Philanthropic Foundations Canada
Fondations Philanthropiques Canada

# Written Submission for the Pre-Budget Consultation for the 2026 Federal Budget

By Philanthropic Foundations Canada
September 2026

# Executive Summary

Canada is at a pivotal moment as it seeks to strengthen economic resilience, sovereignty and productivity by mobilizing new investment across the country. Canadian foundations steward more than $135 billion in assets and already contribute more than $10 billion annually to communities through grants. They are also investors, with significant potential for foundation and charitable capital to contribute more to economic and community outcomes while continuing to generate financial returns. Today, that potential is constrained by market barriers, a shortage of investment opportunities structured to meet the diverse needs of foundation investors, and a lack of clarity around certain forms of social investment.

PFC proposes a set of complementary, practical measures that would combine targeted public policy changes with the strategic use of federal capital to bring more philanthropic and charitable investment to the table. Together, these measures could mobilize $2.5 to $5 billion in additional investment over five years, strengthen Canada's impact investment market, and support more communities and projects that contribute to Canada's resilience and prosperity.

**Recommendation 1:** Establish, in partnership with the charitable and social finance sectors, a Canada Community Investment Facility with a mandate to mobilize $2.5-$5 billion in additional investment over five years

**Recommendation 2:** Amend the Income Tax Act to give registered charities an express, permissive power to make social investments for community impact.

**Recommendation 3:** Launch the disbursement quota review in 2027, as committed in Budget 2022, and conduct it as a public consultation to ensure transparency and broad sector input.

# Introduction

Canada is at an inflection point of its history There is urgency in strengthening Canada's economic resilience and sovereignty, and the government is rightly making this nation-building project a priority by securing $1 trillion of new investments in the coming 5 years. Canada's non-profits and charities – notably its philanthropic foundations – must contribute to this endeavor.

Canadian foundations steward more than $135 billion in assets and provide more than $10 billion in grants each year. Those grants support communities and organizations across the country. But foundations are also investors, and many are asking whether more of their assets can contribute to positive social and economic outcomes while continuing to generate financial returns.

Impact investing offers one way to do that. Foundations can invest in affordable housing, community infrastructure, climate and energy solutions, workforce development and other initiatives that generate financial returns alongside measurable social or environmental impact. These investments do not necessarily need to advance the individual foundation's own charitable purposes. There is considerable interest in doing more, but that interest has not yet translated into investment at the scale it could.

There are two main barriers.

The first is the market. Foundations vary widely in size, mandate, investment strategy, time horizon, liquidity needs and tolerance for risk. There are still too few opportunities structured to meet those different needs. Several promising investments also need a co-investor, a subordinated position, a guarantee or another form of risk sharing before additional capital will come in.

The second is governance and familiarity. Impact investing is still relatively unfamiliar to many foundation boards and investment committees, including those with significant expertise in conventional finance. New structures, different intermediaries, and less familiar forms of due diligence can create perceptions of risk that do not always reflect the underlying investment. There is also a narrower category of social investment where a charity may intentionally accept a lower financial return because the investment also advances its charitable purposes (program related investments). In those cases, Canada's current legal framework does not give boards as much clarity as it could.

These problems need to be addressed together. Better investment opportunities will have limited effect if foundations do not have the confidence, knowledge or governance frameworks to consider them. Greater legal clarity will only take us so far if the market cannot offer sufficient investments with an adjusted risk profile that work for foundations.

PFC therefore proposes complementary measures, with the goal of mobilizing $2.5 to $5 billion in additional capital over five years. The first would use the federal balance sheet to help bring more foundation, charitable and other capital into viable Canadian projects. The second would provide greater clarity for charities considering social investments where both financial return and the advancement of charitable purposes are relevant to the decision.

Together these changes will help grow our capital stock, exactly as the government intends; mobilize new sources of funding and investment outside of government that will help further improve our collective resilience and productivity in this important time of economic transition; and provide an innovative new working relationship between government and the charitable, philanthropic and non-profit sectors to solve big problems. The capital that flows from this effort will help solve critical social challenges at the community level, improve lives, and raise living standards.

These recommendations are also consistent with a broader sector call for greater investment in communities, including the Community Resilience Letter, which calls for public policy and investment tools that can mobilize more private and philanthropic capital for communities across Canada.

Luckily, the government does not need to invent new tools or spend great new sums of money. It already uses co-investment, subordinated capital and guarantees in other parts of the economy. These approaches provide flexible and low cost means to help mobilize outside capital from other sectors and can be adapted here to a Canadian philanthropic context with minimal impact on annual expenditures.

We are not asking that foundations be protected from ordinary investment risk. What we are asking is for the government to create better conditions for foundations and charities that want to invest more of their own capital where there is a sound investment case and a clear public benefit.

At a time when Canada needs more investment and government is looking for ways to mobilize capital while maintaining fiscal discipline, this is an opportunity worth pursuing.

# Recommendations

## 1. Establish, in partnership with the charitable and social finance sectors, a Canada Community Investment Facility with a mandate to mobilize $2.5-$5 billion in additional investment over five years

The federal government is well placed to use its capital more strategically to mobilize significantly greater private and philanthropic investment into community priorities. Government can deploy repayable or return-seeking capital through a dedicated investment facility designed to address specific market barriers, strengthen investment structures and bring additional investors to the table.

This approach offers a fiscal advantage. Where federal capital is invested with an expectation of repayment or return, it may be structured as a recoverable financial asset rather than conventional program spending. The precise accounting treatment will depend on the instrument, but existing federal investment programs demonstrate the potential to use the federal balance sheet to mobilize substantially more capital than the direct fiscal cost of the measure. Done well, the facility would make public capital work harder while growing a stronger and more mature Canadian market for impact investment.

Canada has made important investments in social finance. That work has helped develop intermediaries, expertise and a stronger pipeline of social finance opportunities. The next challenge is scale.
There is no single reason why a foundation decides against an impact investment. Sometimes the risk and return profile does not fit its investment strategy.

Sometimes an opportunity is unfamiliar to an investment committee or requires specialized due diligence. Transactions may be too small or too complex to assess efficiently. And sometimes promising projects simply do not have the structure needed to bring different kinds of investors to the table.

A federal facility can help address these barriers without government replacing private or philanthropic investment. This Canada Community Investment Facility would help to ‘’crowd in’’ philanthropic investment.

PFC recommends establishing a Canada Community Investment Facility with up to $500 million in federal capital and a five-year mandate to mobilize $2.5 billion to $5 billion in additional investment from foundations, charities and other non-government investors. This capital could take various forms, including a potential combination of direct government co-investment and/or a variety of other financing tools such as a partial return or first loss guarantee, bond facility or other form of instrument to help expand the capital stack that other investors can bring to the table. Because of this innovative, blended-finance approach the actual fiscal cost to government could be in the tens of millions of dollars, spread over 5 years, while catalyzing billions from other sources beyond government.

And crucially, because many of the projects this new facility will invest in will help to build new community infrastructure assets, with a particularly heavy focus on affordable housing supply, the government would likely be able to classify its support as an eligible capital expense under its new budgeting framework.

The facility should be housed within an existing federal investment institution, such as BDC, Major Projects Office, or Build Canada rather than creating a new department or stand-alone Crown corporation. It should have professional investment management and a clear public-interest mandate.

But government should not design this Community Investment facility alone. The mandate, governance, eligibility criteria, financial tools and approach to measuring impact should be co-developed with foundations, charities, social finance intermediaries and practitioners with deep investment expertise. Canada has built considerable expertise through the Social Finance Fund and the broader social finance market. That experience should inform what comes next.

The facility's governing framework should also include meaningful representation from foundations, charities and the social finance sector. The organizations expected to invest through the facility, originate opportunities and understand their community impact should have an ongoing role in how it is governed, not simply be consulted during its design.

The facility should have more than one financial tool at its disposal. A housing investment may need federal capital to take a subordinated position before other investors will participate. A lending fund may be viable if government shares a defined portion of potential losses. Another investment may simply need government co-investment to reach sufficient scale. Requiring every project to fit the same financial structure would reproduce the problem the facility is intended to solve.

Government already has experience with many of these tools, including direct co-investment, first-loss or subordinated capital and loss-sharing guarantees, as well as guaranteed floor guarantees. The Venture Capital Catalyst Initiative demonstrates how federal capital can be invested alongside non-government capital through BDC. The Canada Small Business Financing Program demonstrates how government can share defined losses while leaving individual investment decisions with financial institutions. Canada Strong Fund's retail mechanics provides Canadians the opportunity to invest with a base return tied to the bond rate, while preserving upside potential as well but locked in over long-horizon.

The precise mix of tools should be worked out through the co-development process rather than prescribed in advance. It should also be able to evolve as government and the sector learn which approaches are most effective at bringing additional capital into viable investments.

There should be clear limits. Federal support should go to qualifying investments and investment vehicles, not to individual foundations. Foundations and charities should invest their own capital and remain responsible for their own investment decisions. The facility should intervene where its participation can make an investment viable or bring additional capital to the table, rather than simply improving the returns on investments that would have proceeded anyway.
That principle of additionality is important. Success should be measured by new capital mobilized into qualifying impact investments, not by relabelling investments that foundations or other investors are already making.

The facility should also have transparent eligibility, decision-making and reporting requirements so that both financial performance and public benefit can be assessed. Those requirements should be designed with people who understand how social finance works in practice, while maintaining clear public accountability for federal capital.

A goal of mobilizing $2.5 billion to $5 billion over five years is ambitious. It is also the kind of ambition the facility should be designed around. The federal government has already demonstrated through other investment programs that strategically structured public capital can attract several times its value in non-government investment.

There is also a fiscal advantage to this approach. Where federal capital is invested with an expectation of repayment or return, it may be structured as a recoverable financial asset rather than conventional program spending. The precise accounting treatment will depend on the instrument, but existing federal investment programs demonstrate the potential to use the federal balance sheet to mobilize substantially more capital than the direct fiscal cost of the measure.

Government is particularly well placed to use its capital in this way: addressing specific market barriers, creating credible structures and bringing additional investors to the table to support investments needed in communities across the country – from affordable housing, to climate resilient community infrastructure and increased food security.

## 2. Amend the Income Tax Act to give registered charities an express, permissive power to make social investments for community impact.

Better investment opportunities are only one part of the equation. Foundation boards are responsible for stewarding charitable assets prudently, and investment committees are understandably accustomed to assessing opportunities through established financial frameworks.

Deploying community impact capital or impact investing does not necessarily mean accepting lower returns or taking greater risk. Many impact investments target market-rate returns. But impact investing and social finance remain relatively unfamiliar to many foundation boards, investment committees and financial advisers whose expertise is primarily in conventional markets. New structures, different intermediaries and unfamiliar forms of due diligence can contribute to a perception of risk that does not always reflect the underlying investment.

There is also a narrower category of social investment where a charity may intentionally accept a below-market return because the investment advances its own charitable purposes. In those cases, the board is making a different calculation. Both the expected financial return and the contribution to the charity's purposes are relevant to the decision.

Canada's current framework does not make that calculation as clear as it could. Registered charities operate under federal charity tax law as well as provincial rules governing fiduciary responsibility and investment. This can make boards overly cautious, particularly where an investment intentionally accepts a lower financial return in pursuit of a charitable outcome.

For foundations with experienced investment teams and access to specialized legal and financial advice, it may be possible to navigate these questions. Many other foundations rely on volunteer boards or investment committees whose members may have considerable financial expertise but limited exposure to social finance. Without a clear framework to point to, unfamiliarity can itself become a barrier.
An express social investment power in the Income Tax Act would therefore serve two purposes. It would provide greater legal clarity, but it would also send an important signal. Explicitly recognizing social investment as a legitimate tool available to charities would help establish it as part of normal charitable governance and investment practice, rather than something unusual or exceptional.

That signal matters. Clear statutory permission gives boards, investment committees, advisers and counsel something concrete to work from. It makes it easier to raise the option, assess it seriously and develop appropriate governance practices around it. Over time, it can help build familiarity and confidence across a much broader range of foundations.

PFC recommends a targeted amendment to the Income Tax Act that expressly recognizes the power of a registered charity to make a social investment. For this purpose, a social investment would be an investment made with a view to both furthering the charity's purposes and achieving a financial return.

The provision should make clear that a charity does not jeopardize its federal charitable registration because it considers charitable impact alongside financial return, including where it intentionally accepts a below-market financial return when doing so is reasonably connected to advancing its charitable purposes.
This should be accompanied by a safe harbour under federal charity law. A board that has adopted a documented approach to social investment, considered the expected charitable and financial results, acted prudently and within the charity's purposes, and periodically reviews its investments should have clear assurance that it has satisfied the relevant federal requirements.

This is permission, not a mandate. No foundation would be required to make a social investment or accept a lower financial return. Boards would continue to consider independently their organization's financial position, liquidity, disbursement obligations, investment strategy and charitable purposes in deciding whether an investment is appropriate.

The change would give boards something clear to rely on and make social investment easier to understand, consider and govern.

There is a useful precedent. The United Kingdom introduced an express statutory social investment power in 2016 to give charity trustees greater certainty when making investments intended to further charitable purposes while also producing a financial return.

Canada should adapt that approach to its own legal framework. The amendment should be limited to federal charity law and would not override provincial fiduciary obligations. Provinces could then be invited to review and harmonize their own legislation where appropriate.

The federal measure would have no direct fiscal cost and could be implemented through budget legislation.

## 3. Launch the disbursement quota review in 2027, as committed in Budget 2022, and conduct it as a public consultation to ensure transparency and broad sector input.

The disbursement quota is the minimum amount a registered charity must spend each year on charitable activities or gifts to qualified donees. In 2022, the government raised the rate to 5 per cent on assets above $1 million. PFC supported that change and the commitment in Budget 2022 to review the new rate after five years.

That review should proceed in 2027 as promised. Given the range of foundations and charities affected, and the importance of getting the balance right between charitable spending today and the long-term sustainability of endowed assets, the process should be public, transparent and grounded in evidence.

PFC recommends that the government begin preparations now for a consultation that examines actual investment returns, inflation, liquidity, charitable spending and the experience of organizations of different sizes and structures. The objective should be to assess how the current regime is working in practice before considering any further changes.

This review is an important complement to the measures proposed above. Canada should be looking at the full policy environment governing charitable capital: how much must be spent each year, how the remainder can be invested, and what conditions will allow more of that capital to contribute to positive economic and social outcomes.

***

***Philanthropic Foundations Canada (PFC) is Canada's national network for grantmaking foundations, representing a diverse community of funders working together towards a more just, equitable and sustainable world.***

Contact:
Jean-Marc Mangin
President & CEO
jmmangin@pfc.ca