



## **Summary report #17 : Grantmaking in Canada and the United States: A Comparative Review and Analysis of the Literature,**

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### INTRODUCTION

In Canada as in the United States of America, the number of foundations has steadily increased over the past 50 years. However, we can state that there is missing academic studies about Canadian funders.

The objectives of this research paper are:

- To mobilize primary data and second-hand research to explain how and why the landscape of Canadian grantmaking foundations is different from or resembles that of the United States;
- To emit recommendations that would be useful, in the future, to compare Canadian grantmakers with those of other countries.

### METHOD

The terrain consists of first-hand data as well as in an analytical census of written works. The comparison is made difficult by the fact that we do not have the same type of data in Canada as in the United States of America.

This census compares more particularly three key dimensions:

- Historical and cultural influences
- The size and practices of the sector (institutional forms, assets and expenditures, areas of investment)
- Legislative frameworks

### DEFINITION

A grantmaking foundation is a “non-profit, non-governmental organization, that has their own fund as principal funding, managed by their own Board of directors or own management, and created to support social, educational, charitable, religious activities or all other activities that contribute to the common good” (Andrews, in Hammack et Anheier, 2013, p. 157).

### RESULTS

Types of foundations in Canada	Types of foundations in the United States of America
<p>In Canada, there are 3 types of charities: charitable organizations, public foundations and private foundations. All charities can distribute grants, must have a charitable cause and cannot be involved in political activities. According to the Canada Revenue Agency's data, charitable organizations are the most numerous among the 3 existing types: there were 75 767 of them in 2016. They can distribute funds but these cannot represent more than 50% of their yearly income, unless they are given to associated charitable organizations (Man, 2006).</p> <p>In contrast, the distribution of grants is the main activity of public and private foundations, the first counting 5 107 of them in 2016 and the second 5 536 for the same year (Canada Revenue Agency, 2016). Public foundations receive their funds from several donors and must distribute at least 50% of their revenue to qualified beneficiaries every year, which are most often other charitable organizations. The revenues of private foundations on the other hand, for at least 50% of the total, come from the person or group of people controlling the foundation and are not obliged follow the requirement of distributing, yearly, 50% their revenue to qualified beneficiaries.</p>	<p>The tax laws in the United States bring together all of the legislation on non-profit organizations, including that of grantmaking foundations, under the clause "501(c)(3)". These organizations cannot use their funds for individual profit, to get involved in influential or political activities (Internal Revenue Service, 2016). There are 3 types of foundations in the United States of America, that differ slightly from Canada's: public charities, private foundations and operational private charities. At least 33% of the revenues of public charity foundations must come from small donors, other charities or the government. These funds must profit the public well-being. At least 50% of the administration must be completely independent of the organization itself.</p> <p>In contrast, private foundations mostly have only one source of funding, often a wealthy family or a company, and can be controlled majoritarily by the stakeholders. Operational private foundations are private foundations that spend at least 85% of their net adjusted income or of their minimal return on investment to conduct their own charitable activities.</p>

The relationship between subsidizing, charity and the State

In both countries, grantmaking foundations play an important role in the financing of public services provided by the charitable organizations. As Wolch (1990) notes, the State considers the offering of social services throughout the charitable sector as a way of cutting costs, of limiting the role of the government in the provision of services, and to promote community innovation and self-reliance. In consequence, the number of charitable organizations in the United States of America increased exponentially between the 1960s and

1980s and undertook a more and more significant portion of the services offered. The same phenomenon happened in Canada between 1990 and 2000. The State is the principal funder of these organizations.

Canadian and American funders share much in terms of their history, roles, size and legislative limitations. The history of philanthropy in the United States has been largely covered by the scientific literature (Lagemann, 1999 ; Nagai, Lerner et Rothman, 1994 ; Zunz, 2014). Foundation philanthropy began with the industrial boom of the 19th century and beginning of the 20th, carried by industrialists such as Andrew Carnegie and John D. Rockefeller. The political support for the development of the charitable sector allowed for the United States of America to position themselves at the head of grantmaking.

In Canada, the history of foundations varies depending on the region in question. In the West, at the turn of the 20th century, community foundations developed out of the solid cooperative movement, in the image of the Cleveland Foundation created in 1914. In the East, the development was closer to that of the United States of America by basing themselves on a private foundation philanthropy that was more formalized, for example, with the creation of the Massey Foundation in 1918. Quebec is a particular case compared to the rest of Canada, with its philanthropy being developed out of the Catholic Church before being eclipsed by a socially interventionist provincial government in the 1960s (Lefèvre and Rigillo, 2017).

In both countries, the great portion of grantmaking foundations are philanthropic, or based on the contribution of donors, even if certain large foundations depend on the generosity of companies or government funds. In Canada as in the United States of America, a majority of private and public foundations are registered as charitable organizations, which exempts them from being taxed on their revenue and allows them to emit charitable tax-exemption receipts to their donors.

### **Differences between Canada and the United States of America**

The observed differences stem mostly from:

- The attitude of citizens regarding charitable organizations: Canadians are more favorable to governmental funding of public institutions than Americans; in the United States of America, foundations are perceived as having to occupy the space left vacant by the public and private sectors; in Canada, notwithstanding the significant presence of the State, attitudes toward the charitable sector are generally positive; on all territories generosity is correlated to income;
- Governmental endowments of large foundations; which are absent in the United States of America;
- Annual expenditures of foundations; slightly lower in Canada, particularly among community foundations;
- Definitions of charitable objectives and the permission to get involved in advocacy, slightly more limited in Canada than in the United States of America;
- Expenditures of foundations for international causes; lower in Canada.

### **Proposed directions for future research**

The authors suggest the following research leads:

- The study of Canadian foundations to understand the history of grantmaking in Canada, as well as to better understand how Canadian grantmaking foundations continue to adapt throughout time to social and political pressures;
- The potentially different role of foundations between Canada and the United States of America in the funding of institutions such as universities and hospitals;
- Case studies on the nature and reach of partnerships between governments and foundations aiming for the provision of services;
- The current state of contractualization of social services among charitable organizations in Canada and in the United States of America, given the recent changes in social expenditures;
- The substantial differences in the granting practices of Canada and the United States of America, for instance in the incentive for social innovation, the use of approaches in terms of social justice, and the differences unique to the issues being subsidized;
- Comparative research on the nature and reach of grantmaking for specific sub-populations, such as Aboriginal/Native Americans in Canada and in the United States of America.

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