

# MEMORANDUM

To: Policymakers, philanthropic foundations, and ordinary Canadians

From: Sean Speer and Brian Dijkema

Date: March 20, 2020

Re: **A Call to Action to Support Canadian Civil Society in Response to COVID-19**

The coronavirus pandemic is placing a tremendous strain on Canadian businesses, households, and broader civil society. The federal government's recently-announced [economic response plan](#) targets the financial pressures on businesses and households but is mostly silent on charities and places of worship.

Yet, as we outlined in a recent [column](#) in the *National Post*, these community-based institutions will similarly require short-term, extraordinary support in order to protect their operations and capacity to provide crucial front-line services during and after the immediate crisis. These services include things such as food-banks, affordable housing, support for those with mental and physical disabilities, substance abuse, and so on.

In response, we proposed that Canadian governments launch “matching funds” initiatives that would match private donations to Canadian-based charities with public dollars on a 1:1 basis between now and Canada Day. This model would aim to use the government's fiscal capacity to catalyse private support to Canadian charities in order to help sustain them during this period of extraordinary disruption.

The purpose of this Cardus memorandum is to expand on our policy proposal including its rationale, design, and implementation. Our goal is to arm policymakers with a clear, actionable plan that can be readily implemented in the immediate term.

But the responsibility here cannot simply lie with government. Philanthropic foundations and ordinary Canadians also have a role to play to sustain charities and their front-line services in the short term. The memorandum therefore outlines steps that large and small donors can take in this regard.

The sum of our recommendations is a call to action to policymakers, philanthropic foundations, and ordinary Canadians. One might describe it as a tripartite challenge in the name of social solidarity and togetherness in a time of national crisis.

Canadian charities and places of worship are a tremendous strength for our country in good times and bad. As a 2019 Senate [report](#) put it: “[these institutions] engage in public benefit activities that touch almost every aspect of Canadian life.”

They need our support now. Everyone has a role to play. The following pages set out a mobilization plan on behalf of Canadian civil society.

## **BRIEF PRIMER ON CHARITIES AND CHARITABLE GIVING IN CANADA**

It is worth starting with some basic facts on charities and charitable giving in Canada.

- There are approximately [86,000](#) registered charities in Canada including sports organization, health-related groups, social service providers, places of worship, think tanks, and so on.
- One estimate is that charities employ as many as [1.4 million Canadians](#).
- As part of their 2014 filings with the Canada Revenue Agency, Canadian charities reported receiving total donations of [\\$18.5 billion](#). Of which, \$15.5 billion came in the form of receipted donations and \$3 billion were unreceipted donations.
- Canadian tax filers reported [\\$9.95 billion](#) in charitable donations in 2018. This was up by 4 percent from 2017. These figures are limited to donations reported by tax filers and thus excludes unreceipted donations.
- (The [difference](#) between total receipted donations and donations reported by individuals is (i) corporate donations and (ii) donations that are carried forward for up to five years and cannot be categorized using administrative data alone.)
- The total number of individual [donors](#) fell from 5.348 million in 2017 to 5.324 million in 2018. This continues a trend of a declining number of charitable donors in Canada. In fact, it has fallen by 5 percent over the previous decade.
- The [share](#) of tax filers reporting charitable donations has also consistently fallen in recent decades. It has gone from 25.8 percent to 19.4 percent over the 20-year period between 1998 and 2018.
- Ontarians were responsible for [43.5 percent](#) of the total value of charitable donations in 2018. British Columbia was second with 17.7 percent and Alberta was third at 16.1 percent.
- Manitoba had the highest share of tax filers reporting charitable donations at [22.4 percent](#) in 2018. Ontario was second at 20.4 percent and PEI was third with 20.1 percent.

An obvious question is: what do the data tell us about the potential effects that the current, extraordinary circumstances may have on charities and charitable giving in Canada?

The experience from the 2008-09 recession may provide insight into the possible impact on charitable giving. We refer to it often elsewhere in the memo so it is worth setting out some basic details here.

- Total charitable donations [fell](#) from \$8.18 billion in 2008 to \$7.75 billion in 2009 – a year-over-year drop of just over 5 percent.

- The total number of donors [shrank](#) from 5.795 million in 2008 to 5.616 million in 2009.
- The value of charitable donations recovered in 2010. The number of donors never has.
- [Research](#) from other jurisdictions points to a recession-induced increase in organizational closures during this period. We are not familiar with similar data for Canada though the basic idea is intuitive and there is certainly anecdotal evidence that some number of Canadian charities were forced to shut down as a result.

## ROLE FOR GOVERNMENT

It is too early to know the full impact of the current, extraordinary circumstances on charities and charitable giving in Canada. But there is good reason for policymakers to be highly concerned.

Charities have been [described](#) as “our society’s shock absorbers when crisis hits.” This may be even more the case in the current context given the unhealthy mix of economic disruption and social isolation. Charitable services will be desperately needed in the coming weeks and months. Yet, if the 2008-09 experience is emblematic, they may face a financial crunch at the precise moment when we need them most.

We have therefore argued for the need for immediate, extraordinary financial support to charities in order to protect their operations and capacity to provide crucial front-line services during and after the immediate crisis.

In particular, we have proposed that Canadian governments establish “matching funds” to match private donations to Canadian-based charities with public monies in order to stabilize their cash flow in the short term.

*How would it work?*

- Provincial governments would announce that they have earmarked funding to match private donations to registered charities in their provinces on a 1:1 basis between April 1 and July 1.
- This model is far from unprecedented. Governments have followed a similar approach in various development assistance projects overseas including the federal government’s ongoing partnership with the [Canada Foodgrains Bank](#). They have also adopted similar models to support domestic initiatives such as [Brain Canada](#).
- Public funds would match private donations up to a cap per organization. The purpose of the cap would be to ensure that public funding is broad based and ultimately about helping charities manage a possible cash crunch rather than padding their budgets.
- Public funds could be disbursed twice during the eligibility period. The first disbursement could be in late April or early May. The second could be after the July deadline. This would provide charities with an incremental cash infusion in the immediate term.

- Charities already provide tax receipts for charitable donations. They could use this documentation to report their donations eligible for government matching to the relevant provincial ministries in order to validate their share of public monies.
- Public funding should be unconditional within the parameters of pre-existing charitable rules. It should not come with conditions about a charity’s priorities or values.

*How much would it cost?*

- We know that Canadian charities received roughly \$830 million per month in donations in 2018. If the goal was to maintain similar giving levels in the short term, Canada-wide donations between April and July would amount to roughly \$2.5 billion. Government matching on a 1:1 basis would therefore cost as much as \$1.25 billion in the current fiscal year.
- This would amount to \$125 million per province. One option would be for the provinces to set their respective funding envelopes based on their share of the national population (see table below). Provincial funds would remain with the individual provinces. The goal would be to collectively target up to \$1.25 billion nationally.

**PROVINCIAL SHARE OF MATCHING FUNDS BASED ON POPULATION SIZE (\$MILLIONS)**

Ontario	\$484.9
Quebec	\$281.9
British Columbia	\$168.9
Alberta	\$145.4
Manitoba	\$45.5
Saskatchewan	\$39.0
Nova Scotia	\$32.3
New Brunswick	\$25.8
Newfoundland and Labrador	\$17.3
Prince Edward Island	\$5.3

- An alternative would be for the federal government to contribute to an overall funding envelope so the larger provinces would carry a smaller burden and the smaller provinces would ostensibly have access to a larger pool of their resources.
- The mix and level of funding is of course ultimately up to policymakers. The target is scalable and would depend on the level of privation donations (as we discuss in more detail below) as well as the relative role of different governments. Our goal here is just to give readers a sense of the magnitude.

## *Why matching funds?*

There are two reasons for this approach.

- The first is that it can provide more immediate support to charities than relying on the tax system such as a temporary increase to the Charitable Donations Tax Credit. The potential cash crunch is in the coming weeks and months and so charities cannot afford to wait for the 2020 tax process.
- The second is that a national campaign around charitable giving can create a positive psychology at time of great uncertainty. Not only is there [considerable evidence](#) that charitable giving is correlated with individual happiness and satisfaction, we believe that a national effort to support Canadian charities can also have positive effects on our collective psyche. It may be able to create a virtuous cycle to lower anxiety and counter pessimism around the country. In effect, it can contribute to greater solidarity at in a moment of isolation and uncertainty.
- We envision a healthy, three-month competition among provinces to see which ones can “blow” their respective funding envelope because of the generosity of donors. The federal government could consider matching the donations in the province that is ultimately home to the largest total donations (on a population-adjusted basis) over the three months. One might think of it as a national competition to be deemed the country’s most generous province.
- Politicians, charities, and other community leaders can in turn use the matching funds to “challenge” citizens to show their generous spirit and cultivate a national expression of solidarity. They might use social media hashtags or other tactics (such as “friendly bets” with those in provinces) to build awareness and momentum behind the initiative.
- The result would hopefully not just be sustaining donation levels for Canadian charities in the short-term, but also contribute to a positive psychology that is similarly needed right now.

## **ROLE FOR PHILANTHROPIC FOUNDATIONS**

The government is not the only institution that should be called upon to provide emergency bridge financing to Canadian charities in these extraordinary circumstances. If charities are the front-line providers of social services related to the alleviation of poverty, education, and religion, philanthropic foundations serve as a type of “central bank” for those charities. These foundations must therefore be seen as a part of the short-term solution.

Charities, unlike businesses, do not sell products or services for profit. By definition, they provide their services at no cost or an intentional loss. Their returns are entirely social.

Their revenues therefore must come from some other than the market. Canadian charities generally derive their revenues from a mix of individual, corporate, and union donations, government grants (as noted above), and philanthropic foundations.

- There are about [10,950 foundations](#) currently operating in Canada.

- They are a major source of capital to the charitable sector. In 2017, for instance, these foundations provided approximately [\\$6.7 billion](#) in grants to the charitable sector or approximately 30.3 percent of total giving in Canada that year.
- These monies tend to be a stable, foundational source for charities that enables them to overcome cash-flow challenges that can result from relying on the other types of donations. As Philanthropic Foundations Canada [puts it](#): “grantmaking foundations function in many instances as long-term supporters and partners of charities.”
- Philanthropic foundations are generally well financed. They have combined assets of [\\$84.4 billion](#) which have more than doubled between 2008 and 2017.

These foundations will, too, be affected by the current economic downturn. The 2008-09 recession saw their collective assets fall in 2010 by [0.5 percent](#) and their charitable grants were reduced by [5 percent](#) between 2008 and 2009. It is still too early to know how the current market turmoil will affect their investments. But the generally conservative investment portfolios of most foundations suggest that their losses may be proportionately less than those faced by individuals.

Notwithstanding these potential downside risks, it will be critical that foundations continue to play their role as the de facto central banks of the charitable sector, and be ready to inject liquidity into organizations that will be hit hard by drops in individual, corporate, and union giving.

Remember charitable donations fell by 5 percent between 2008 and 2009. It is not unreasonable to assume that we could a similar drop in the coming weeks and months given the [historic drop](#) in GDP growth projected for Q2 2020. Philanthropic foundations will be needed as a bulwark against such a precipitous drop for Canada’s charities.

Especially since it is precisely during a moment of crisis – when society’s demand for charitable services is likely to be at its highest – that foundations can attain the highest social return on their investment. One can argue, in fact, that it would be worth it to push forward charitable grants in the immediate term even if it comes at the expense of lower funding levels in the future. This arguably goes for foundations with fixed lifespans as well. We have already seen foundations in the [United Kingdom](#) do this. Canadians should follow suit.

Remember we proposed that Canadian governments make available as much as \$1.25 billion in for the purposes of matching private donations between April 1 and July 1. It would be a powerful expression of solidarity if philanthropic foundations and leading philanthropists sought to similarly match this amount. It would work out to roughly \$95,000 per foundation in Canada. That would effectively get us to the goal of maintaining funding levels to Canadian charities in the short term.

*What can foundations do to help?*

- Allow the sun to set earlier: Foundations that fall under the category of “[Sunset Foundations](#)” are constituted in such a way as to spend the entirety of the foundations capital within a set period

of time, often the primary donor's lifetime. Foundations that are constituted this way could move up their date of sunset to allow for capital to be deployed when it is most needed. For example, a foundation with assets of \$20 million, dispersing \$4 million per year, for five years, could increase its spend down so that the assets would be dispersed in four years. This would add an immediate \$1 million of capital to the charitable sector, or 25 percent more funding that would otherwise not be available. In a time of crisis such as that with which we are faced, such a move would be the equivalent of "daylight savings time."

- Government could use its bully pulpit to encourage this, and/or premise its actions to match donations on the commitment of charitable foundations to meet a given financial objective.
- Foundation boards could set temporary internal disbursement rules that increase required disbursements by twofold over a defined window. Canadian tax law requires that foundations disburse [3.5 percent](#) of their property annually. The boards of many charitable foundations require higher disbursements, some up to 7 percent or higher. Boards that are currently adhering to the minimum could be encouraged to raise those rates for a set period of time, or specific economic conditions (e.g., the return to certain employment levels or economic activity).
- Foundations that rely on endowments that are constituted in "[perpetuity](#)" could be moved, with appropriate legal declarations by their boards (for instance, by a declaration of "social exigency" based on objective criteria of market conditions, social need, employment for instance) to alter their investment and disbursement models. However, this will require legislative and/or regulatory change. Government should urgently explore the appropriate regulatory or legislative measures that may allow such a move to be executed by foundations.

## ROLE FOR ORDINARY CANADIANS

Ordinary Canadians can play a role too. This is not to diminish the challenges that many individuals and households will invariably find themselves in over the coming weeks and months. There will understandably be limits on what most Canadians can contribute in the short term.

But there is room to set some reasonable goals to protect against a significant, short-term decline in charitable resources.

- The number of donors has fallen by an annual average of [0.2 percent](#) since 2000. The most significant year-over-year decline over this period was in 2009 when the number of donors dropped by [3.3 percent](#). This amounted to 178,700 fewer donors relative to the previous year.
- The largest share of these lost donors was those over the age of 65 who made up about [40 percent](#) of the year-over-year decline. But, interestingly, those aged 35 to 44 were the second largest comprising [37.3 percent](#).
- There is currently an inequality in giving in Canada, with a minority "[civic core](#)" of those who give disproportionately of their time and money, and a majority who give significantly less. About one third of Canadians are responsible for 85 percent of total volunteer hours, 78 percent of total charitable donations, and 71 percent of all civic engagement. The remaining two thirds make up the remaining 15 percent of volunteering, 22 percent of donations, and 29 percent of civic engagement.

We should set a collective goal of minimizing the number of lost donors in the current circumstances and actually aim to bolster our civic core. A 3.3 percent drop (as experienced between 2008 and 2009) would amount to losing roughly 175,000 donors in 2020. Protecting against this loss means targeting these two age cohorts which were responsible for more than three quarters of the drop off in 2009.

- The [median donation](#) has steadily increased from \$190 in 2000 to \$310 in 2018. Notably, it did not fall between 2008 and 2009.

We should set a collective goal of at least maintaining the current median donation level over the coming year. This will be more or less challenging depending on how many donors are lost in 2020. One option may be for policymakers to [increase the generosity](#) of the Charitable Donations Tax Credit from 29 percent to 42 percent to spur individual giving.

- Charitable donations (in monetary terms) by male tax filers fell by [6.6 percent](#) between and 3.0 percent for female tax filers between 2008 and 2009. Had charitable donation by men only declined by the same rate as females, Canadian charities would have received \$192.3 million more in donations in 2009.

We should set a collective goal of minimizing the loss of total charitable donations based on gender. Minimizing the decline in the value of donations from men will be key in ensuring that Canadian charities do not experience losses similar to the magnitude of 2008-09.

Readers will get the point: in the context of a major economic disruption, the difference between financial stability and existential threat is relatively small in the charitable sector. Differences on the margin matter. Ordinary Canadians can thus play a critical role in helping charities manage the short-term challenges that they are facing and maintain their capacity to respond to the growing demands that they will invariably face.

## CALL TO ACTION

Renowned sociologist Robert Putman [speaks](#) of “bridging social capital” as the social bonds between people who are unlike one another and “bonding social capital” as the social bonds within like groups.

Charities in Canada provide both. Community foundations have localized missions whereby they serve members of particular cities, but in so doing target a mix of groups within those cities. Churches, synagogues, mosques, and other places of worship serve their own members, but they also have an incredible track record of extending their reach to the most vulnerable in our society, regardless of their religious commitments. Now is not the time to let that good work cease. Especially when it is needed most.

The coronavirus pandemic has produced a mix of economic, health, and social challenges that are unprecedented in our lifetimes. No government can possibly respond to them on their own. We do not even yet know the short- and long-term consequences of the social isolation at the scale that we are currently practicing. But we can count on it to be significant.



The upshot is that Canadian charities – of all sizes, philosophies, and geographies – will have a profound role to play in renewing bridging and bonding in our society. Their ability to support vulnerable communities will depend in large on their financial stability.

And that is why we need to support them. All of us. Sustaining and strengthening Canada's charities under these extraordinary circumstances will require a tripartite commitment from government, philanthropic organizations, and ordinary Canadians.

This memorandum therefore amounts to nothing less than a call to action. We need a national movement of social solidarity. The research, analysis, and policy proposals outlined above can help to catalyse it.

A positive outcome would not only be that we sustain and strengthen Canadian charities, but that such a mobilization plan will also contribute to a positive psychology that is similarly needed right now. It can help to create a virtuous cycle that strengthens Canadian civil society and brings us together.