



August 7th, 2020

## **Executive summary**

The pandemic has hit the charitable sector very hard. Many traditional sources of fundraising such as benefit events and earned income have dried up even as demand for several charitable services (e.g. from food banks to mental health and domestic violence) is rapidly increasing. Imagine Canada and the Ontario Nonprofit Network have estimated that 1 in 5<sup>1</sup> not-for-profit organizations have either suspended or drastically reduced operations. In the short and medium terms, a very challenging economic landscape will likely reduce both charitable giving and volunteering. The web of connections and services offered by the sector, a cornerstone of Canada's social and economic capital, is at the risk of unraveling.

Philanthropic Foundations Canada's members are stepping up in their giving to respond to this historic crisis. Since March 2020, foundations have committed over \$100M<sup>2</sup> to address the crisis. However, private foundations cannot replace state leadership. The Government of Canada is an essential partner in this struggle to protect Canadians and to build the policy framework for an inclusive and sustainable economic recovery.

In this brief, we make four recommendations to the Federal Government to enhance the economic and social contributions of the charitable sector to Canada:

**Recommendation 1:** That the federal government designates a space for the sector within the machinery of government.

**Recommendation 2:** That the federal government maintains, enhances and supports programs and initiatives to strengthen the resilience of the charitable sector to continue serving Canadians throughout the pandemic.

**Recommendation 3:** That the federal government invest in data pertaining to the sector through Statistics Canada.

**Recommendation 4:** That the federal government reform non-qualified donee requirements.

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<sup>1</sup> Imagine Canada. (2020). Sector Monitor Charities & the COVID-19 Pandemic. Retrieved from: [https://imaginecanada.ca/sites/default/files/COVID-19%20Sector%20Monitor%20Report%20ENGLISH\\_0.pdf](https://imaginecanada.ca/sites/default/files/COVID-19%20Sector%20Monitor%20Report%20ENGLISH_0.pdf)

<sup>2</sup> Philanthropic Foundations Canada. (2020). 2nd report in PFC's COVID-19 Data Mapping series. Retrieved from: [https://pfc.ca/wp-content/uploads/2020/07/pfc\\_insights\\_covid19\\_july\\_eng.pdf](https://pfc.ca/wp-content/uploads/2020/07/pfc_insights_covid19_july_eng.pdf)



## **Background**

Philanthropy has been a driving force in building and shaping the Canada we know today. In the face of a historic crisis, the charitable and nonprofit sector stepped up, supporting the most vulnerable Canadians through the pandemic. **The sector makes up 8.5% of the Canadian GDP**, and employs 2.4 million people<sup>3</sup>. Canada would not be the same without the philanthropic sector, a sector that is vital to Canada's economy.

Philanthropic organizations clearly have a role in a restart of the economy. According to the most recent report from PFC's COVID-19 Data Mapping series, philanthropy in Canada is undergoing a major shift in response to the pandemic and many funders have adapted to this crisis and adjusted their support to grantees. A total amount of \$107M, 85% of which is coming from Private Foundations, has been committed.<sup>4</sup> Many philanthropic funders are being pragmatic, flexible, and protecting the capacity and resilience of nonprofit and charitable organizations by taking the long view and staying engaged:

- 81% of funders are accepting applications from new and existing grantees;
- 85% Provided funding to support COVID-19 response;
- 58% Removed restrictions on existing grants;
- 64% Enabled reallocation of existing grants to COVID-19 related activities;
- 57% Of funders have increased their disbursements.

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**Recommendation 1:** That the federal government designates a space for the sector within the machinery of government.

COVID-19's toll on the charitable and philanthropic sector has served as a stark reminder that the charitable sector needs a 'home within government'. The government is poorly served by its lack of knowledge of the charitable sector, as seen in its recent internal assessment that only one charitable organization, WE charity, could implement the Canada Student Service Grant. A home within government would provide much needed knowledge, a natural platform for collaboration, and for strengthening the long-term resilience of the sector.

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<sup>3</sup> Statistics Canada. (2017). The Daily — Non-profit institutions and volunteering: Economic contribution, 2007 to 2017. Retrieved from: <https://www150.statcan.gc.ca/n1/daily-quotidien/190305/dq190305a-eng.htm>

<sup>4</sup> See note 2.



Charities and nonprofits have revenue streams that are much different than private businesses. Policy makers who understand the role, the challenges and opportunities for the charitable and not for profit sector can better ensure that resources, regardless of their source, are spent effectively on targeting the issues Canadians face.

A home within the government is mutually beneficial. Currently, there exists inefficiencies amplified by not having a designated space within government. For instance, there are increased costs to ensure efficient communication between all parties involved. A home in government would allow an efficient two-way communication system fostering better policy at a lower cost. The Advisory Committee on the Charitable Sector, housed in the Canada Revenue Agency (CRA), has a limited mandate to provide the CRA with advice on areas within its jurisdiction. It does not, as currently constituted, play the kind of role required by either the sector or the federal government.

**For these reasons, we recommend that the government establish a home or small secretariat for the charitable sector within government to ensure long-term resilience and sustainable collaboration that can go beyond the limited mandate provided to the Advisory Committee on the Charitable Sector.**

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**Recommendation 2:** That the federal government maintains, enhances and supports programs and initiatives to strengthen the resilience of the charitable sector to continue serving Canadians throughout the pandemic.

The sector is appreciative of the emergency relief that was provided by governments at the outset of the pandemic. Programmes like CEWS, Emergency Rent Subsidy, the \$350M Emergency Community Response Fund and various funds (from food banks to domestic violence and indigenous needs) have allowed organizations to maintain critical services to Canadians. However, as reserves are being depleted, most organizations within the sector will experience the greatest effects of the crisis in their 2021 operations.

In addition, the crisis has acted as a great revealer of historic inequalities in Canadian society. We are at a watershed moment in Canada's history to take meaningful steps



towards ensuring the realization of fairness, equity and equality of opportunity for all Canadians. PFC applauds the additional funding that has been made available to Indigenous communities. Some foundations have established an Indigenous People's Resilience Fund<sup>5</sup> that complements these investments. PFC is collaborating with The Circle on Philanthropy and Aboriginal Peoples in Canada (The Circle) to review and renew foundations commitments made under the 2015 Calls to Action of the Truth and Reconciliation Commission.

We are also committed to authentically and actively address the crisis of anti-Black racism. The philanthropic sector is exploring several tremendous ideas and proposals such as the establishment of the Black Canadian Philanthropic Foundation (BCPF) which seeks to be a first of its kind: a Black-led, Black-serving grant maker, convenor and partner which will fill a critical gap within the philanthropic landscape.

The continued support of the government will be needed to ensure that the charitable and nonprofit sector can continue to provide vital services to Canadian during a protracted pandemic and rebound post crisis.

**For these reasons, we recommend that the government maintains and enhances programs and initiatives like CEWS, Emergency Rent Subsidy, and the Emergency Community Response Fund. In addition, we urge the Government to consider the BCPF or similar proposals to establish resources and assets that will provide long-term sustainable investments that advance prosperity and promise for Black Canadians, Indigenous Peoples and other marginalized groups.**

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**Recommendation 3:** That the federal government invest in data pertaining to the sector through Statistics Canada

As it stands, the nonprofit sector collects its own data through a disaggregated and expensive approach. The sector needs leadership and coordination from the federal government, and we recommend that Statistics Canada be allocated a modest budget to collect, analyze and share data pertaining to philanthropy that would be to the benefit of the sector and policy makers across all levels of government. In the face of the health

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<sup>5</sup> Indigenous People's Resilience Fund. (2020). Retrieved from: <https://www.communityfoundations.ca/initiatives/indigenous-peoples-resilience-fund/#:~:text=The%20Indigenous%20Peoples%20Resilience%20Fund%20%28IPRF%29%20is%20an,ability%20to%20deliver%20services%20that%20communities%20depend%20on.>



crisis, the lack of data left the sector with challenges. Even though organizations across the country like PFC have stepped up, we need to invest in data now for much more effective planning and investments.

We see three gaps in available data.

1. A lack of data pertaining to all incorporated nonprofits and their area of impact and funding sources;
2. A lack of data pertaining to human resources, making labour force planning more difficult; and
3. The federal government has not done annual updates to the Satellite Account of Nonprofit Institutions and Volunteering since 2008.

This lack of macroeconomic data makes policy making and planning more difficult for both the government and the charitable sector.

**For these reasons, we recommend that the government set a clear mandate to Statistics Canada addressing the above data gaps, while providing resources of at least \$1 Million annually to address these gaps.**

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**Recommendation 4:** That the federal government creates a level-playing field by reforming non-qualified donee requirements

Our data shows that funders are engaging in collaborative efforts to work on their COVID-19 Responses.<sup>6</sup> Partnership between the nonprofit, charitable and private sectors can have synergistic impacts that not one can achieve on its own. Current Income Tax Act rules on qualified donees and direction and control make it exceedingly difficult to form such partnerships in a way that puts the needs of communities first. Principles of equity and inclusivity are undermined by the current policy regime, as marginalized communities and Indigenous communities remain unable to benefit from charitable funds to the same degree as more privileged demographics.

Many foundations that seek to support Black and Indigenous community struggle to do so because of the more stringent administrative requirements on both funders and

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<sup>6</sup> See note 2.



recipients. Sarah Jama, co-founder of Disability Justice Network of Ontario (DJNO), explained her organization's plight in supporting people with disabilities during the pandemic. DJNO supported people who were immunocompromised to get the resources they needed at the beginning of the pandemic, and had to draw on programming funds to do so. *'There's no room for foundations to be having conversations about whether there's a registered charity number'*, she said, referencing the struggles current tax laws have on community organizations.<sup>7</sup>

In June 2019, the Senate Special Committee on the Charitable Sector released a report, entitled *Catalyst for Change: A Roadmap to a Stronger Charitable Sector*, with 42 recommendations.<sup>8</sup> Two are relevant here. Recommendation 31 calls on the Government of Canada to develop, implement and evaluate a pilot project to allow registered charities to make gifts to non-qualified donees in certain limited circumstances, namely where the gifted funds are subject to careful monitoring and used for exclusively charitable purposes, in order to facilitate cooperation between registered charities and non-charities. Recommendation 28 pertains to reforming the income streams charities and nonprofits can receive, arguing that 'earned income is the only option that offers "any prospect of long term growth"'. Instead, it is recommended that the destination of funds be evaluated such that any nonprofit can carry out any revenue generating activities as long as the income earned goes to the mission of the organization. Notably highlighted in the Senate Special Committee Report, the 'destination of funds' test has successfully been adopted in Australia to loosen stringent administrative requirements.

**For these reasons, we recommend that the federal government work with the sector to reform the existing rules on non-qualified donees and introduce a pilot project to facilitate collaboration between charitable and not for profit organizations.**

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<sup>7</sup> Philanthropic Foundations Canada. (2020). Webinar: COVID-19, Diversity, Equity & Inclusion. Retrieved from: <https://www.youtube.com/watch?v=FZjP-SU8wpo&t=5s>

<sup>8</sup> Special Senate Committee on the Charitable Sector. (2019). *Catalyst for Change: A Roadmap to a Stronger Charitable Sector*. Retrieved from: <https://sencanada.ca/en/info-page/parl-42-1/cssb-catalyst-for-change/>