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## **Private and Public Funders: Intersections and Departures**

**Notes by  
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My theme today is the relationship between public and private funders, as they each contemplate, from their different perspectives, the financing difficulties faced by nonprofits.

My funder perspective, to be clear, is that of the independent grantmaking foundation. As you all know, the word funder hides many differences in approach, structure and, indeed, capacity. In this case, a funder, unlike a rose, is not a funder by any other name! It is important to be specific from the beginning about the differences among funders, because these differences have an important impact on fund recipients.

To provide a point of reference, let me highlight the difference in financial capacity among funders. The foundation sector in this country holds about \$11 billion in assets, as far as we can tell. This translates into almost \$ one billion in grants per year across the country and across all sub-sectors of the voluntary

sector. Corporations give about the same amount, \$ one billion annually. And individuals give about \$ five and a half billion in receipted donations annually, with another probably significant amount in unreceipted donations, according to the Canadian Centre for Philanthropy. All of this adds up to only a drop in the bucket of government spending, by all levels.

This being said, private funders can and do have an impact on their grantees that is disproportionate to their assets and grants. It is not just a question of money but of the nature of the investment that is made by private funders. This investment is, at its most effective, a contribution that generates impact far beyond its immediate effects. I am not speaking here of the grants made by United Ways or even by community foundations, although the latter can sometimes take great risks. I am speaking of grants made by private foundations that have the effect of changing the way of thinking about a whole field.

Some examples: the work that the McConnell Foundation is doing today on respite for long term care givers; the research that the Lupina Foundation is funding on the impact of Chinese urban development and health policy on the possible export of communicable diseases; the work that the Lawson Foundation has done on linking research to practice in language and cognitive development in young children; the support that the Muttart Foundation is giving to a new Chamber of the Voluntary Sector in Calgary; the work that the Maytree Foundation is doing to support the integration of immigrant professionals in their chosen communities. The list goes on, and on.

None of these grants are made to support the financial capacity of particular non profits. But *none* of these grants would have been made by public funders. And *all* of these grants will have huge consequences on the problems and policy issues confronted by the public funder; public health, seniors care, youth development, social inclusion, intersectoral collaboration. The point is that private funders are often the key supporters of pilot projects, basic research and infrastructure building that are the preliminaries to good public policy and program development. Without private funders, public funders won't play their roles as effectively. The public funder, or government, is the one mandated and best suited to bring pilot projects to scale, turn research into practice, consult and integrate sectoral views into policy development. Private funders, and once again I am speaking of private foundations, are best suited to support the untested, spot the unexplored, take risks on the unproven, and convene the players, including often government players, around a key social issue.

If I could quote one of Canada's leading philanthropists, Alan Broadbent of the Maytree Foundation, "one of the roles philanthropists can play is to try to connect what we know with what we do. ...our job is to help discover new knowledge and new ways of doing things, so we support research and experimentation. Then we

can support the application of that new knowledge through trials and demonstration models, making sure that proper documentation and evaluation takes place. Then we can support taking good ideas and models to scale, and we can support changes in government policy to reflect new ideas and practices...”

What I want to talk about for the rest of this presentation is the way in which the roles of private funders intersect with or depart from the roles of public funders. In my view, where there are intersections, they should be reinforced. Where there are departures, they should be recognized as legitimate.

A key point of intersection is the mutual interest that funders have in the work of voluntary organizations, in all fields deemed to be charitable by the federal government. All funders are interested in supporting effective work by charities. All funders are interested in furthering knowledge, practice and public impact. All funders are concerned about capacity.

Where there is a departure, and rightly so, is in the role of governments versus private funders in bridging financial gaps. The financial capacity of private funders, as I have just described, clearly precludes any possibility that they can or will replace the public funder in supporting the core operations of charities.

As you have heard at this conference, and as you know in your own experience, the core funding “problem” is getting worse for charities, for a variety of reasons. Public policy makers are hearing about it. The funding issue was highlighted in virtually every presentation made by voluntary sector umbrella organizations, including my own, to the pre-budget consultation hearings of the House Finance Committee this fall. In spite of all the good work of the Voluntary Sector Initiative, which you have heard about, including Codes of Practice, reports from the sector Working Group on Financing and CCSD, and from the federal government itself, which is well aware of the shortcomings of project funding, the issue seems to be reaching crisis proportions.

It is a litany of concern and frustration. But what is the role of funders in finding the solutions? There *are* solutions available. Some of the groups who spoke to the MPs recommended the development of new funding models that provide voluntary organizations with stability and infrastructural support. The federal government itself is talking about a strategic investment approach to funding, which would include a notion of long term and more stable support. So, a point of intersection, it would appear, is coalescing around the need for an investment rather than project approach. Private foundations, certainly those who take a strategic approach to their philanthropy, believe in the investment model. More and more, there is talk about strategic focus, picking grantees who are effective,

making fewer and deeper commitments to those grantees, “investing” in them, and disseminating the results of their work to the broader community.

But this approach doesn't address the dimensions of the funding problem. There are simply too many nonprofits in need. Then what else? This is a point where public and private funders depart from each other. Some private funders, a few, are talking about and exploring alternative financing instruments, non-government funding. Rather than the old paradigm of grants to charities, there is talk of a new paradigm of investments or loans to social enterprises. In Canada, there has been little practice in so-called venture philanthropy, although there are examples of foundations, particularly in western Canada, who are trying this model. But even beyond venture philanthropy, there is opportunity for the development of social risk capital and community-based financing.

Some new thinking is coming out of the field of community economic development, which has long roots in Canada. In Quebec, a number of groups including cooperatives, local economic development groups and labour unions are involved in building a so-called *social economy* framework, community-led and auto-financed, although with strong policy support from the government. (Incidentally, the coordinating non profit group that is leading much of this activity is funded in part by the McConnell Foundation). In BC, Van City and various private funders are discussing and experimenting with possible alternative financing models for social enterprises. In Ontario, there is work underway to build a national financial institution dedicated to charities, a so-called “charity bank”, self-financed, whose mandate will be to advance credit to support the working capital and bridge financing needs of non profits, as is done already in the UK and other jurisdictions.

Arguably, we are late in Canada to develop these alternative, non-government, non-grant, financing models. In the face of the urgent financing challenges of so many charities, this must be a priority. Some Canadian foundations are actively supporting the thinking, discussion and development of alternative financing mechanisms. Eventually, they may be called upon to provide capital to launch them.

Here is where we run into another point of departure. Government as regulator is not particularly flexible when it comes to recognizing the quickly evolving realities of the voluntary sector. I won't go into the debate around the definition of charity or the restrictions on charities and their funders, as I would be twice as long in my remarks. Suffice it to say that there are some legitimate public policy goals served through the Income Tax Act that we must acknowledge. Foundations are bound, legitimately, by the restriction that they must provide support to registered charities. This does restrict their ability, at least for now, to

support initiatives that don't fit into the definition of charitable activity, such as innovative ways of developing the social economy or social enterprises.

Private funders do have a role, however, in bringing ideas forward and in fostering debate on them. There is a whole debate that needs to take place around the role of government in providing a regulatory environment that fosters the flow of alternative sources of private capital to non profits.

At the federal level, there is an important menu of changes to regulation and policy suggested by the VSI Joint Regulatory Table that would make a great difference to charities if implemented. While none of these changes would have a direct bearing on the financing issue, the burden of compliance with federal regulation would be eased for most charities, and this is very necessary. Absent any changes in the Income Tax Act to key sections such as the definition of charity, or indeed absent any further expansion of tax incentives for giving, these changes would still constitute an important advance for charities in their relationship with the federal government, and should therefore be supported by private funders. Beyond regulation, there options for social investment tax credits, community development incentive initiatives, and government policy support for program-related investments by funders. All of these merit further exploration.

In conclusion, although there is always so much more to say, let me return to the relationship between private and public funders, which I have characterized as one of intersection and departure, mutual interest and separate roles. We all care about the impact of the dollars we give. We all want to know that they are having maximum impact and that the lives of people are being positively changed because these dollars have been given.

But private funders, foundations, do what they do best not by following government leads but by showing government where to put public dollars more effectively. Private funders can serve as markers, as beaters, in a sense, for public funders. They can flush out the brilliant ideas, the approaches that work, the structures that will have impact. And public funders can come in to make them sustainable and permanent. Private funders will always have points of departure from public funders. Very few, if any, would think of themselves as completely aligned with public funder ways of thinking. After all they don't think like states, they think like individuals. But they care about much the same outcomes. And they can be uniquely valuable collaborators.

Thank you.