



## **RENEWING OUR SOCIAL CONTRACT: PRIVATE PHILANTHROPY FOR THE PUBLIC GOOD**

### **POLICY BRIEF REGARDING THE FEDERAL CONSULTATIONS ON THE DISBURSEMENT QUOTA AND RELATED POLICY ISSUES**

#### **PFC MEMBERSHIP CONSULTATIONS JUNE 2021**

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#### **CONTEXT**

In its 2021 Budget tabled on 19 April, the federal government made a number of provisions as they relate to the charitable and non-profit sector, including its intent to consult on the Disbursement Quota. Notably, under the heading "Boosting Charitable Spending in our Communities," the government stated its intent to consult "during the coming months on increasing the disbursement quota" adding that "increasing [the DQ] would increase overall levels of expenditures by registered charities on their programs and activities in Canada...."

The forthcoming federal government consultations would represent a missed opportunity if they focused solely on the disbursement quota. Without considering the broader policy context, a narrow focus on this single blunt policy instrument could well result in exacerbating some of the inefficiencies and inequities the government seeks to address through its other policy initiatives and pronouncements. As such, PFC recommends that the consultations should consider the DQ as part a broader public policy question: ***How foundations can better fulfill their missions and better serve the common good?*** In addressing this guiding question, PFC suggests three key enabling conditions, a set of five fundamental principles and seven framing questions, which together comprise our recommendations to the Government of Canada in encouraging private philanthropy to support more effectively the public good.

*In light of the above, Philanthropic Foundation Canada' (PFC):*



- *will fully collaborate with the federal government and our civil society partners to develop together an evidence-based and forward-looking framework for these discussions.*
- *has launched its own members-led process to address this important question; and we are currently drawing on the necessary evidence, expertise and experience with a view to promoting informed, inclusive and progressive policy outcomes. We will be sharing this information as soon as it is gathered.*
- *believes that Canadian philanthropic foundations can further serve the common good in a sustainable matter.*

PFC takes a holistic view of the Disbursement Quota (DQ) as we increasingly recognize that it is but one aspect of the fundamental role of private philanthropy in promoting the public good. We believe that the issue goes beyond the percentage of assets to be disbursed. It is about philanthropy's moral responsibility to society: *doing more, doing better, and doing it right*. As such, it underscores the need for a diverse, transparent and accountable sector as well as inclusive and informed decision-making. Philanthropy's collective responsibility also requires ongoing encouragement of innovative and different operating models, including the role and impact of endowments in supporting the public good – ranging from addressing immediate needs to systemic challenges and future crises.

As with governments of all sizes, philanthropic foundations require both operating and capital accounts – with the [Québec Fonds des Générations](#) and Alberta's [Heritage Savings Trust Fund](#) as two contrasting domestic examples and Norway's Sovereignty Fund as a compelling foreign model. For many foundations, the capacity to maximize engagement over a long period of time (i.e. operating account) is directly related to the returns and new transfers to their endowment (i.e. capital account).

***Unless the Government of Canada is prepared to take the position that all foundations must spend down all their assets within a prescribed time frame, those that choose to support and be engaged in inter-generational work and persistent problems should be able to do so through sustainable and mission-related investment practices.***

Meaningful and sustainable impact requires both an effective policy framework suited to our times and a vibrant ecosystem for collaboration and partnership between the public, private and charitable sectors – a sector that encompasses a broad range of charities, non-profits, grassroots groups and grant-making foundations. Based on our collective experience, we believe that there are some enabling conditions that must be firmly in place for philanthropy to fulfill its unique role in providing space, social risk capital and



other supports to civil society partners for a wide range of public goods and public benefits in addressing both current and long-term challenges. This decentralized decision-making by private and public foundations across Canada provides an anchor for strengthening civil society – an essential feature of a dynamic, diverse and inclusive democratic society.

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## ENABLING CONDITIONS

**Enabling Condition 1:** Creation of a **policy level-playing field between all not-for-profits** providing a public benefit regardless of whether they hold charitable status or not, thereby enabling foundations to fund non-qualified donees (NQDs). Without addressing the matter of NQDs, a DQ increase may well exacerbate pre-existing inequities. As such, PFC supports the central legislative proposal – contained in [The Effective and Accountable Charities Act](#) tabled by Senator Omidvar – to amend the Income Tax Act in order to enable charities to establish equal partnerships with non-charities (such as not-for-profits, co-ops or civil society groups) without sacrificing accountability and transparency. If this barrier to partnership is not removed, initiatives by racialized and other excluded groups risk continuing to be under-served, under-represented and under-funded.

**Enabling Condition 2: Recognize, track and encourage foundations to better align their capital with their respective missions, including through impact or mission-related investing (MRI).** Grants constitute only one dimension of foundations' contributions to the public good. In 2011 the Canadian Task Force on Social Finance made a recommendation – endorsed by both PFC and CFC – that a minimum of 10% of each foundation's capital should be invested in MRI. Although MRI is rapidly increasing, most foundations appear to be falling short of this goal. PFC supports building public reporting and other tools to track MRI and related commitments. Meeting – let alone exceeding – the recommended minimum 10% MRI goal could eventually bring billions of new investments to public and community priorities around, for example, subsidized housing, childcare, social finance, clean energy and, if launched, Green Bonds. PFC proposes that, while the 10% target could be voluntary (at least initially), reporting on MRI – alongside any and all investment of assets – would become mandatory through the collection of relevant data via the T3010 or other tools. A pilot period could identify possible reporting issues as well as any significant absorption or distorting market issues. ***Any potential increase to the DQ (which impacts granting only) should not create an unintended disincentive to impact and mission-related and other forms of investing; particularly because these investments have the potential to far***



***exceed charitable resources released through increased granting alone.***

**Enabling Condition 3: Improve transparency and address the Data Deficit** about the sector by implementing relevant proposals by Imagine Canada and other leaders in the charitable sector as well as those made to the Government of Canada through a 2019 Senate Report and recently the second report of the federal [Advisory Committee on the Charitable Sector](#). To establish a strong and informed basis for a renewed framework between governments and charities, more and better public data is required to fully assess the magnitude, nature and diversity of impacts of the public goods being supported by foundations. As such, PFC strongly supports the Disaggregated Data Action Plan announced in Budget 2021 as part of a broader set of required data initiatives through Statistics Canada and the CRA. These agencies also need additional and permanent resources both to collect and analyze charity sector data and to improve the T3010. Statistics Canada's report on *Diversity of charity and non-profit boards of directors* illustrates the importance and utility of data in both shaping the sector and gauging its impact. Such data collection should be incorporated into T-3010 reports on ongoing basis rather than as one-off reports.

PFC believes that these three enabling conditions must be at the core of any public policy exercise – including the forthcoming DQ consultations – aimed at strengthening the role of private philanthropy in supporting the public good. Without these three critical conditions in place, changes to the disbursement quota are likely to produce sub-optimal, unequitable and other unintended outcomes.

In addition to three enabling conditions, PFC also believes that any government consultations aimed at enhancing private philanthropy's contribution to the common good in Canada should take into account the following set of five core principle and seven framing questions.

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## **CORE PRINCIPLES**

- 1. Diversity and Sustainability:** The complex set of challenges and contributions to the public good require both short-term and long-term approaches to private philanthropy. There are few if any quick fixes. The "what" and "how" of philanthropy – its mission and impact – are the ultimate goals supported by sustainable financing and funding. Government policy should not seek to dampen the diversity of approaches foundations – from



those premised upon perpetuity or long-term horizons to those who seek to sunset over a shorter period of time.

2. **Evidence-based:** We recognize that policies and the regulatory frameworks affecting public goods provided by civil society should be based on sound publicly reviewable data. To maximize intended benefits for the common good – and minimize unintended consequences – policy development must be data-driven and evidence-based. Collecting and accessing data is essential to making good evidence-based decisions for the future. What direct returns are Canadians receiving from the tax credits provided to charitable organizations? Over what period of time? This evidence-based approach applies to the disbursement quota as well: as a floor for disbursing assets, it should reference long-term rates of returns for prudent and diversified investment practices by endowed foundations. As such, the DQ might be calculated on the basis of a formula that is revised and revisited on a periodic basis.
3. **Autonomy and complementarity:** Foundations cannot – and have never purported to – replace governments. The combined total of all assets held by foundations (approx. \$92B) in 2019 represents less than four months of all spending by the Government of Canada in the 2019-20 fiscal year – before COVID hit. Those private assets are further dwarfed by the unprecedented spending in response to the pandemic. Philanthropy can, however, play a distinctive and complementary role in providing social risk capital to address unforeseen crises, in giving voice to excluded groups, in promoting civil society organizations, and in supporting their long-term engagement. Foundations are uniquely positioned to explore new challenges that other entities might find daunting. The latest budget offers several examples of issues – from national childcare to climate change – that have been supported by forward-looking foundations for over a quarter of a century and are now part of the societal consensus. As noted below, an elevated and dedicated home in government for charities and not-for-profits would allow for greater synergies and efficiencies as well as improved collaboration and coordination.
4. **Solidarity and Inclusion:** Many Canadian foundations, including PFC members, are committed to improving funding and to partnering with not-for-profits serving, focused on and/or led by communities and people who all too often experience exclusion, injustice and inequity. Treating these not-for-profits and community groups – who often do not hold charitable status and therefore fall into the category of non-qualified donees (NQD) – on an equal footing with registered charities would help to remove impediments and foster authentic long-term partnerships. Developing avenues for NQDs to engage and participate without prejudice will help build trust and collaboration that will contribute to the good of society. Having better data on which organizations are receiving funding – and which are not – as well as sectoral distribution will also contribute to assessing progress. Governments could also



consider the feasibility of a solidarity contribution when large charitable tax credits are claimed.

- 5. Coherence and Coordination through Sector-to-Sector Partnership:** In support of sustained and strategic engagement between the public sector and the charitable and not-for-profit (CNP) sector, PFC joins other leading voices calling for the creation of a dedicated and elevated home for the CNP sector within and across the Government of Canada. This proposed “home in government” is premised on a strong ministerial mandate for whole-of-government coherence in federal policies and strategic investments with respect to the CNP sector. The lack of such a home and mandate continues to produce piecemeal, uncoordinated and even counter-productive efforts and outcomes. A dynamic and integrated ecosystem would promote both the partnerships and public good that come from coordination and collaboration between the CNP sector and the public sector.

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## FRAMING QUESTIONS

PFC warmly welcomes the consultations announced in the 2021 budget. PFC encourages the government to make the consultations to be as inclusive as possible – seeking contributions from all sectors of society. As part of PFC’s own contribution to these consultations and in line with the enabling conditions and the guiding principles outlined above, PFC proposes the following seven framing questions for strengthening private philanthropy’s contribution to the common good:

1. What are the key constraints and opportunities for achieving greater philanthropic impact by Canadian foundations?
2. Are Canadians receiving the full value of the tax credits provided to foundations? If not, are Canadians receiving more or less than the full value? If so, over what period of time?
3. How can greater diversity of philanthropic models be encouraged?
4. How can we ensure better philanthropic inclusion and support with respect to Indigenous Peoples, Black and racialized communities as well as other excluded groups?
5. How can the Government encourage foundations to invest more of their capital in public goods? Beyond ESG considerations, what do the evidence and modelling indicate about the past and prospective rates of return for these impact and mission-related investments?



6. What are the current gaps in data that prevent the sector from identifying and addressing existing issues? Notably, what data and/or changes to the T3010 are necessary to ensure greater transparency and enable evidence-based decision-making?
7. Is the DQ an effective measure to assess philanthropic contributions? How can it be improved? Should it be reformed, reframed or replaced?

**For additional information:**

Jean-Marc Mangin  
President & CEO, Philanthropic Foundations Canada  
615, boul. René-Lévesque Ouest, bureau 720  
Montréal (Québec) H3B 1P5 [www.pfc.ca](http://www.pfc.ca)  
[president@pfc.ca](mailto:president@pfc.ca) Tel (819) 329-6370

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**About PFC**

Created in 1999, Philanthropic Foundations Canada (PFC) is a national organization that strengthens Canadian philanthropy in all of its diversity and in its pursuit of a just, equitable and sustainable world. PFC [represents over 130 grant-making organizations](#) – notably public and private foundations created by families, corporations, communities and other entities – ranging in size from relatively small (\$1 million in assets) to relatively large (over \$23 billion). Together, our members collectively manage \$36 billion in [assets](#) – representing 64% of the \$56 billion in assets held by all private foundations in Canada, and 39% of the \$92 billion in assets of all 10,646 foundations (both private and public) in Canada. In 2018, current PFC members made over \$841 million in grants and over \$393 million in foundation-managed charitable activities.