

Written Submission for the Pre-Budget Consultations in Advance of Federal Budget 2022

By: Imagine Canada

Recommendation 1 – Enable equitable partnerships through qualified donee reform

Recommendation 2 - Enhance the Community Services Recovery Fund

Recommendation 3 - Extend eligibility for the Digital Adoption Program

Recommendation 4 - Collect sector-wide data for improved decision making

Recommendation 5 - Strategically engage with our sector through a home in government for charities and nonprofits

Recommendation 6 - Invest in nonprofit child care

The nonprofit sector is a foundational pillar of Canada’s economy, society, culture, and natural environment. Nonprofits and charities touch the lives of all of us as they work for the purpose of building strong communities at home and abroad and underpin our quality of life. Organizations across dozens of subsectors deliver on mission areas we have come to rely on: art classes, mental health supports, affordable childcare, environmental conservation, services for individuals with disabilities, animal welfare, skills training, care for seniors, the advancement of human rights. The programs nonprofits and charities offer are too many to list and they continually evolve to meet changing circumstances.

Our sector has risen to the immense challenge of delivering to communities on basic needs and maintaining quality of life during the most severe health and economic crisis in generations. Organizations adapted their services to reach existing and new clients; reconfigured revenue models, staff structures and program design to sustain operations; and in many cases worked harder and for longer hours under tighter constraints.

Unfortunately, much of the sector continues to face rising demand despite insufficient capacity and what are often steep revenue declines.¹ Many nonprofits and charities are sacrificing their own long-term sustainability in order to deliver on their missions.² Those organizations that have faced collapsed demand (have had to close due to public health measures) will also be required to support individuals and communities through the rebuilding period.

We have put forth recommendations for Budget 2022 that would help to propel the nonprofit sector’s potential as a key player in ensuring an equitable recovery. Our recommendations fall within three themes:

- **Enabling a more equitable funding environment:** The majority of the nonprofit and charitable sector has faced financial challenges throughout the pandemic, but our research shows that organizations serving small regions or specific populations are facing the steepest challenges to adapting.³ In addition, long standing rules have hindered the flow of charitable dollars to meet emerging needs, Indigenous communities, and other equity seeking groups. Expanding the Community Service Recovery Fund and changing “direction and control” requirements would create a more equitable funding environment and help preserve the diversity of our sector.
- **Strengthening organizational capacity through innovation and adaptation:** Nonprofits and charities have gone to incredible lengths to innovate and adapt in order to continue pursuing their missions during the pandemic. At the same time, many lack the ability to make the technological investments required to bridge to sustainability. Expanding eligibility of the Canada Digital Adoption Program to nonprofits and charities will support adaptation through the recovery period. Investing in the collection of nonprofit sector data will help the government understand organizations’ continued capacity strengths and challenges across the “K” shaped recovery.
- **Strengthening the government’s relationship with the nonprofit sector:** Our sector’s relationship to the federal government has never been more important, and the weak nature of this relationship has never been more evident. The Government of Canada frequently relies on the nonprofit sector to deliver on priorities with programs and services, but does not currently

¹ Imagine Canada. (2021). Forthcoming Sector Monitor report.

² Imagine Canada. (2021). Sector Monitor: Ongoing Effects of the Covid-19 Pandemic.

³ Ibid.

engage strategically with its infrastructure and capacity. The creation of a national early learning and childcare system is a step toward reversing this trend by investing exclusively in nonprofit child care. The creation of a home in government would put the nonprofits and charities on equal footing with other economic sectors.

Recommendation 1 – Enable equitable partnerships through qualified donee reforms

Currently, charities cannot deliver funds to non-charities unless they enter into an agreement whereby they exercise “direction and control” over the operations of their non-charity partner, creating a paternalist and colonial barrier to partnerships.

Many organizations doing critical work in communities are not qualified donees, so these rules make it more difficult for funding to flow to equity-seeking communities. In fact, the federal government announced measures in Budget 2021 that aim to address funding needs, including the Black-led Philanthropic Fund and the Community Services Recovery Fund. Direction and control requirements will hinder efforts to deliver these public funds to communities underserved by registered charities.

Calls continue to mount for a funding environment that is both more responsive to emerging needs and respectful of complex power dynamics. The Senate recently passed [Bill S-222, The Effective and Accountable Charities Act](#), in recognition of the unnecessary burden current requirements place on communities and organizations. The Advisory Committee on the Charitable Sector prioritized this issue to become the [first recommendation of its first report](#). A group of 37 legal advisors specializing in charity law penned [an open letter](#) identifying the problems caused by this regulatory requirement that is unique across all international jurisdictions.

We recommend that:

- I. **The “own activity” test in the ITA that requires registered charities to devote all of their resources to charitable activities carried on by themselves be replaced with a regime that permits registered charities to operate in furtherance of their charitable purpose; and**
- II. **The administrative requirements around direction and control be replaced with a requirement for registered charities to establish reasonable and practical parameters for ensuring resource accountability when working to achieve a charitable purpose through a third party that is not a qualified donee.**

Recommendation 2 – Enhance the Community Services Recovery Fund

Imagine Canada research shows that COVID-19 pandemic continues to have a major impact on the sector’s finances and capacity to deliver programs and services.⁴ Throughout the crisis, sources of unrestricted core funding (mainly donations and earned income) have been severely impacted.⁵ Core

⁴ Imagine Canada. (2021). Forthcoming Sector Monitor report.

⁵ Imagine Canada. (2021). Sector Monitor: Ongoing Effects of the COVID-19 Pandemic. Retrieved from: <https://www.imaginecanada.ca/sites/default/files/Sector-Monitor-Ongoing-Effects-COVID-19-Pandemic-EN.pdf>

funding covers costs including rent, technology, communications, revenue generation, training, insurance, reporting, and evaluation, all of which are essential to delivering programs and services.

The CSRF is a welcome infusion of core operating support that will help charities and nonprofits adapt and modernize to the challenges created by the pandemic. Our research shows that small and medium organizations serving small regions or specific populations (as opposed to the general public) are having a disproportionately hard time adapting. They have also been less likely to access federal emergency measures such as the CEWS and the CERS, putting the diversity of the sector at risk.⁶ The CSRF presents an opportunity to counter this trend and bolster those organizations that most need support. Additionally, in recognition of the value that all nonprofits and charities bring, we believe it is important that the CSRF be open to all public benefit nonprofits and registered charities on the basis of need, rather than just those organizations providing frontline services.

The scale of need in the nonprofit sector is greater than the \$400 million allocated, particularly as emergency measures expire this fall. Donation levels have not yet rebounded and it is important that organizations have time to spend the funding in meaningful ways so that the program has a truly transformative impact.

We recommend that the federal government:

- I. Ensure that all public benefit nonprofits and registered charities are eligible to receive funding through the CSRF on the basis of need.**
- II. Expand the CSRF by providing an additional \$300 million in funding.**
- III. Extend the timeline for use of CSRF funds to March 30 2023.**

Recommendation 3 – Extend eligibility for the Digital Adoption Program

While it is common to believe that nonprofits are funded primarily by donations, nearly half (42%) of our sector's funding comes from the sale of goods and services. As of 2013, approximately 75% of charities were engaged in activities that generate revenue.⁷ Despite this, when the federal government creates programs to support business development and innovation, the nonprofit sector is often excluded.

Additionally, a long standing lack of core funding opportunities available to the sector has led to a chronic inability to invest in technology. As a result, many organizations have out-of-date computers, aging software, and struggle to access enterprise technologies such as video conferencing platforms and CRM databases. During the pandemic, this created challenges for organizations as they adapted to virtual service delivery.

The Canada Digital Adoption Program provides an opportunity to begin to address both of these issues.

⁶ Ontario Nonprofit Network. (2021). COVID-19: State of the Ontario Nonprofit Sector One Year Later. Retrieved from: https://theonnc.ca/wp-content/uploads/2021/07/2021_ONN_State-of-the-Ontario-Nonprofit-Sector.pdf

⁷ Imagine Canada. (2013). Earned Income-Generating Activities Among Canadian Charities: A Summary of Findings from Imagine Canada's Sector Monitor

We recommend that the federal government extend eligibility for the Canada Digital Adoption Program to nonprofits and charities and accordingly provide additional funding of \$200 million for the program.

Recommendation 4 – Collect sector-wide data for improved decision making

There are numerous gaps in the data currently collected by the federal government about the nonprofit sector in terms of macroeconomic, human resources, and organization-level information. Evidence is key to informed decision making, and this data deficit creates challenges for policymakers and nonprofit sector leaders. Furthermore, collecting data on the nonprofit sector would advance the federal government's recent commitments to improve its quality of life measures and the availability of disaggregated data.

It is essential that we have baseline information about the number and location of nonprofits, their areas of activity and target populations, their financial and human resources, and the challenges they face.

We ask that the federal government provide Statistics Canada with a mandate to carry out a follow-up to the 2003 National Survey of Non-Profit and Voluntary Organizations on an annual basis and provide funding of \$5 million for 2022 plus \$1.5 million ongoing.

Recommendation 5 – Strategically engage with our sector through a home in government

The charitable and nonprofit sector is one of the three core pillars of our society and economy: it is an important economic driver, contributing 8.4% to GDP, and boasts a workforce of 2.4 million people,⁸ the majority of whom are women (77%).⁹ Despite its significance and magnitude, no strategic relationship exists between the federal government and this sector. There is a lack of policy coordination across departments, and no plan for how the public and nonprofit sectors will work together to meet the rebuilding effort and future challenges.

As was recognized in Budget 2021, charities and nonprofits build healthy, resilient, and inclusive communities and contribute meaningfully to quality of life. However, even as government after government counts on the health of the sector to deliver on many promises and programs, there is no entity responsible for ensuring the well-being of charities and nonprofits as a sector. Never was this more clear than during the pandemic, when many of the federal economic relief measures initially failed to take into account the unique characteristics and revenue models of charities and nonprofits.

A host of issues, ranging from inefficient and ineffective funding practices to a lack of access to support for social enterprise activities, impact the sector in chronic and systemic ways. A home in government

⁸ Statistics Canada. (2021). The Daily — Non-profit institutions and volunteering: Economic contribution, first quarter 2021. Retrieved from: <https://www150.statcan.gc.ca/n1/daily-quotidien/210628/dq210628c-eng.htm>

⁹ Statistics Canada. (2021). The Daily — Non-Profit Organizations and Volunteering Satellite Account: Human Resources Module, 2010 to 2019, . Retrieved from: <https://www150.statcan.gc.ca/n1/daily-quotidien/210430/dq210430d-eng.htm>

would be responsible for ensuring the long-term health of our sector while strengthening its relationship to government and policymakers.

We reiterate our longstanding recommendation that the federal government establish a “home” for the sector within the machinery of government.

Recommendation 6 – Invest in nonprofit child care

Nonprofit child care providers are the best partners to ensure that the system provides high-quality, affordable, and accessible care. As the federal government works with the provinces to create a national early learning and childcare (ELCC) system, we echo recommendations made by the YMCA and Public Policy Forum in its study of ELCC labourforce challenges.¹⁰ We also support the Ontario Nonprofit Network¹¹ and of a group of charitable, academic, and private sector childcare leaders¹² in their call for the federal government to focus ELCC investments into nonprofit providers.

We recommend that the federal government direct all federal investments for expanding ELCC toward nonprofit providers. This includes reserving all federal capital investments for the retrofitting and building of new licensed child care spaces within exclusively nonprofit agencies, and direct investments in the nonprofit ELCC workforce as it recovers from the pandemic.

¹⁰ Public Policy Forum. May 25, 2021. From Investment to Action: Building a Canada-wide Child Care System. Retrieved from: <https://ppforum.ca/wp-content/uploads/2021/05/FromInvestmentToAction-May2021.pdf>

¹¹ Ontario Nonprofit Network. (2021). Supporting a Canada-Wide Child Care and Early Years System. Retrieved from: <https://theonnc.ca/our-work/our-people/decent-work/supporting-universal-childcare/>

¹² Early Child Development Funders Working Group. (2021) Charitable, academic, and private sector leaders urge Ottawa limit child care funds to non-profit/public providers. Retrieved from: <https://ecdfwg.ca/en/open-letters/open-letter-june-2021/>