Philanthropic *foundations* Canada
Fondations philanthropiques Canada

Submission

To the
Standing Committee on Finance

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Presented by

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- *Philanthropic Foundations Canada is a national association with 125 members, including public and private foundations and other grantmakers.*
- *Our members held over $16 billion in charitable assets at the end of 2013.*
- *PFC members made grants of $387 million to Canadian charities in 2013 and spent $ 199 million directly on charitable activities.*

Summary

Philanthropic Foundations Canada (PFC) is a Canada-wide membership association of charitable grantmakers, including private and public foundations as well as corporate giving programs. Our mission is to promote the growth of effective and responsible foundations and organized philanthropy in Canada. The grantmakers we represent contribute over $600 million every year to Canadians and their communities through grants and investments in Canadian charities operating in the fields of education, health, social services, arts, sports, youth programs and other supports that help Canadians and their families to lead more productive and creative lives.

Registered foundation endowment assets total about $ 55 billion (as of end 2013 according to Canada Revenue Agency). This provides a sustained source of yearly funding in the form of grants to the charitable sector in Canada. In 2013 this amounted to income of $4.6 billion, according to CRA figures. However, there are opportunities to increase the flow of capital to Canadian nonprofits in ways that will support their productivity, growth and job creation as well as their impact on community. Beyond grants themselves, we believe that it is important to enhance the access of Canadian charities to social finance: investment funds in the form of loans, loan guarantees and direct investments that will enable them to innovate and increase their effectiveness. The *Income Tax Act* regime for charities ensures that foundations make all of their *grants* to qualified donees (i.e. organizations recognized for their charitable purposes by the federal government). Loans and investments are complementary financing vehicles. However, the option of using these vehicles is limited by the ambiguous interpretations of the *ITA*. The Government has taken an important step in Budget 2015 by indicating that it intends to amend the ITA to provide more flexibility to foundations and charities in the making of investments in limited partnerships.

We recommend that the Committee urge the government to take another step towards increasing the flow of capital from foundations to charities by clarifying policy on program-related investing (or loans to charities) by foundations. Secondly, we recommend that the Committee support the suggestion made by the Standing Committee on Human Resources, Skills and Social Development in its June 2015 report **Exploring the Potential of Social Finance in Canada** that the Government create “an advisory panel, involving stakeholders from the public, private, non-profit and charitable sectors, to help define a national strategy on the development of the social finance marketplace in Canada”. We agree with HUMA that Employment and Social Development Canada with other key departments such as the Department of Finance should examine the structure and fund sourcing of catalytic capital funds in other jurisdictions and make recommendations with respect to how such a fund might best be established in Canada. By acting as first-loss capital, catalytic funds can attract other investors and accelerate the growth of the sector of intermediaries that act as a bridge between funders and the charitable and non-profit sectors.

Financing the Charitable Sector

We appreciate the government’s sustained tax support for philanthropic giving and we are encouraged by the actions that have been taken to implement recommendations of the Standing Committee on Finance’s report on this subject in February 2013. In this context, we support the recommendation made by Imagine Canada for a stretch tax credit to increase new giving from Canadians at any level of income.

It remains the case that donations and grants together cannot effectively meet all of the financing needs of Canadian charities. In particular, social innovation and entrepreneurial activity in the nonprofit sector cannot easily be financed from charitable giving. For this reason, the philanthropic sector is very interested in developing the social finance and impact investing marketplace. Private funders supported the work of the Canadian Task Force on Social Finance in 2010 and have contributed to the work of organizations such as the MaRS Centre for Impact Investing. The Government of Canada has signaled its interest and support by participating on the international Social Impact Investment Taskforce (2013-2015) struck by the Government of the United Kingdom during its 2013 G8 Presidency and sitting as an observer on Canada's sector-based National Advisory Board to the TaskForce. To quote from the 2014 report of this Advisory Board: "impact investment has the potential to foster innovation in the social sector. It can be used to develop and test new ideas that may effectively tackle social challenges, and to scale up those that work. Impact investment can spur non-profit, private, and public sector collaboration, to assist individuals and communities to realize greater social and economic outcomes."

PFC welcomes the ongoing discussion stimulated by the National Advisory Board and by the HUMA Committee. We are committed to working with other philanthropic organizations to promote education and information-sharing on mission and program-related investing with the goal of increasing the availability of charitable resources for the benefit of the community and the public good. But both federal and provincial governments have an essential part to play in addressing legislative and policy barriers to social entrepreneurship and impact investment in the non-profit and charitable sector, with a focus on the Income Tax Act; and encouraging more impact investment through "catalytic capital" measures.

Recommendation #1: Foster a regulatory regime that encourages program-related investment by private funders.

We have recommended to this Committee in previous briefs that it encourage the government to develop a regulatory framework which fosters the growth of more philanthropic investment. We specifically recommend that the Committee ask the Ministers of Finance and Canada Revenue Agency to clarify the regulatory regime and to encourage the practice of program-related investments (PRIs) by foundations. This type of investing (in the form of below market rate loans, loan guarantees or share purchases) has had little regulatory recognition other than in a CRA policy guidance document on community economic development (CG-014)first published in 1999 and revised in 2012 . While the revisions in 2012 were helpful in defining PRIs and in clarifying that foundations can make PRIs even to nonprofits (not just charities) as long as agency rules are followed, the regulations are not entirely clear and their requirements for direction, control and reporting are a disincentive to the use of these mechanisms especially by smaller foundations. The guidance on PRIs could be set out more broadly so that it is not embedded in a document on community economic development but established as a tool that can be used for any recognized charitable purpose pursued by a registered charitable foundation. The requirements for control and reporting should also be reviewed to ensure that they are proportional to the risk incurred and to the capacities of the smaller lenders.

Canadian foundations are increasingly interested in vehicles that will allow them to apply more of their invested assets for community benefit. A number have already embarked on mission-related investments in companies that operate in socially responsible ways or that work directly in fields of interest to them such as health care or housing. For example, a private foundation can finance a reduced rate mortgage to an education charity to finish construction of school facilities, or can make a no interest loan to a human services agency to purchase a transitional house, or provide a guarantee to a nonprofit housing corporation that is building new social housing units. Canadian charities continue to have need for such debt finance and investment capital, to finance their facilities, bridge finance the acquisition of equipment, invest in “soft” capital such as business plans or human resource development and otherwise finance their growth. This is particularly true for the smaller charities which are not well served by commercial institutions because of their multiple and unpredictable sources of revenue. There is a gap for unsecured debt for working and growth capital in smaller amounts. Loans from foundations can help to bridge this finance gap for small and medium sized charitable organizations. Further federal encouragement of this activity will be of great benefit to many of them without incurring any significant fiscal cost to government.

Recommendation#2: Create an advisory panel, involving stakeholders from the public, private, non-profit and charitable sectors, to help define a national strategy on the development of the social finance marketplace in Canada.

PFC endorses this recommendation made in the 2015 HUMA report, which builds on the recommendations made by the Canadian National Advisory Board in fall 2014. The time is certainly ripe for a national strategy to develop social finance markets in Canada. Canada lags other countries in the G7 in this regard. The models are there. There has been considerable progress made over the last five years in exploring the potential for social finance and the options for expanding both the supply and the demand side of this market. It is incontrovertible that Canadian nonprofits and charities need more diversified sources of financing to make a greater contribution to productivity, job creation and community wellbeing. We believe that this effort, led up to now by ESDC, should be given a more prominent place in federal strategies for increasing productivity in the social sector as well as in the business sector, and that a broad cross-sectoral effort to develop this national strategy should be undertaken.

Our recommendations would not incur any major ongoing fiscal cost to government while stimulating the availability of private capital to charities, expanding the social finance marketplace and promoting innovation, entrepreneurship and productivity for Canadian charities and communities.

Thank you for your consideration.