

PFC'S POSITION ON THE DISBURSEMENT QUOTA

The disbursement quota (DQ) is the minimum percentage of assets charities are required to grant out or spend on charitable programs each year. While it applies to all charities, the policy is a predominant concern for foundations, whose typical operating models endow charitable assets, with a portion of the earnings granted out each year.

PFC supports a DQ increase, which is currently at 3.5%. We believe that a new rate that balances meeting immediate needs and working to avert future crises would be good for Canadians, as it would unquestionably better sustain the sector and inject more funding faster into communities.

DISBURSEMENT QUOTA RATE RECOMMENDATION

Based on [our extensive consultations and research](#), we recommend:

- ✓ A disbursement quota rate increase from 3.5% to 5%
- ✓ A regular rate and policy review every five years, in order to take into account inflation and actual net investment returns
- ✓ A reasonable transition period to any new regime of at least 2 to 3 years

Raising the DQ: inadequate measure to improve community access to funding

Foundations are a vital element of the nonprofit and charitable ecosystem. They often support engagement on important social, environmental and cultural issues, notably on the harder, more complex and longer-term challenges that many other funding entities cannot or will not.

A narrow focus on the disbursement quota does nothing to remedy the existing resource inequities in the sector, and will likely lead to an outcome that maintains the status quo. If foundations are compelled to grant out at a rate that over the long term erodes their capital, they will eventually have less funding available. This will result in fewer grants to less-known and emerging organizations, and it will reduce their ability to invest their capital in riskier or lower-yield but higher social-impact opportunities that advance their mission.

In short, it will likely lead to a short-term boost of funding mostly to well-established organizations that already get the bulk of capital, and which are often led by and serve the most privileged in our society.

Three policy issues that must be addressed to unlock new funding for communities

PFC believes the government should collaborate with the sector on three specific issues to enable an increased flow of funds, sustained giving, and greater equity.

1 Provide equitable access to charitable funding

We must adopt a level-playing field and more inclusive operating rules to better support organizations providing programs that advance the common good even if they do not have official charitable status (“non-qualified donees”).

Such groups are overwhelmingly led by and serving those who are Indigenous, Black, and other equity-seeking populations, and often are the best equipped to identify and advance solutions for their own communities. As proposed in the Senate’s recent Effective and Accountable Charities Act, we should evolve the “direction and control” rules in the Income Tax Act, to ensure underserved populations equitably benefit from available funds, while charitable resources are devoted to achieving charitable outcomes.

2 Increase impact & mission-related investment

We must go beyond just the granting set by the DQ to include the deployment of all foundation assets.

Grants constitute a fraction of the economic clout of foundations’ capital and represent only one narrow way they can contribute to the common good. We need to incentivize and encourage more foundations to invest more of their assets in ways that further their charitable objectives. This could eventually bring billions - well beyond an increased DQ - of new investments to critical public and community priorities such as affordable housing, social finance, clean energy, and Green Bonds.

3 Fix the data deficit

We must address the data deficit within and about the charitable sector so that both government and the sector can improve their understanding of their activities, responsibilities, and impact. Along with StatsCan targeted surveys, overhauling the T3010 (the government’s annual information return required for the charity sector), and mandating online reporting, reporting on investments, as well as diversity at the leadership level, are necessary for better data, greater transparency and accountability, and more effective philanthropy overall.

[See here for PFC’s full submission](#) to the Government of Canada’s Consultation on Boosting Charitable Spending in our Communities.