Title: "?Canada’s Charitable Sector: What to Expect in 2019"
Author: John Lorinc
Published in: *The Philanthropist*, Journal
ISSN 2562-1491
Date: January 7, 2019
Original Link: https://thephilanthropist.ca/2019/01/canadas-charitable-sector-what-to-expect-in-2019/
Date of PDF Download: January 10, 2019

?Canada’s Charitable Sector: What to Expect in 2019

By John Lorinc

When the federal government released its Fall Economic Statement in November, it signaled what many in Canadian philanthropic circles would regard as a sea-change in Ottawa’s thinking about a sector that employs more than two million Canadians and accounts for 8% of the country’s GDP.

After years of dealing with everything from outmoded legislation to inadequate statistics and even political attacks on NGOs, the sector’s leaders persuaded Justin Trudeau’s Liberals to take several concrete steps towards modernizing regulations, allowing new types of investment, and formalizing their relationship with decisionmakers. (As *The Philanthropist* noted in its predictions for 2018, the Liberal government had yet to make good on its 2015 election promise to overhaul a regulatory framework that hadn’t changed in decades.)

The economic statement included a pledge to establish a 10-year/$755 million social finance fund to support impact investing. It also reaffirmed a pair of moves made earlier in the fall – the establishment of a permanent advisory committee on the charitable sector and the elimination of problematic rules limiting policy development and advocacy activity by charities to 10% of their revenues. The latter comes on the heels of a July 2018 Ontario court ruling that struck down those restrictions as unconstitutional under Charter protections of freedom of expression. But this decision has raised concerns among some observers who worry that it could lead to the emergence of political action committees, such as super PACs, which soak up hundreds of millions in partisan donations in the US.

Contemplating this policy triple play, Imagine Canada President and CEO Bruce MacDonald focuses on the advisory body, describing it as a long-sought-after “gateway” for engaging decisionmakers, one that allows charities to move beyond lobbying days and other outsider strategies for asserting the sector’s concerns.

That move, he adds, underscores a concerted but difficult effort by sector leaders to sing from the same hymnbook when advocating for the sorts of policy changes that will affect all 86,000 Canadian charities, from volunteer-run neighbourhood organizations to powerful hospital boards and community foundations. “It means the government is hearing the same thing from key players,” MacDonald says, citing a recent submission by sector leaders to Navdeep Bains, the federal minister for science, innovation, and economic development, pressing the government to gather better data on the sector’s size and scope.

What’s clear is that there will be no shortage of topics up for discussion, both at the meetings of this new advisory body and within the sector generally. As Andrew Chunilall, CEO of Community Foundations of Canada, observes, “This past year has been quite tumultuous and will have broad impacts for 2019.”

Indeed, heading into the new year, many sector leaders are nervously eyeing the political, economic, and social storm clouds gathering on the horizon. With a historically long growth cycle now heading into an unprecedented 10th year, the risk of a recession, with the associated hit on charitable giving, is growing. Substantially compounding the uncertainty are US-initiated trade wars with Canada, the European Union, and China.

The Trudeau Liberals, meantime, are heading into a fall election which seems likely to surface a noisy debate about issues that directly engage civil society organizations: climate change, migration and resettlement, and, more generally, Canada’s vulnerability to the nativist populism that is gripping the US and Europe, and which has, in EU countries like Hungary and Italy, negatively impacted charities.

“Do I think Canada is immune to that kind of thinking?” MacDonald muses. “No, I don’t.” Adds Chunilall: “The notion that Canada is insulated [from these global forces] is over.”

Domestically, the new provincial government in Ontario is intent on slashing budgets and curtailing a range of local social programs, both factors that will force some charities to deal with the double-bind of increased demand for services and reduced government grants. If Jason Kenney’s United Conservative Party prevails in Alberta’s provincial election this year, a similar cost-cutting dynamic could play out there.

As well, as we noted in our predictions for this past year, Ontario in 2018 was in the early phases of a guaranteed basic income pilot program, combined with an evaluation of whether this approach represents an alternative to social assistance payments and services. (Both BC and Quebec were also considering their own version.) Yet after Doug Ford’s victory, Ontario’s Tory government promptly cancelled the pilot. BC’s NDP government is continuing to plan a pilot of its own, however it likely won’t begin until next year, according to news reports.

Austerity and economic hardship have also become a mounting concern in Alberta because of plunging oil prices. “Overall, my sense of 2019 is that it will be a year of transformation, whether we’re ready or not,” says Ontario Nonprofit Network (ONN) Executive Director Cathy Taylor. “We need to own our agenda.”

Herewith is an informal survey of four top-of-mind issues facing the sector this year.

Reconciliation

Last July, YMCA Canada issued a statement of reconciliation, pledging to focus the organization and its staff on some of the key calls to action emerging from the 2015 Truth and Reconciliation

Commission report. Among them: closing the gap in health outcomes between Indigenous and non-Indigenous communities and cultural competency training for staff and management on the history of Indigenous people in Canada. The YMCA is looking to partner with Indigenous partners to provide this training.

Citing examples like the YMCA, MacDonald says a growing number of charities are trying to figure out how to respond to the calls to action report, which included a section on what churches and church-affiliated non-profits should be doing. “At a broad level, we’re seeing more and more organizations starting conversations about their role in the TRC,” says MacDonald. “The will [to respond to the calls] isn’t dissipating but the hard work is beginning.”

The Ford government’s cuts to Indigenous cultural and educational programs certainly represents a setback. But the story of the historical fraught relationship between the charitable sector and Indigenous Canadians is evolving in another direction, as well. In Atlantic Canada, a growing number of First Nations communities are registered as qualified donees under federal income tax rules. According to Richard Bridge, strategic and legal counsel at Ulnooweg Development Group, some First Nations in the region have been working through the legal steps so they can begin issuing tax receipts for donations and receiving grants from foundations to support local social service programs and meet community needs. These include a new 3,200 sq.-ft shelter operated by St. Mary’s First Nation, in Fredericton.

The goal, Bridge explains, is to build the infrastructure that First Nations require to broaden their revenue sources, which now include, in Atlantic Canada, an expanding range of commercial activity in sectors like fishing, tourism, and development. The qualified donee status “opens the door [for First Nations] to approach funders in whatever way they deem appropriate,” he says. “They set the priorities.”

This past year, Ulnooweg (which was established 33 years ago with help from a grant by the Donner Canadian Foundation) also created an Indigenous communities foundation that will manage donations and endowments across the region’s 34 First Nations. The move comes as an analysis by The Circle on Philanthropy and Aboriginal Peoples in Canada found that only 1% of all Canadian registered charities focus on Indigenous communities. “Consistent with the significant efforts around reconciliation, there is a need to build new relationships, understanding, cooperation, and infrastructure, and for the philanthropic sector and Indigenous communities to work together more constructively,” Chris Googoo, Ulnooweg chief operating officer, told Canadian Press. “The new foundation will work to fill this gap.”

The ripple effects of austerity

Nick Saul, president and CEO of Community Food Centres Canada, anticipates that his organization will open several new facilities in 2019 – developments that always require a significant outlay of labour and financial resources.

These openings are a good news/bad news story. While Saul has long promoted the idea of food as a driver of community, health, and environmental wellbeing, the demand underscores need. And, as he knows, it will become increasingly difficult for these local centres to deliver food in the coming year. As demand increases, facilities become over-stretched, and funding cuts, such as the $15 million reduction to the Ontario Trillium Foundation recently ordered up by the Ford government, only amplify these pressures. “That’s a lot of money that comes out of the sector,” Saul says. “There are a lot of organizations that will need to do more with less.” Individual donors, he adds, “will be giving less because they feel more stressed about meeting their basic needs.”

Taylor says many of her group’s members operate in fields that look like they’ll be affected by anticipated budget cuts in Ontario, such as daycare, climate change, and refugee settlement and protection. The government has also eliminated rent control on new construction and reduced welfare rates. “We think there will be substantial challenges in areas where we work,” she says, noting that Queen’s Park has already eliminated some programs, forcing non-profits that rely on government grants to consider merging or discontinuing services.

One bright spot, which emerged from a project we mentioned last year, has to do with improved employment conditions for the staff of Ontario’s 58,000 charities and non-profits. Last year, the ONN and the Atkinson Foundation were actively promoting their joint “decent work” campaign. Earlier in 2018, the Ontario government announced it would allow Ontario non-profits and charities to set up defined benefit retirement plans for their employees by pooling contributions with a large public sector pension plan, OPTrust.

However, Taylor and MacDonald also point to longer-term national trends, which have shown a three-decade erosion in individual giving. According to a study released in April 2018 and backed by the Rideau Hall Foundation, just more than 20% of tax filers now claim charitable donations, down from almost 30% in the ‘80s. While average individual donations have gone up over the same period and religious attendance continues to be strongly correlated with philanthropic activity, giving has fallen in all income groups. “We don’t have a good trajectory going forward,” Taylor says. “For sure we’re worried.”

Though business philanthropy accounts for about $2.3 billion annually, according to a comprehensive study released last April (*30 Years of Giving in Canada)*, sector leaders in 2017 detected (anecdotally) some worrisome trends in that space as well: more strings on corporate giving and the provision of volunteers in lieu of cash. In the past year, some charity executives report that they’ve seen corporate giving programs become focused exclusively on a single cause or organization. Others, like Saul, say more large donors now prefer to fund a specific program rather than apply their contributions to overall operations.

These accumulating financial pressures will, of course, be felt most acutely among the neediest – low-income families whose members depend on services such as non-profit day care, as well as newcomers who have few resources but rely on resettlement and housing agencies, many of them non-profits or charities.

Given the tentativeness of the moment, it’s not surprising that some sector organizations are closely tracking how all these cuts and other policy changes play out. François Lagarde, vice-president of communications at the Lucie and André Chagnon Foundation, says the organization is launching a pair of studies this year – one focusing on income inequality, the other on immigration, an issue that loomed over last year's Quebec election.

In both cases, Chagnon's goal is to ensure that rigorous evidence and research is available to inform tough policy debates. "We know [this project] will spark a lot of discussion," Lagarde says of the immigration study. "It's not just about clearing the air but also offering a value- and fact-based discussion."

Social impact investing

Will 2019 be the break-out year for social impact investing?

The federal government's fall announcement of a $755 million fund – further implementation details are expected in the spring budget – has raised the stakes on a question that has been orbiting around the philanthropic sector since 2007. That's the year the Rockefeller Foundation coined the phrase and Toronto's MaRS centre launched a social finance forum that eventually led to the 2011 launch of its impact investing centre.

The government move reflects the 2018 conclusions of a social innovation and social finance working group, which recommended the creation of a social finance fund as well as a suite of related policies, including regulatory pilot projects and a clear-eyed assessment of the regulations that hamper Canadian charities from pursuing social enterprise, social innovation, and social financing.

Yet federal decisionmakers aren't blind to what's been going on internationally in this space. A mid-2018 survey of 229 investors by the Global Impact Investing Network found that the global number of impact-oriented assets had doubled in a year, from $114 billion in 2017 to $228 billion in 2018, with some giant private investment pools launching their own funds. Other research shows robust returns, albeit somewhat below market rates, and steady improvement in the metrics used to measure the social or environmental benefits.

In Canadian philanthropic circles, organizations like the McConnell Foundation and Inspirit Foundation have been pushing for policies and programs meant to encourage social impact investing, including the use of specialized bonds to support non-profits. About $9.2 billion has been invested in impact assets in Canada, according to MaRS, which launched a health care social impact bond program in 2016. Among its earliest deals was a performance-based contract between the Heart and Stroke Foundation of Canada and the Public Health Agency of Canada on a hypertension prevention initiative; the foundation is only paid when a third-party shows the program has produced results. Other areas that have generated a high level of interest among potential impact investors include clean energy, environment and water-related projects, small-scale agriculture, affordable housing, and Indigenous business ventures.

"From my conversations with colleagues," says Taylor, "there's a huge opportunity for foundations not just to give out grants but to invest in charities through the back end." Inspirit Foundation, for example, is seeking loans, as opposed to grants, to grow and scale some of its programs. "There are some really great emerging trend," Taylor adds.

The federal government will co-invest the $755 million earmarked for its new fund alongside private and philanthropic investments in projects that can't attract market financing. The federal Liberals estimate that the fund, which will be supplemented by a $50 million pot of funding to help organizations learn how to apply, could deliver substantial spin-off benefits: $2 billion in related economic activity and 100,000 jobs over a decade.

But those numbers are both political and aspirational, and will come to fruition only if the program's levers are properly set. On this point, the jury is still out, says Chagnon's Lagarde. "We're on a learning curve. We're not totally there yet."

Chagnon's board has decided to commit $200 million to a social investment initiative within Quebec, possibly in the affordable housing arena. But from the group's initial discussions with developers, Lagarde says, it's become apparent that investors understand the bricks-and-mortar side of such projects, but these housing initiatives also demand more traditional grant streams from community or municipal non-profits to deliver the programmatic elements of an affordable housing scheme. "That," he says, "is a tension."

For now, Chagnon's board has adopted a very flexible policy for vetting potential opportunities and partnerships. But, Lagarde adds, "we're not going to engage for the sake of engaging. It needs to make sense."

Advocacy 2.0

Later this fall, the Canadian Women's Foundation will launch a high-profile, professionally-designed advertising strategy. It is expected to air in the fall to coincide, not coincidentally, with the federal election.

The move is a first, says Maryann Kerr, the CWF's vice-president of philanthropy, and aims to close a long-standing gap between public awareness of hot-button women's issues – domestic violence, child care, pay equity – and funding for organizations that work in those areas. As Kerr points out, there's been a huge amount of media and public attention devoted to the #MeToo movement, but it's far from clear whether women's shelters are seeing a bump in funding or donations. The campaign aims to cut through some of the noise and the competition for donors.

While the details of the CWF campaign have yet to be finalized, the Foundation's decision points to a potential trend in some parts of the charitable sector arising from the federal government's move to ease its political activity restrictions, and the chill that has hung over some charities ever since the Stephen Harper government set up a special charity audit team at the Canadian Revenue Agency (CRA).

Though the government appealed last summer's Ontario court ruling, citing "significant errors in law," Ottawa did press ahead with changes in the Income Tax Act that governs this kind of advocacy. "The intended amendments will allow charities to pursue their charitable purposes by engaging in non-partisan political activities and in the development of public policy," noted a statement from Minister of National Revenue Diane Lebouthillier and Finance Minister Bill Morneau.

Yet this move shouldn’t be seen as a sign that the era of tough-minded scrutiny has drawn to a close. Aware of Canada’s obligations under international agreements to halt money-laundering disguised as philanthropy, CRA auditors are under pressure to clamp down on other dubious fundraising schemes. These include media revelations about a handful of foundations that were created in order to cycle contributions back to affluent donors. A *Globe and Mail* investigation last fall revealed the practice, which had generated $2 billion in donations over four decades.

Quite apart from such scrutiny, the new era for public policy advocacy, predicts MacDonald, will also include efforts by the philanthropic sector itself to advance its agenda in the coming season of politics. A measure of the sector’s progress, he says, is whether it persuades the federal parties to articulate their respective policy positions on the future of Canada’s charities in advance of the fall election. “I’d say it’s a long shot,” he muses, “but we may see some limited success.”

Still, the relaxed rules could have an unintended effect, triggering a wave of donations to far more explicitly political charities, not unlike U.S. “super PACs,” Toronto tax and charities lawyer Mark Blumberg predicted in The Huffington Post last year after the ruling came out. “It is ultimately about giving tax-deductible money, where certain people who have very strong feelings about certain niche issues can spend unlimited amounts of money on it.”

However, other sector observers say that federal rules still explicitly prohibit partisan activity by registered charities, and organizations that try to use their charitable status to raise funds for such purposes will continue to draw the CRA’s attention. “I don’t think we’re going to see PAC-like activities [among Canadian charities],” says charities lawyer Susan Manwaring, national lead of the social impact group at Miller Thomson. Some groups, she adds, may become more outspoken advocates of their charitable purposes, but limits remain. “They might have a bigger voice, but in a Canadian way, not in an American way.”