policy instruments, positioning vis-à-vis any related programs, and the basis on which extension, renewal or revision and renewal of funding agreements at the end of funding terms would be made.

B. Effectiveness

1. Progress against objectives

The findings from evaluations of foundation activities and results, results reported in foundations' annual reports and comments from key informants indicated or concluded that foundations are generally achieving intended results and justified the use of foundations as a policy instrument in these instances. Projects supported by most foundations have long life cycles so information on outcomes and impacts is only now starting to become available, but initial results appear encouraging. Common themes in the findings of these evaluation studies suggest that foundations:

- Are responsive, flexible organizations.
- Have introduced innovative business models and approaches to the selection and monitoring of projects.
- Are results oriented. Many have implemented performance measurement systems that provide detailed information on project implementation, progress and results. The narrow focus of foundations means that they are often able to implement performance measurement and reporting systems that are superior to the systems in place for many departmental programs.
- Have established effective working relationships with their partners and stakeholders.
- Have made good progress against their objectives set in their funding agreements.
- Are contributing to the achievement of related government policy goals, based on the initial limited evidence of impacts.

2. Coordination with related government programs

Most foundations operate in fields where their activities link to or complement the activities of related government programs. This is particularly true with regard to foundations with mandates to support public research and development, the establishment of specialised infrastructure, and education. We found that the boards and management of foundations are aware of the need to avoid duplication and have taken steps to ensure that areas of potential overlap and opportunities for cooperation with government programs are identified and factored into their business plans. Having said this, many key informants from departments, foundations and granting councils noted that the information sharing and coordination is generally effective but is an area that requires ongoing attention as policies and programs evolve, and management turnover occurs within these various organizations..

While some degree of coordination or integration of foundation activities with the program of other public complementary programs is likely, a high degree of coordination would suggest that a foundation is not addressing a need that was as specific and separable as anticipated at the time it was created. Generally, the evaluations of foundations that we reviewed did not identify any significant issues of overlap or duplication among the foundations studied.

3. Alignment with government policy goals

Many of the key informants interviewed felt that policy goals applicable to foundations are unlikely to change so much that a foundation may have divergent or contrary objectives and, as such, concerns about continued alignment are valid but largely hypothetical. Mechanisms to modify or refine the alignment of foundation objectives with policy goals do exist and are applied. On the government side, new funding tied to modified policy goals or priorities can be offered to foundations, and the objectives set in funding agreements jointly re-negotiated as part of this process. On the foundation side, boards and senior managers of foundations use their contacts with funding departments and Ministers' offices to keep informed about the evolution of policy priorities and to use the knowledge gained to refine their priorities and resource allocations within the overall structure of their mandates. Foundations also have the opportunity to use their periodic evaluations of results to assess the degree to which policy goals are being met and to draw on these findings in their corporate planning. Foundations with perpetual endowments have a greater degree of freedom, by virtue of their open-ended terms, to set a course that may potentially diverge from government policy goals, and the Minister can only intervene if the terms of the funding agreement are not satisfied. (Note that this is not to say that any of these foundations appear to have objectives that diverge from current public policy goals.)

4. Functioning of accountability mechanisms

Various steps have been taken by the government to strengthen the accountability of foundations since their first use in 1997-98. These actions include introducing consistent expectations regarding the preparation of annual corporate plans and performance reports, the conduct of independent audit and evaluation studies, submission of these reports to the responsible ministers and their public disclosure, and discretion for responsible Ministers to commission their own independent evaluation and performance audit studies. Most of the sixteen foundations studied now have funding agreements that include these provisions as well as consistent conditions under which the Crown may intervene in the event of non-compliance with the requirements of funding agreements. [\[25\]](#)

In addition, the Auditor General now has increased authority to inquire into the use of funds by foundations and data on annual disbursements for four foundations—Canada Foundation for Innovation, Canada Millennium Scholarship Foundation, Sustainable Development Technology Canada and Aboriginal Healing Foundation—are now included in the government's annual financial statements. These changes to the accountability and transparency requirements for foundations were made in response to concerns expressed in the Auditor General's 1999 and 2002 reports as well as the experience gained with the establishment of foundations and administration of these arrangements.

Participants in our interviews felt that, in general, the current accountability requirements added a layer of public transparency and accountability to practises that were already in place to support internal management and board oversight of foundation activities.

C. Costs

Differences in the mandates, scales of operation, business models and ranges of activities undertaken by foundations mean that it is difficult to directly compare their operating and administration costs, or to compare them to the cost structures of departmental programs operating in somewhat similar fields.

Our analysis of the operating and administration cost structures of the six case study foundations found that these foundations work with very lean structures focused on structured and transparent processes for reviewing and selecting projects to support, and supporting systems for project tracking and financial management. Their operating and administration costs are driven by needs to efficiently manage project workloads and to provide timely support for governance and accountability requirements. Foundations' resource levels, and costs, appear to be closely matched to, or follow, the trends in the project workloads.

More broadly, and excluding the cost performance during initial start-up periods, the shares of operating and administration costs in total expenses of foundations with high average annual rates of disbursements (i.e., greater than \$100 million per year) range from 3% to 4%. These rates are not dissimilar to the 5% to 6% level achieved by granting councils and Infrastructure Canada, which share similarities to some of the foundations but have significantly higher numbers of projects (in the case of the councils), and annual disbursements. For medium-sized foundations (~ \$40 - \$80 million per year), the share is of the order of 7% to 11% (plus one foundation with a share of 24%). This compares to shares of 12% and 14% at the Alberta Heritage Foundations

for Medical Research, and Science and Engineering Research, which have average annual disbursements of the order of \$49 million and almost \$11 million, respectively.

Foundations with low annual rates of project disbursements (below \$40 million per year) do not have the same opportunities to achieve economies of scale as the foundations with higher disbursement rates, and many also undertake other activities in addition to selecting and funding projects, such as, knowledge transfer, capacity building and outreach. The share of operating and administrative costs in their total expenses ranges from about 29% to 51% for these foundations, except for one very lean foundation where the share averaged 6%. In some cases, the relatively high share of operating and administrative expenses in total expenditures may be due to the fact that annual disbursements are still ramping up to planned levels. This appears to be the case with Sustainable Development Technology Canada and Canada Health Infoway where both the elapsed times from project selection to commencement and the time periods over which funds for each project are disbursed are quite long.

The issue of scale is particularly relevant to foundations with perpetual endowments where the level of funding available for projects and administration is a function of the income generated from their endowments. Achievement of a reasonable scale of operations thus depends upon the foundation receiving (or building) a very large endowment.

D. Recommendations

Recommendation #1 – more structured criteria for assessing foundation proposals

The findings presented in the previous section, and in more detail in the body of our report, suggest that foundations provide an appropriate means of addressing public policy goals in situations where organizational independence, financial stability and special expertise enables more effective program delivery than would otherwise be the case. Currently, the only formal guidance for determining if the foundation approach is appropriate is provided by five guiding principles first published in *Budget Plan 2003*. While these principles provide useful general guidance for the use of foundations we believe that decision-making regarding the future selection and use of foundations could benefit from the development and application of a set of supporting criteria drawn from the experience with current foundations. These criteria should complement and extend the existing guiding principles and provide a consistent, more rigorous basis to assess proposals to use the foundation approach or to renew and/or revise existing funding agreements.

We recommend that the government formulate a more structured framework that provides guidance for the assessment of proposals to use a foundation to contribute to the achievement of policy goals, or extend or renew multi-year funding for existing foundations. This framework would extend the existing guiding principles by defining criteria to inform decision-making regarding the use of foundations and assessment of supporting business cases for their funding. Such criteria as the following should be considered in developing this policy:

1. Specific area of need or opportunity:

- Is there a specific national or regional need or opportunity that is not addressed by current government policy instruments or levers, or can be better addressed using a foundation?
- Is this an appropriate area for intervention or support by the federal government?
- Can the applicable policy direction and goals be defined in legislation and/or a funding agreement?
- Are there potential issues or concerns from other levels of government concerning the federal role or jurisdiction? If so, will the use of a foundation approach be acceptable to and supported by these other levels of government?
- Will the proposed activities have a high degree of overlap with existing government programs or require a high degree of coordination with complementary programs? Could the proposed activities be delivered by an existing program delivery organization instead of a separate foundation?
- Are there mechanisms in place, or will mechanisms be required, to coordinate or integrate proposed activities with these existing programs to avoid overlap or duplication? Can this coordination be accomplished efficiently?

2. Capacity to establish an independent board with directly relevant knowledge and experience:

- Is there an appropriate capacity in place (or capable of development) to provide independent, non-partisan decision-making?
- Is there a willingness amongst the potential pool of directors to assume the anticipated role to be played by the board?

3. Need for funding beyond annual parliamentary appropriations:

- How will the availability of multi-year funding enable a more timely or cost-effective approach to the specific area of need or opportunity?
- Is guaranteed funding over the life of the envisaged multi-year projects necessary for efficient project and financial management?

4. Capacity for decision making using expert peer review:

- Is the peer review method and selection on the basis of merit accepted as the common basis for selecting projects for support?
- Is there an appropriate capacity in place (or capable of development) to enable the application of a peer review process?

5. Evidence that leveraged funding can be secured:

- Are there potential funding partners for the envisaged projects?
- What evidence is there that potential partners are willing to provide matching funding?

6. Timeframe to achieve intended results:

- What time period will be necessary to achieve the desired immediate and/or final outcome(s)?
- What is the government's exit strategy?

In applying these criteria, all proposed applications of the foundation approach would be expected to satisfy criteria 1, 2 and 3, which are linked to the fundamental rationale for using the foundation approach. The application or importance of the remaining three criteria may vary in response to the particular context in which the foundation is to operate. This variability is also present in the current mix of foundations.

Recommendation #2 – use of fixed term versus perpetual foundations

Any decisions to use a perpetual endowment to fund a foundation should carefully assess the extent to which the characteristics of the need to be addressed differ from those addressed using fixed term funding agreements.

Seven of the sixteen foundations examined in our work operate with perpetual endowments, using investment income from their endowments to fund both program delivery and administrative activities. Approximately 7% of the funding transferred to the foundations studied was in this form. Foundations with perpetual endowments represent the most independent form of the foundation approach, in that the government has more limited opportunity to re-negotiate the terms and conditions of their funding agreements and, potentially, to ensure continued alignment with relevant government policy goals. (This is not to say that any are out of alignment at present, however.) Their reliance on investment income alone also means they are more exposed to interest rate risks and require a significant endowment if they are to maintain high rates of project funding. Based on the information reviewed, it was not apparent that the needs being addressed by foundations with perpetual endowments required noticeably different time frames to achieve results than the needs being addressed by foundations with fixed term funding.

Recommendation #3 – Consider the significance of administrative and operating costs into assessments of potential new foundations

The relative cost-effectiveness of foundations is determined by the scale of operations relative to the cost of operations and administration, and the extent to which supporting activities are performed, such as outreach to and capacity building among targeted beneficiaries. In situations where these operations and administrative costs are expected to consume a significant proportion of the total funding available it may be more economical to use an alternative instrument to achieve the desired policy outcomes.

We recommend that the assessment process for proposed new foundations consider the expected scale of operations of proposed foundations and the relative significance of their administrative and operating costs in addition to the factors considered under the guiding principles and criteria proposed under Recommendation #1, above. Incorporation of criteria relating to the expected significance of these costs should mean that not only would proposed foundations address currently unmet needs; they would do so at a reasonable cost.

Appendix A - Participants – Key - Informant Interviews

Participants – Key Informant Interviews

Organizations	Interviewees	
A. Foundations		
Aboriginal Healing Foundation	Georges Erasmus	President & Chair
	Mike Degagne	Executive Director
	Terry Goodtrack	Chief Operating Officer
Asia Pacific Foundation	Paul Evans	Co-CEO and Chair, Executive Committee
Canada Foundation for Innovation	John R. Evans	Chair
	Eliot A. Phillipson	President & CEO
	Suzanne Corbeil	Vice-President, External Relations

	Manor Harvey	Vice-President, Corporate Services
	Meg Barker	Director Planning and Outcome Assessment
Canada Health Infoway	Richard C. Alvarez	President & CEO
Canada Millennium Scholarship Foundation	Norman Riddell	Executive Director & CEO
	Andrew Parkin	Director, Research and Program Development
	Paul Bourque	Director, Finance and Operations
Canadian Foundation for Climate and Atmospheric Sciences	Gordon McBean	Chair, Board of Trustees
	Dawn Conway	Executive Director
Canada Health Services Research Foundation	Jonathan Lomas	Chief Executive Officer
	Nancy Quattrocchi	Chief Administrative Officer
Canadian Institute for Research on Linguistic Minorities	Rodrigue Landry	Executive Director
Clayoquot Biosphere Trust	Stan Boychuk	Executive Director
Frontier College	Nora Farrell	Chair, Frontier College Foundation
	John O'Leary	President, Frontier College and Frontier College Foundation
	Cathy Mann	Executive Director, Frontier College Foundation
Genome Canada	Bill Bridger	Member of the Board
	Martin Godbout	President & CEO
	Carol Anne Esnard	Chief Administrative Officer
	Guy D'Aloisio	Vice-President Finance
Green Municipal Fund	Sam Synard	Chair, GMF Council
	Elisabeth Arnold	Director
	Doug Salloum	A/Deputy Director
	Ina Zanovello	Senior Manager, Administration and Governance
	Andrew Cowan	Senior Manager, Knowledge Management Unit
	Lubka Voucheva	Senior Manager, Credit and Risk Management
	Jean-François Trépanier	Chief Operating Officer, FCM
Pacific Salmon Endowment Fund Society	Jane McIvor	McIvor Communication (Administrative Manager, PSEF)
	Paul Kariya	Executive Director, Pacific Salmon Foundation
	Terry Tebb	Deputy Executive Director, Pacific Salmon Foundation
	Greg Latham	Executive Director, Rick Hansen SCI Network (For Rick Hansen, Chair)
Pierre Elliott Trudeau Foundation	Pierre-Gerlier Forest	President

	Frederick Lowy	Interim President
	Johanne McDonald	Director of Operations
Sustainable Development Technology Canada	James M. Stanford	Chair
	Vicky J. Sharpe	President & CEO
	Maria Aubrey	Senior Vice-President, Operations
	Brent Brohman	Director, Governance
	Stephane Chartrand	Director, Finance
	Steve Higgins	Manager, Corporate Performance
	Stephanie Myers	Advisor (Principal, Stratos Inc.)
B. Funding Departments		
Environment Canada	Shirley Anne Scharf	Director, Technology Strategies Division, Science & Technology Branch
	Jeremy Mann	Project Engineer, Technology Strategies Division
	Doug Whelpdale	A/Manager, Atmospheric Science Assessment Integration Office, Science & Technology Branch
	Rob Cross	Advisor, Atmospheric Science Promotion, Meteorological Service of Canada
	Randal Cripps	Director, Strategic Integration Office, Pacific & Yukon Region
Fisheries & Oceans Canada	Paul Sprout	Regional DG; Pacific Region
	Ron Faust	Regional Director, Finance & Administration
	Rebecca Reid	Regional Director, Oceans, Habitat & Enhancement Branch
	Jeff Jung	A/Chief - Stewardship and Community Involvement
	Robert Hamilton	DG, Audit and Evaluation
	Bob McNeil	Senior Evaluation Manager, Audit and Evaluation
Foreign Affairs and International Trade Canada	Manon Dumas	Deputy Director, Intergovernmental Relations Division
Health Canada	Marcel Nouvet	ADM, Corporate Services
Human Resources and Skills Development	Rosaline Frith	DG, Canada Student Loans Program
	Catherine Conrad	Director, Program Development and Policy, CSLP
	Leesha Lin	Manager, Socio-Economic Analysis Group, Socio-Economic Analysis Group, CSLP
	Satya Brink	Director, National Learning Policy Research, Learning Policy Directorate
	Robert Sauder	A/Director, National Learning Systems, Learning Policy Directorate
	Sirish Prabhu	Senior Policy Analyst, Learning Policy Directorate
	Natasha Leeder	Policy Analyst, Learning Policy Directorate

	Robert Pinker	Special Advisor, Learning Policy Directorate
	Del Carrothers	Director, Learning Program Policy Development
Industry Canada	Iain Stewart	DG, Innovation Policy, Science & Innovation Sector
	Feyrouz Kurji	Director, Higher-Education R&D Policy
	Carmen Charette	Executive Director, External Relations & Innovation, Science & Innovation Sector
Indian Residential Schools Resolution Canada	Marc Sanderson	Director, Public Affairs, Liaison and Outreach
	Shawn Tupper	DG, Child and Youth Policy, Social Development Canada (Formerly at INAC)
Natural Resources Canada	Graham Campbell	DG, Office of Energy R&D
	Frank Mourits	Senior Science and Technology Advisor
	Anne Auger	Director, Buildings Division, Office of Energy Efficiency
	Margaret Anthony	Senior Municipal Programs Officer, Buildings Division
	Wayne Richardson	Director, TEAM Operations Office, CANMET Energy Technology Sector
	Sarah Radovan	GHG Technology Officer
C. Central Agencies		
Finance Canada	Paul Rochon	General Director, DG, ADM's Office, Economic and Fiscal Policy Branch
	Chris Forbes	Director, Fiscal Policy Division
	Richard Botham	Director, Microeconomic Policy Analysis, Economic Development and Corporate Finance Branch
	Brenda Lundman	Director, Social Policy, Federal-Provincial Relations and Social Policy Branch
Treasury Board Secretariat	John Morgan	Assistant Comptroller General, Financial Management and Analysis Sector
	Bill Matthews	Senior Director, Government Accounting & Reporting
	Peter O'Callaghan	Senior Analyst, Financial Arrangements
	Pierre Laflamme	Senior Policy Analyst, Financial Arrangements
	Carrie Hunter	Executive Director, Governance, Government Operations Sector
	Anthony Chapmen	Director, Governance, Government Operations Sector
D. Other		
Canadian Institutes of Health Research (CIHR)	Alan Bernstein	President
Natural Sciences and Engineering Research Council (NSERC)	Suzanne Fortier	President

Canadian Association of Student Financial Aid Administrators	Suzanne Brunette	President
	Judy Dyck	Past President
Manitoba Ministry of Advanced Education and Training	Tom Glenwright	Executive Director, Student Aid and Private Vocational Institutions Branch
University of Victoria	David Turpin	President

Appendix B - Key Reference Documents

Key Reference Documents

Auditor General of Canada, "Chapter 4: Accountability of Foundations", *Report of the Auditor General of Canada – February 2005*, Ottawa, 2005.

_____, "Chapter 1: Placing the Public's Money Beyond Parliament's Reach", *Report of the Auditor General of Canada – April 2002*, Ottawa, 2002.

_____, "Chapter 23: Involving Others in Governing: Accountability at Risk", *Report of the Auditor General of Canada – November 1999*, Ottawa, 1999.

Aucoin P., "Accountability and Coordination with Independent Foundations: A Canadian Case of Autonomization of the State", Paper presented to a workshop on *Autonomization of the State*, International Political Science Association, Stanford University, CA, April 2005. (Accessed at: http://www.sog-rc27.org/Conference/scancor_ws05_participants.html.)

Department of Finance, *Budget Plans: 1996 to 2006*, Ottawa.

Netherlands Ministry of Finance, *Government Governance: Corporate Governance in the Public Sector*, Government Audit Policy Directorate, The Hague, 2000.

OECD, *Distributed Public Governance: Agencies, Authorities and Other Autonomous Bodies*, OECD, Paris, 2002, CCNM/GF/GOV/ PUBG(2002).

Pollitt C., Talbot C., Caulfield J., and Smullen A., *Agencies: How Governments Do Things Through Semi-Autonomous Agencies*, Palgrave MacMillan, NY, 2004.

Schick A., "Agencies in Search of Principles", *OECD Journal of Budgeting*, Vol. 2, No. 1, 2002.

Treasury Board Secretariat, *Crown Corporations and Other Corporate Interests of Canada*, Ottawa, 2005.

Footnotes

[1] For convenience, this report refers to these two classes of foundations as "foundations with fixed term funding agreements" and "foundations with perpetual endowments", or "perpetual foundations". Readers should note that it is the funding agreements with these "fixed term foundations" that have fixed terms. The organizations themselves have distinct legal status and any decisions regarding winding up or continuation beyond the term of their funding agreements would be made by their boards, not by the Government of Canada.

[2] Department of Finance, *Budget Plan 2003*, Ottawa, 2003, p.179. (The guidelines are also contained in a backgrounder on the Finance Canada website, *Accountability of Foundations*, at: <http://www.fin.gc.ca/toce/2005/AccFound-e.html>.)

[3] Existing funding agreements can only be re-negotiated if both parties, that is, the foundation and responsible Minister, agree.

[4] Department of Finance, *Budget Plan, 2005*, p.330.

[5] Shared Governance Corporations are defined by Treasury Board Secretariat as *corporate entities without share capital for which Canada, either directly or through a Crown Corporation, has a right pursuant to statute*,

articles of incorporation, letters patent, by-law or any contractual agreement (including funding or contribution agreements) to appoint or nominate one or more voting members to the governing body. (Treasury Board Secretariat, *Crown Corporations and Other Corporate Interests of Canada: 2005*, p.32.)

[6] Note however, that some pre-existing not-for-profit organisations have received conditional grants, such as the Asia-Pacific Foundation and Frontier College Foundation.

[7] The formal name of this foundation is: Canada Foundation for Sustainable Development Technology but it is commonly referred to as Sustainable Development Technology Canada (SDTC). We have used this latter description throughout the report.

[8] Strategic Infrastructure Foundation and the Africa Fund, with funding of at least \$2 billion and \$500 million, respectively. The government subsequently decided to undertake both of these initiatives through departmental funding programs.

[9] Department of Finance, *Budget Plan 2003*, Ottawa, 2003, p.179. (The guidelines are also contained in a backgrounder on the Finance Canada website, *Accountability of Foundations*, at: <http://www.fin.gc.ca/toce/2005/AccFound-e.html>.)

[10] Pollitt C., Talbot C., Caulfield J., and Smullen A., *Agencies: How Governments Do Things Through Semi-Autonomous Agencies*, Palgrave MacMillan, NY, 2004, p.19-20.

[11] Schick A., "Agencies in Search of Principles", *OECD Journal of Budgeting*, Vol. 2, No. 1, 2002, p.14-15.

[12] OECD, *Distributed Public Governance: Agencies, Authorities and Other Autonomous Bodies*, OECD, Paris, 2002, CCNM/GF/GOV/PUBG(2002)2, p.16.
Pollitt C., et al, *Agencies: How Governments Do Things Through Semi-Autonomous Organizations*, Palgrave Macmillan, NY, 2004, p.23.

[13] Department of Finance, *Budget Plan 2005*, Ottawa, 2004, p.330.

[14] Finance Canada website, *Accountability of Foundations*, at: <http://www.fin.gc.ca/toce/2005/AccFound-e.html>

[15] Evidence by the Secretary of State for International Financial Institutions, Maurice Bevilacqua, to the Standing Senate Committee on National Finance, June 12, 2002.

[16] The annual report of this international knowledge brokering foundation notes that it is funded from two primary sources: the federal government and a provincial government.

[17] We were not able to verify these assertions due to context in which these proposals were received; namely the budget planning process and related Cabinet deliberations.

[18] *Hansard*, 37th Parliament, 1st Session, Number 140, 1430, February 6, 2002.

[19] Aucoin P., *Accountability and Coordination with Independent Foundations: A Canadian Case of Autonomization of the State*, Paper presented to a workshop on "Autonomization of the State", International Political Science Association, Stanford University, CA, April 2005, p.23.

[20] Canadian Health Services Research Foundation, *Final Report of the International Review Panel to the Board of Trustees*, Ottawa, November 29, 2001, p.10.

[21] Report of the Auditor General of Canada, *Chapter 4: Accountability of Foundations*, Ottawa, February 2005, p.19.

[22] For example, the board of Genome Canada includes the Presidents of the CIHR, NSERC and the National Research Council; one position on the board of CFI is filled on a rotating basis by the Presidents of the three granting councils, Health Canada has an official on the board of Health Infoway, and the Regional Director General of the Department of Fisheries and Oceans is on the board of the Pacific Salmon Endowment Fund.

[23] Examples of foundations where departmental representatives attend board meetings as observers include the Aboriginal Healing Foundation, and Canadian Foundation for Innovation. The Green Municipal Fund has government officials on its Council (5 of 15 members); however, the board of the Federation of Canadian Municipalities (FCM) has the decision making authority regarding GMF loans and grants, drawing on the recommendations made by the GMF Council.

[24] See, for example:
Netherlands Ministry of Finance, *Government Governance: Corporate Governance in the Public Sector, Why and How?*, Government Audit Policy Directorate, 2000.
Schick A., *op cit*.
OECD, *op cit*.

[25] Existing funding agreements can only be re-negotiated if both parties, that is, the foundation and responsible Minister, agree.

