



PROVINCIAL TRANSFER PAYMENT AGREEMENT SERIES

Brief four: Increasing mergers amongst
transfer payment recipients



ONTARIO NONPROFIT NETWORK

About the series

There are two interconnected streams of nonprofit advocacy for transfer payment agreements (TPAs): more money and better money. While all [subsectors signal](#) the need for funding that reflects the true cost of delivering programs and services, keeps pace with inflation, and responds to emerging needs, this series focuses on the latter stream: better money. As the public policy landscape shifts towards austerity, there are limited opportunities to advance advocacy with the provincial government for more money. However, advocacy for better money can repurpose the province's red tape reduction, efficiency, and effectiveness agenda. Across the nonprofit sector there are shared issues with TPAs that cause the very same ineffectiveness and inefficiencies that TPAs are supposed to combat.

When done well, TPAs are simple, flexible, contain proportional oversight, and are built on accountability, and reciprocal respect. When not done well, TPAs divert resources from positive outcomes for organizations, their programs and services, and ultimately the communities nonprofits serve.

Over the past two years ONN has collected data through key informant interviews and state of the sector surveys on the most common issues plaguing nonprofits with their transfer payment agreements with the Ontario government. This series highlights those issues, with case studies, and puts forth recommendations for government.

Background

Apart from the [Accountability Directive](#), [Transfer Payment Operational Policy](#), and [Transfer payment Consolidation Smart Initiative](#), many factors influence the contents of transfer payment agreements as well as the procedures, behaviours, and attitudes of how the provincial government funds nonprofits:

- The mandate and priorities of the ministry providing funding.
- Legislation that specifically regulates service and program provision for specific types of services.
- Ministry/department history and program staff's personal experience working with nonprofits receiving the funding.
- Other ministry departments such as legal and financial/audit officials.

Issue

Mergers between nonprofits with similar missions are implicitly encouraged as the provincial government seeks to streamline funding by decreasing the number of TPAs they hold. Mergers are perceived as a good strategy because the assumption is that they will result in cost savings and better outcomes for communities.

However, this is not always the case. Combining two organizations does not guarantee the same level of service. When an organization that serves specific needs of a community merges with an organization that may deliver more

Issue (cont'd)

generalized programs and services, the former programming often ceases to exist. Frequently the organization merging is smaller, with less budget size, and flexibility than the one it is merging with.

When a merger strategy is adopted on an organization's own terms, not under external government pressure, and with a tactful plan that includes staff and community members impacted, it can strengthen and improve service delivery, better supporting both the sector and government's mandates.

Context

The desire for mergers stems from concerns about "duplication" of services or the belief that there are "too many" nonprofits. When a community need is unmet (in many cases as a result of [severe underfunding](#)), community members will come together to meet that need by forming a nonprofit. Forced mergers will not necessarily stop nonprofits from forming, but adequate social infrastructure can.

Misunderstandings about why organizations that serve specific populations or areas (rural and/or equity-deserving, equity-denied communities), need to exist can result in pressure on those organizations to merge with those that serve the general public or urban areas. Their existence is not duplication, but a necessity to fill gaps in need.

Context (cont'd)

Mergers are not a cost saving measure as they often do not result in funders reducing their contributions. Additionally, there are often significant merger costs for both organizations: consulting for governance merging and sunseting, severance payouts or salary realignments, and transfer of capital assets and properties, and intellectual property. One or both of the organizations entering a merger may be in a deficit position, and thus maintaining services may be a struggle. Not all mergers are conflict free as they are a difficult and strenuous process for both organizations involved.

Costly solutions to systemic underfunding

Over the past few decades organizations providing gender-based violence (GBV) supports have been deeply underfunded resulting in certain programs either becoming ineffective or shutting down. As a result, additional GBV organizations are forming to fill gaps, creating the illusion that there are too many service providers. In reality, the GBV sector is evolving in this way because of underfunding and increased, complex community needs.

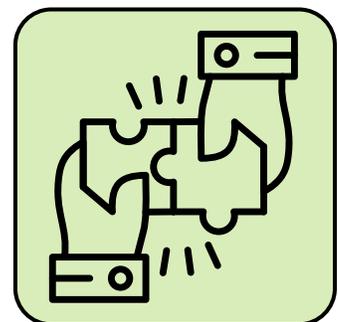
Ministries often respond to this evolution by recommending mergers to combat a competitive funding environment, and in an effort to save resources. However, more resources end up being spent while there is still a net loss of services in communities, and systemic issues persist.

Opportunity

Forced mergers will not solve the underlying issues of lack of funding and increasing need for specialized services. In instances where a merger may be the best option, a successful merger requires an understanding of not only the organizations involved, but also the root cause of their issues.

Recommendations for provincial government

1. Ministries can set up a support system and/or support an existing one, such as the [Catalyst and Transformation Fund](#), to provide financial support to implement substantial changes to operations, like a merger.
2. Government should only conduct mergers with organizations that are ready and willing to use a merger as an opportunity to ease administrative burden, provide greater management support for staff, and increase staff to allow organizations to better and more nimbly meet client needs.



Conclusion

Nonprofits recognize that mergers can result in more efficient service provision, especially for a larger client base while also noting the increased burden on organizations when mergers are done with the wrong goal in mind. Government has a responsibility to first examine each organization's unique context, services, funding needs, and structure before assuming a merger will improve their services, then government must support and collaborate with these organizations to work through the merger together, and create a more resilient sector for their communities.

About ONN

ONN is the independent nonprofit network for the 58,000 nonprofits in Ontario, focused on policy, advocacy, and services to strengthen the sector as a key pillar of our society and economy. We work to create a public policy environment that allows nonprofits to thrive. We engage our network of diverse nonprofit organizations across Ontario to work together on issues affecting the sector and channel the voices of our network to government, funders and other stakeholders.

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