



TD Economics

Topic Paper

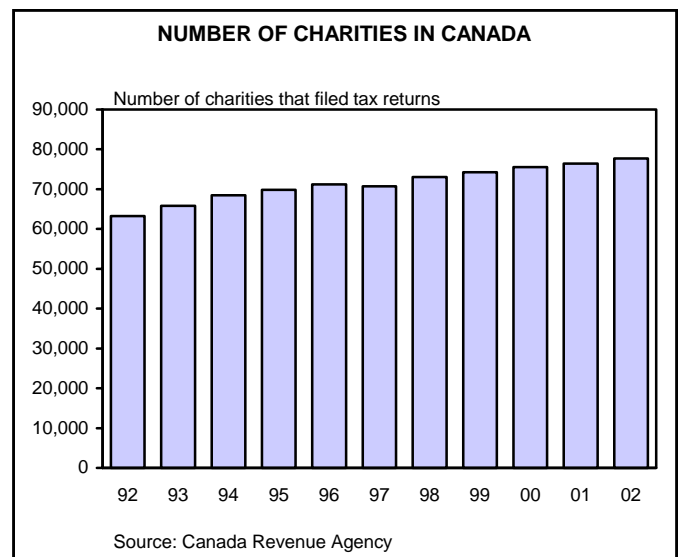
September 15, 2004

CANADA'S CHARITIES: UNDER PRESSURE

Charities play a key role in Canada's economy and society. They are relied upon to help those in need and to improve the standard of living of many at home and abroad. Their activities span a wide array of fields, including health, the environment, social services, arts and culture, sports and recreation, and religion – all of which rank extremely high on most Canadians' list of priorities. However, charities face a number of serious challenges that threaten their ability to fulfill their social objectives.

If some Canadians are unaware of the extent to which the charitable sector is under pressure, it is partly because of the scarcity of quantitative information on the revenues, resources, expenditures and output of the country's charities. However, the good news is that Statistics Canada will be releasing the results of a new and comprehensive survey on the non-profit and voluntary sector in mid-September. These data are expected to shed considerable light on the condition of the charitable sector today. Nevertheless, past qualitative surveys have already hinted at what the new survey is likely to report. Specifically, demand for charitable services is rising, a number of charities are having difficulty obtaining appropriate and sufficient financing and some are encountering problems hiring and retaining staff and volunteers.

With demand for charitable services growing and with government budgets steadily being eaten up by rising health care costs, it is evident that Canadians must step up to the plate with additional monetary and non-monetary contributions if charities are to meet their expanding social objectives. Although Canadians already donate generously to charities, they give less than Americans as a percentage of income, suggesting that greater public recognition of the role and hurdles facing non-profit and volunteer organizations might prompt additional contributions. Although Canada's various levels of government have done much in the



past to encourage philanthropy, there is a role for them to play in getting the message out about the need more giving. And, there is a real possibility that some Canadians will find that they have the ability to make additional donations. The baby boomer generation is about to receive a massive income transfer through inheritances, amounting to as much as \$1 trillion over the next ten years. If more Canadians make provisions for charitable donations in their wills, and more beneficiaries pass on a portion of their estate proceeds to charities, it could usher in golden age of philanthropy.

Charities are part of the fabric of society

The number of charities in Canada has increased by roughly 1500 per year on average over the past three decades, with 80,714 currently registered with the Canada Revenue Agency (CRA), suggesting increasing demand and widening scope of charitable activities. These charities represent a diverse number of causes. In 1995, ap-

proximately 43 per cent were religious organizations. The remaining 57 per cent were spread across various fields, such as welfare (17 per cent), general benefit (14.6 per cent), hospitals and teaching institutions (5.1 per cent), other education (11.9 per cent), other health (5.9 per cent) and a residual ‘other’ category (2.2 per cent).

Canadians look to charities

It is also evident that Canadians look to charities to provide leadership on social issues. A 2000 survey by the Canadian Centre for Philanthropy reported that 90 per cent of Canadians agreed that charities were playing a greater role. Moreover, an extremely high percentage felt that charities better understand, and do a superior job in meeting, the needs of Canadians than governments. And, despite the fact that charities are legally forbidden from being policy advocates or lobbyists, the vast majority of respondents thought that charities should speak out on the environment, poverty and health care. These sorts of observations have led some social scientists to conclude that charities play an important role in democratic societies. They engage citizens in the political process, help governments to identify leading social concerns, increase dialogue about social issues and collect important information about Canadians that allow governments to better assess their policies.

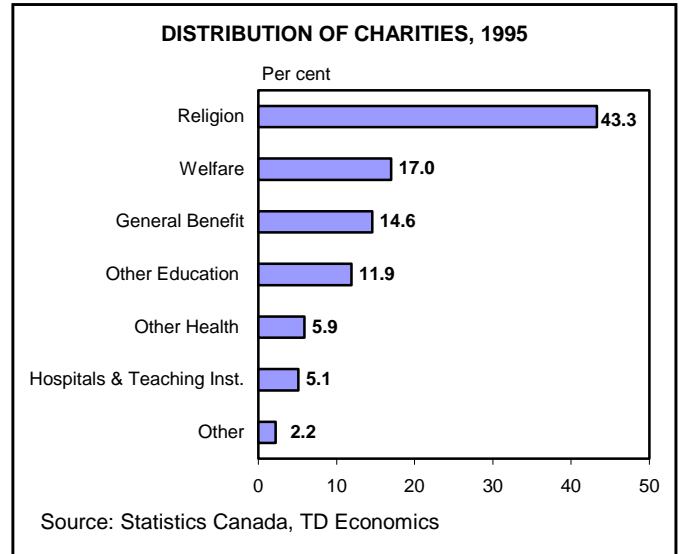
Governments increasingly aware of the role that charities play

With charities increasingly providing social services in place of governments, politicians and bureaucrats have

IMPORTANCE OF CHARITIES

- 90% believe that charities are becoming increasingly important
- 79% believe that charities better understand the needs of the average Canadian than governments
- 69% think that charities do a better job than government of meeting needs of Canadians
- 88% think charities should speak on issues like the environment, poverty and health care
- 59% do not believe that charities have enough funding

Source: The Canadian Centre for Philanthropy



developed a heightened awareness of their importance. For example, a 1999 Privy Council Office paper stated, “The voluntary sector...play[s] a vital role in our society, improving the well-being and the quality of life of Canadians. It delivers key services, represents the interests of its clients and communities, and provides a vehicle for involving citizens in civic participation and public decision making. It is helping to restore legitimacy to our democratic institutions. It builds social capital, sustains social cohesion, makes a substantive economic contribution and is truly the “third pillar” of our society.” A better summary is hard to come by. Municipal and provincial governments are similarly supportive of the role of the charitable sector.

Despite importance, good data hard to find

Given the significance of charities, it is natural to ask how they are faring. The surprising answer is that good quantitative data are not available concerning many aspects of their activities. As Statistics Canada noted in a 2000 report, “there are huge uncertainties and gaps in our current knowledge of the sector: its size, its composition, its sources of revenue, other resources at its disposal, its expenditures, its activities and outputs, and the needs it addresses. All of these elements could be better understood than they are today.” In an effort to remedy the problem, the federal government and the voluntary sector together founded the Voluntary Sector Initiative (VSI). Under the auspices of the VSI, a National Survey of Nonprofit and Voluntary Organizations (NSNVO) is underway and its results are expected to be released in September 2004. The objective “is the first-ever, large-

scale survey of nonprofit and voluntary organizations in Canada. The survey will provide detailed information on the size and scope of the voluntary sector in Canada, including types of organizations, what they do, their budgets, and numbers of paid staff and volunteers. The survey will also help clarify the needs and challenges facing the sector by providing data on organizations' perceptions of their strengths and weaknesses."

Charities struggling on a number of fronts

Even without the detailed information that the NSNVO will provide, a variety of qualitative surveys have already revealed that charities are struggling with a number of major challenges. Two issues stand out in particular. First, many are having trouble attracting and retaining staff and volunteers. Second, many report having difficulties in obtaining appropriate financing.

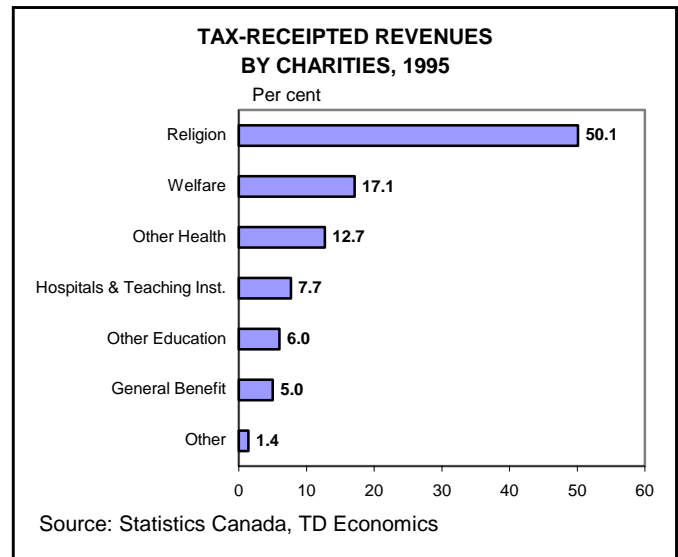
Labour challenges

The majority of charities say that their greatest resource is their staff and volunteers. And, for the most part, the latter have a favourable view of their working conditions. In particular, scheduling is often flexible and staff and volunteers alike welcome the opportunity to do personally fulfilling work with like-minded individuals. However, there are some key challenges. Jobs are frequently part-time or temporary. Pay for managers, benefits and opportunities for advancement and training are often less than in many other sectors. Workloads have also been rising, as increasing demand for charitable services has not been matched by additional staffing. As we will argue in a moment, many of these labour issues are related to financing challenges. At the same time, Canadians are working longer hours and tend to commute farther distances than ever before, leaving them with less time for voluntary work.

Financing strains

In order to achieve their goals, charities must have adequate and appropriate financing.

However, growing demand for their services, government cutbacks, intense competition for government grants, and changes in the nature of the funding environment have all made obtaining this financing more difficult. With respect to the funding environment, there has been a shift away from the core funding model, which provides financing for an organization in general, and towards individual



project-based funding. This makes it more difficult for charities to finance their administrative costs. It also means that funding has become more short-term and, thus, less predictable. This has several consequences. Short-term project-oriented financing encourages charities to hire temporary rather than permanent staff. It can also force them to widen the scope of their activities in order to become eligible for a greater array of grants or sponsorships. As a result, charities end up trying to do more with less – a recipe for employee fatigue. While some degree of project-directed financing is appropriate and may provide an incentive for charities to minimize overhead expenses, the current system has swung too far in that direction. This has led some charities to argue that they do not necessarily need 'more' money, but rather 'better' money.

Having said that, even if more stable funding streams were available, the current level of financing is likely still insufficient to meet the charities' future needs. It is a common misperception that non-profit organizations rely primarily on donations from the public to finance their operations. In 1995, tax-receipted donations constituted 9.3 per cent of total revenues of all charities, whereas government grants and payments amounted to 58.1 per cent. Moreover, half of the donations were directed to religious charities, while two-thirds of the government grants went to hospitals and teaching institutions. Excluding hospitals and teaching institutions, non-religious charities depended on government grants and funding for 63 per cent of their total revenues. And, this significantly understates the governments' contribution, as it does not factor in the tax credits

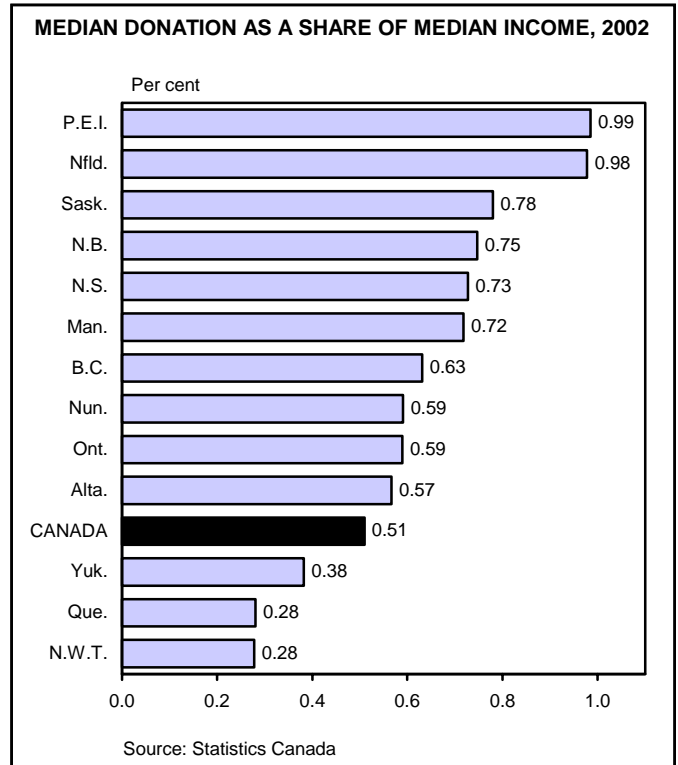
given on the private donations. So, non-religious charities are disproportionately funded by the public sector.

This dependence on public money may create financial difficulties in the coming decades. An aging population implies that the health care system will absorb and increasing share of Canadian government revenues leaving less financing available for charities in other social areas. Moreover, it is not clear that the various levels of government will have the financial capacity to meet the needs of even health care related charities. Consequently, the private sector will either have to become more generous, or expectations of charitable services will have to be scaled back.

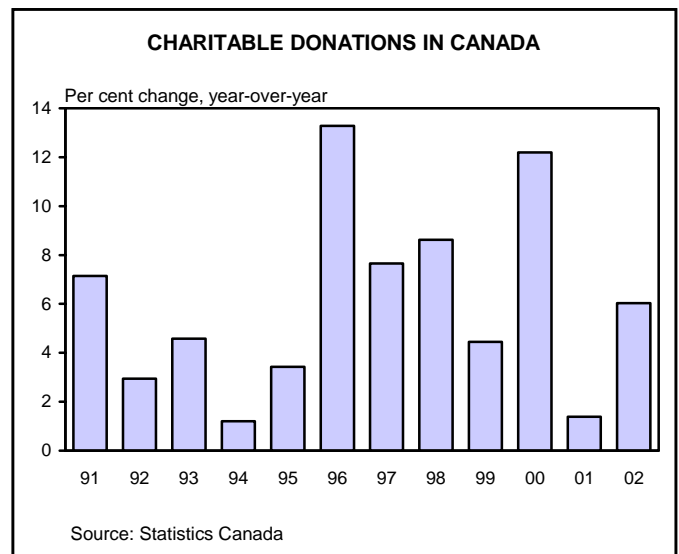
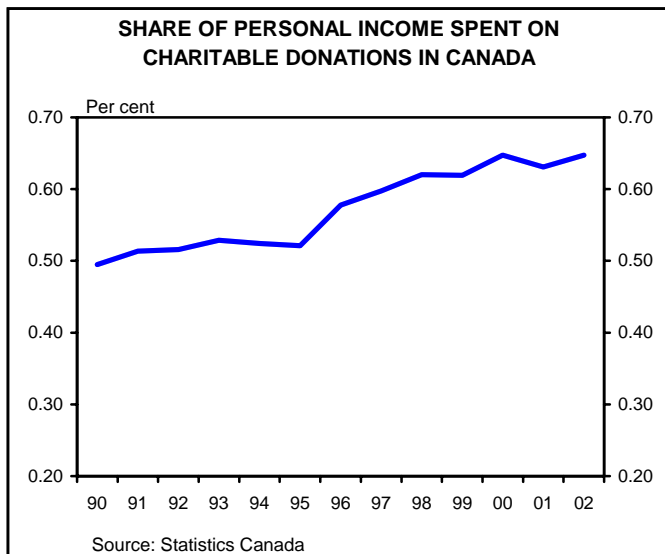
A call for generosity

Efforts by businesses to be good corporate citizens may see them step up their pace of charitable giving in the coming years, but individual Canadians will also need to give more. However, they are unlikely to answer the call if they do not fully understand the financial and labour strains that charities are experiencing. For example, while acknowledging the growing role of charities, a 2000 survey revealed that 41 per cent of Canadians felt that charities have enough money to do their work. And, when asked who should be giving more money to charities, 63 per cent said businesses, 47 per cent said governments, and only 40 per cent said individuals. The reality is that additional funding will likely be needed from all three groups.

This is not to minimize the importance of the funds that Canadians are currently providing. In 2002, one-in-four personal tax filers claimed charitable donations worth a



total of \$5.8 billion. And, these numbers understate the frequency of giving and the extent of the generosity. Many Canadians make small donations – for example in cash boxes at store check counters – which are not filed on tax returns, and these coin donations add up quickly. Moreover, current tax law allows taxfilers to claim donations by themselves and their spouses. As a result, the percentage of donors is likely considerably higher than the official statistic of 25 per cent.

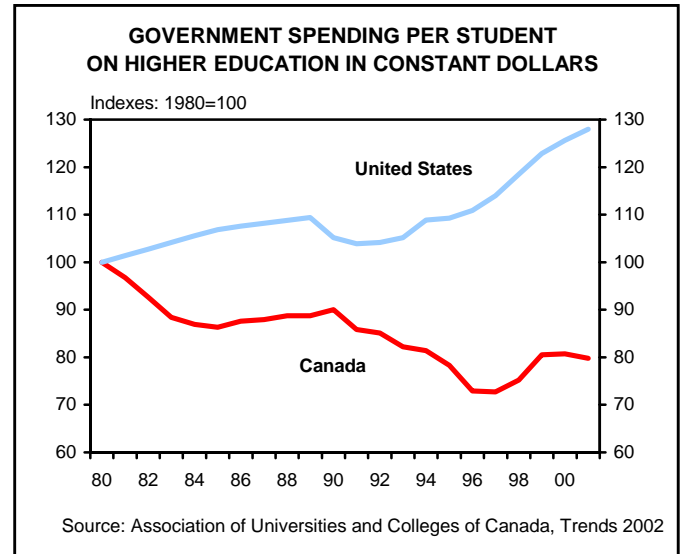


Can Canadians give more?

Nevertheless, a case can be made that Canadians could be more philanthropic. Indeed, while Canadians see themselves as charitable, some evidence suggests that they are less generous than their American counterparts.

The Fraser Institute publishes an annual Generosity Index that compares monetary giving in Canada and the United States. The analysis looks at average dollar donations in 50 U.S. states, 10 Canadian provinces and 3 Canadian territories. The latest report had two key findings. First, between 1995 and 2001, the percentage of Canadians making charitable donations fell, but the size of their donations – as a percentage of personal income – rose. Second, although roughly the same percentage of taxfilers claim donations in Canada and the United States, Americans give far more. In 2001, Canadians claimed donations equivalent to 0.62 per cent of their aggregate income, well below the 1.59 per cent of income given in the United States. Canada's provinces and territories all scored in the bottom two-thirds of The Generosity Index ranking. From this analysis, the Fraser Institute concluded that if Canadians donated the same share of their income as Americans, the result would transfer more than \$8 billion in additional funds to charities.

Canadians' comparatively lower generosity may be surprising to some, but the findings correspond to clear trends in some charitable sectors. Consider financial support to universities, which are charitable institutions. As highlighted in the TD Economics report, "Time to Wise Up on Post Secondary Education", Canadian governments have cut real public funding per student by 30 per cent over the past twenty years. The private sector has had to fill the gap, but the bulk of the additional funds has come through higher tuition fees, rather than donations or individual and company scholarship funds. Moreover, Canadian university endowments are paltry compared to their



U.S. counterparts. For example, Harvard had endowments of US\$18.8 billion in 2003, followed by Yale (US\$11.0 billion), Princeton (US\$8.7 billion), University of Texas (US\$8.07 billion) and Stanford (US\$8.6 billion). This compares with the University of Toronto's endowment of C\$1.06 billion and McGill University's C\$0.672 billion. In terms of ranking endowments in U.S. dollars, there are 54 U.S. universities ahead of U of T and 87 with larger endowments than McGill. On a per student basis, the numbers are equally depressing. To illustrate, McGill had endowments of C\$27,000 per full time student, whereas Princeton had US\$1.3 million per student.

However, it should be noted that part of the explanation for the lower degree of philanthropy in Canada than in the United States is related to the disproportionately greater number of wealthy Americans and their far larger accumulated financial assets. Nevertheless, it can be argued that Canadians have a greater tradition than Americans of looking to governments to provide social services. And, this is particularly evident with respect to post-secondary education, which may reflect the fact that Canadians who attended university and college between the 1960s and the 1980s paid only a small share of the total cost of their education, and still expect the state to continue paying the bulk of the bill. However, with government revenues already stretched, these expectations are becoming less realistic, implying that Canadians must make a crucial societal decision – give more to charities or expect to receive fewer charitable services.

INHERITANCE EXPECTATIONS

- 40% of Canadians expect to receive an inheritance
- 30% expect inheritance of \$25,000 to \$50,000
- 15% expect inheritance of \$100,000 to \$500,000
- 4% expect inheritance of more than \$500,000

Inheritance boom could save the day

It is easy to say that Canadians should give more, but given the currently low personal savings rate and the financial demands on most households, finding money for additional donations will not be an easy task. However, one demographic trend holds out the real possibility of fueling an increase in philanthropy. The parents of Canada's baby boomers are aging. Their frugal habits – developed during the war years – have seen them accumulate a vast pool of assets, which they are about to pass on to their children. It is estimated that the baby boom generation is poised to inherit as much as \$1 trillion. This inheritance wave has already started and is expected to peak in 2015. A Gallup Canada survey in 1997 provided some guidance on what Canadians expect to receive in terms of inheritances: 4 in 10 Canadians are anticipating inheritances; one-third expect to receive between \$25,000 and \$100,000; 15 per cent anticipate \$100,000 to \$500,000; and 4 per cent expect more than \$500,000.

Of course, there is no guarantee that a significant share of this wealth transfer will make its way into the charitable sector. Indeed, the onus is on non-profit organizations to convince those drawing up estates to make donations. Similarly, their beneficiaries will have strong incentives to use inheritances for personal objectives. Some of the funds will inevitably be spent, while the high indebtedness of many households and the modest savings accumulated for retirement imply that a large portion of the money will go to paying down liabilities and making investments. So charities will need to make a strong case that donations are the right thing to do and that the funds will be used effectively.

If they can make that case persuasively, those drawing up wills and receiving large inheritances may find that they have an opportunity to give back to society that would not have been available to them based on their regular annual income.

Conclusion

If Canada's charities are to meet the growing demands for their services, they must have adequate and appropriate financing. They must also have sufficient and appropriately skilled staff and volunteers. Canadians can help charities to achieve these objectives by giving generously, either financially or with their time. There is also a role to be played by all levels of government (municipal, provincial and federal) to encourage donations by the private sector. This role might be as simple as aiding charities to get the message out that more private help is needed. A review of the requirements and guidelines on corporate giving versus sponsorships might also bear fruit. Moreover, government grants and business donations need to become less project-oriented and short-term in nature. And, all Canadians are encouraged to think about the role of charities in society, particularly Canadians who are receiving or bequeathing sizeable inheritances. A strong charitable sector is only possible through the support of governments, businesses and individuals. To the extent that non-profit and volunteer organizations are successful in achieving their goals, the end result is better conditions in local communities, in Canada and in many parts of the world. A more noble goal is hard to imagine.

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