Granting During the Pandemic: Foundations Face Increasing Calls to Increase Their Expenditures to Assist Struggling Charities

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March 20 was the day the team at MakeWay (then called Tides Canada) mobilized. The Vancouver-headquartered public foundation had been reaching out to its community partners, many of which are in remote and northern communities. “People were just terrified,” says executive director Joanna Kerr. “[They said] they needed core funding. They needed it to be quick. And they needed it to be flexible.”

Kerr and her team had also been hearing from donors who wanted to help. On March 25, they launched two pooled rapid response funds targeted to remote and northern communities and community-led organizations. Their goal was to raise $800,000 in new money. (The fund had attracted $515,975 as of June 16.)

Meanwhile, the foundation response was picking up steam across the country, with private, public, and corporate foundations announcing millions of dollars in new emergency funding, mostly to large frontline charities.

For the team at MakeWay, this was the first time they’d sought to raise emergency pooled funds. They didn’t know how it would turn out. One thing they did know, though, is that the disbursement of funds had to be community-driven. Partners have been using their shared platform to make granting decisions for both funds, which they are distributing on a rolling basis, based on greatest need. The other thing Kerr knew was that she wanted to find ways to use the crisis to advance social, and systems, change that might not have been possible in normal times.

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While the charitable sector has welcomed additional funds flowing from foundations over the past months, the financial crisis triggered by the pandemic has surfaced an old question about the structure of philanthropy in Canada: are tax-exempt foundations distributing enough of their earnings to charities?

According to Philanthropic Foundations of Canada (PFC), Canada's 10,910 public and private foundations held $84.4 billion in endowed assets in 2017 — an amount that's almost tripled since the 2008-09 financial crisis. They distributed $6.7 billion (or 8%) of those funds in 2017, leaving the rest to continue grow in value. The Canadian government doesn't tax those returns — or the underlying endowments — as a means of incentivizing charitable giving.

"Foundations have had 10 very good years where investment returns have averaged about 10%," says Kate Bahen of Charity Intelligence. "Many of the foundation assets have risen to record levels. Their legacy has never been more secure."

The CRA's disbursement quota requires that foundations grant a minimum of 3.5% of total assets under management in any given year. (That quota doesn't apply to donor-advised funds, which are not required to disburse a specific amount on an annual basis.) Since it was introduced in 1975, the disbursement quota has been legislated down from 5% to 4.5% to the current floor in 2004. (For comparison, the US quota is 5%.) Some foundations consider the quota a minimum and consistently grant more than the 3.5% threshold; others keep close to the minimum. There appears to be no aggregate or trend data on where foundations land on the spectrum.

With many charities struggling with both increased demand for services and significant revenue losses, some, like Bahen, think foundations have a responsibility to far exceed 3.5% this year to prevent massive hardship.

"As a foundation, you always have to weigh the value of a dollar spent today compared to dollars spent in the future," she says. "I'm seeing foundations with strong leadership recognize that if you don't provide immediate assistance today, this is a problem that's going to get much deeper and last far longer. You've got to flood the market now, so this doesn't become a far worse problem."

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As the crisis picked up momentum, some foundations began to advocate for higher disbursements. In mid-April, Malcolm Burrows of the Aqueduct Foundation, Terry Cooke of the Hamilton Community Foundation, Bill Young of Social Capital Partners and the Bealight Foundation, and MakeWay's Kerr launched Give5, a campaign urging foundations to disburse 5% in 2020. Their target audience: private foundations with assets of more than $1 million. They hoped at least 100 foundations would sign up by May 5.

By mid-June, 69 foundations with endowed assets totaling $5.27 billion had pledged to join. Of those, 20 were not already disbursing at 5%. Bahen estimates that those for whom 5%

represents an increased disbursement could together provide approximately $21.5 million in additional support to charities in 2020.

Bill Young has mixed feelings about the results of the campaign. He's encouraged it pushed a range of foundations of different sizes and geographies to sign on, and that it prompted some reflection and additional granting. But he adds that the 5% target wasn't a big ask, and the response reflected the foundation community's "insular and opaque" outlook.

"There's sometimes a tendency for foundations, when markets have been in turmoil and they've lost a bunch of money, to think, 'Oh my goodness, this is a time to retrench,'" says Young. "When, in fact, if you look at it from the opposite lens, this is the exact time you can't retrench. When [the sector is] asking the government for money, the foundation community being willing to step up over and above what is the minimum required to will be seen to be a good thing."

One of the Give5 signatories, The Sprott Foundation – established by mining and Bay Street veteran Eric Sprott – stepped up big time in April with a $20-million donation to Community Food Centres Canada and Second Harvest. They earmarked 60% of the grant for grocery gift cards for Canadians experiencing food insecurity, 38% for food programs, and 2% for program expenses. The model was developed collaboratively with the two beneficiary organizations.

The gift brought the foundation's total COVID-related granting to $21.4 million, and their total disbursement for this year to 13%, up from an average 8% in previous years, says chief giving officer Juliana Sprott.

"The original plan was to make many small [$100,000] gifts spread out over a variety of grantees, and that was very well received by our board," says Sprott. "But then my dad approached me and said, it's going to get really, really bad. So we sat down as a family [and with our board] and we said, 'to really make a dent and support our fellow citizens, it has to be a significant amount of money.'"

Among the community foundations fastest out of the gate with a crisis response was Vancouver's. CEO Kevin McCort says the Vancouver Foundation, which has endowed assets of $1.2 billion, had integrated emergency funding to its giving approach a few years ago in response to the BC wildfires and the opioid crisis. "When the COVID pandemic hit, the board and the organization were prepared to play a bigger role because we started smaller a couple of years ago and had shifted our mindset to think that there's a role for us in a crisis," he says.

The foundation went from a concept memo for its Community Response Fund to board approval to its first granting decisions in just four days. The fund was co-seeded with three other partners.

McCort asked the foundation's community advisory board to consider another mindset shift: to look at their work as making gifts, not grants. As of June 15, the Community Response Fund had grown to $19.3 million, with the foundation contributing $13.25 million. Its board is meeting quarterly to issue new funds and has made a point of not treating this measure as a zero-sum game. Besides continuing all other planned grants, the board committed to maintain its Systems Change Grant stream regardless of how much goes out the door for emergency response, says McCort. He hopes this year's disbursement will exceed 2019's 5.2%.

McCort adds that the question of how to balance endowment sustainability with community response is a live one at foundation. “We've specifically named this as a polarity, and I've been discussing it with our board and our community over the last several years, trying to get the right balance of maximizing disbursements in the present and balancing that against our mandate to be there in the future. We don't profess to have the answer, but it's been an active conversation.”

Meanwhile, the team at the Vancouver-based Raymond James Canada Foundation, which disburses 20% in an average year (including giving from donor-advised funds), also used their experience with emergency funding to inform their COVID-19 response, says vice-president and executive director Janine Davies. The foundation’s typical match for disaster-relief campaigns is $25,000. When Davies pitched a COVID-19 relief fund to her board in March, they responded with a $100,000 match., Davies is trying to mobilize donor advised fund holders, clients, and employees to also go above and beyond. “If I’m able to liberate more money, help increase the number of donors in Canada, and make it easier and access more pockets, then great!”

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Hilary Pearson, former CEO of PFC, says she’s heard from some foundation leaders who wish they’d done more during the 2008-09 financial crisis and want to avoid making the same mistake twice. “I would have been keen to see a collective response on the part of foundations to the financial crisis. And they just weren’t willing to do that collectively. They were quietly supportive but not publicly,” she says. “The big difference now is that they’re willing to work collectively and to step up with new funding.”

But is the current response enough? PFC and other organizations are trying to bridge the data gap in the sector to help answer that question. On June 23, PFC released the results of an online survey with 50 private and public foundations, non-profits, and charities that found those organizations together had committed $99.5 million in COVID-19 response funds, with the bulk of that total — $85 million — coming from private foundations. PFC is also participating in a shared data-tracking project with Community Foundations of Canada, Carleton University, and PhiLab that will provide information on foundation decision-making during the crisis.

Bronwyn Oatley and Jonathan McPhedran Waitzer, co-founders of the mutual aid organization Resource Movement, believe more needs to be done. In an opinion piece in the Future of Good, they argued that focusing on 5% limits the conversation about the change that’s possible.

“I saw a couple of tweets from foundations about how proud they were to have signed the Give5 pledge and I was really angry,” says Oatley. “The fact that foundations are only required to give out 3.5% is a disaster. It felt very self-congratulatory for a group of folks who already have so much social power to celebrate doing a bare-minimum increase.” They cite the US campaign that’s pushing Congress to mandate a 10% disbursement over three years as an example of the kind of radical increase that’s required.

(In the US, the foundation response continues to pick up momentum. In June, the Ford Foundation and two other major US foundations, for example, announced they would issue bonds to raise $1 billion in additional funds.)

McPhedran Waitzer would like to see foundations taking 5% as a minimum, and the nonqualified donee restriction lifted to create more opportunities for granting and direct transfers of wealth to communities — an issue that's also been raised by Senator Ratna Omidvar.

The Circle on Philanthropy and Aboriginal Peoples in Canada (The Circle) is also encouraging foundations to think beyond the crisis and 5%. Their #Other95 campaign invited people to imagine how foundations could put the other 95% of their assets to work in support of reconciliation and systems change.

“My question is, What's the next hardest thing you could do?” asks CEO Kris Archie. She adds that the campaign drew "minimal engagement," and wonders whether a fear of repercussions is partly to blame. “I don't think that change happens in moments like this unless folks are given an invitation to think bolder. There are different folks in social investing who are definitely talking about how foundations can make use of the other 95% of their endowed assets.”

One of those people is Young, who argues that foundation endowments should be invested in projects that create social impact — and that governments should tax the investment earnings of those that haven't made the shift within a 10-year time frame. In *Policy Options*, he makes the case that this reform could be a way to direct existing assets to funding social and infrastructure projects like affordable housing or clean energy initiatives.

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In May, an EKOS poll found that 73% of Canadians expect broad social transformations post-crisis. The question on some people's minds is what role the incredible wealth of foundation endowments will play in that transformation.

“There are billions of assets that need to play a role in this moment,” says Kerr of MakeWay. “We need to make sure that money is moved really strategically. We need to be building the Canada that the charitable sector believes in, one with clean water, security for all, decent work, tackling inequalities. We need to really put our money where our mouth is so that we're actually driving that kind of change.”