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# The COVID-19 Crisis Presents an Opportunity for Canada's Charitable Sector to Disrupt the Status Quo: Sector Leaders

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As Canada's charities continue to respond to a severe pandemic-related financial beating, they are also confronting serious questions about their business models, their lack of crisis preparation, and their need for an effective collective voice.

Sector leaders, as well as those delivering front line services, see the need for big changes ahead, especially in the context of a country that is tentatively making its way toward some semblance of normalcy. These changes, they say, could see a move to organizations building mandatory cash reserves and donors loosening restrictions to [allow more core funding](#). Others are calling for improved data collection and more collaboration and amalgamation.

The COVID crisis has also given rise to a working group that is seeking fundamental change in the sector. Established by the Mirella and Lino Saputo Foundation, Philanthropic Foundations Canada (PFC), and Ashoka Canada, and known as the Academy for Collaboration, the group wants to transform, not merely tweak, the sector's risk-averse culture into something more progressive, says Danica Straith, Ashoka's director of venture and partnerships.

A pilot program, which includes the CEOs of seven family foundations from across the country, is examining the role of philanthropists as allies for systemic change. It was already underway before COVID-19 struck and will continue throughout the summer. But the pandemic's impact has given the undertaking more urgency, adds Straith. The pilot was born of a frustration with the direction of a sector that many found lacking ambition, and often dragged down by egos and

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internal politics.

“It didn’t feel like we were where we should be as smart people committed to social change,” Straith says.

In addition to these developments, the [Indigenous Peoples Resilience Fund](#) (IPRF) launched in mid-June to support First Nations, Metis, and Inuit peoples and communities respond to COVID-19. “Led by a diverse group of Indigenous advisors from the East, South, West, and North, the IPRF will provide funding ranging from \$5,000 to \$30,000 per project,” according to a statement from the founders. “As the first of its kind in Canada, the Fund has attracted a number of private investors and foundations; it currently sits at \$1.4M and is expected to grow through 2020.”

“This is doing philanthropy in a way that has never been done in this country,” says Wanda Brascoupé, Kanien’keha, Skarù r?, Anishinabeg, advisor at Indigenous Philanthropy, and past executive director of The Circle on Philanthropy and Aboriginal Peoples in Canada (The Circle).

A mere 12 years ago, less than 1% of foundation money in Canada was going to Indigenous communities. Yet, in ensuing years, The Circle and the Ontario Indigenous Youth Partnership Project were formed. The historic [Declaration of Action](#) by Canadian philanthropic foundations pledged to work for reconciliation in the spirit of the Truth and Reconciliation Commission.

“This is the next natural step in the process,” says Victoria Grant, Teme-Augama Anishinabeg, the former chair of Community Foundations of Canada, who has spent most of her working life advocating for more robust Indigenous Peoples engagement.

A 12-member advisory council will decide on the distribution of the funds, relying on Indigenous communities to identify gaps and inform the advisors about where support is needed, especially fields like health, food security, technology barriers, employment, social distancing, and mental health.

The council’s work coincides with efforts by many charities to confront steep and immediate challenges. The past few months revealed that many organizations on the ground are so thinly resourced that very few had sufficient reserves to see them through this crisis. The Ontario Nonprofit Network found almost half the province’s non-profits lacked even a three-month financial buffer.

“There is a structural reality and a cultural bias against a charity having reserves,” says Kevin McCort, president and CEO of Vancouver Foundation. “The charities themselves have bought into this.”

Owen Charters, president and CEO of Boys and Girls Club of Canada, has seen its member organizations lay off 6,000 of 7,000 employees. “We need to fundraise with an eye to building a cash flow,” he says. “Hopefully, funders and donors have awakened to this reality. This is the time to change the nature of our ask.”

These sector leaders note that foundations, in turn, must be more proactive and continue the pandemic trend of providing core funding, acknowledging that grantees know best how to spend their funds and deliver services. “We know it is good practice, but it does rely on trust,” says

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PFC president and CEO Jean-Marc Mangin. “We will have to provide the evidence to our membership to continue a move away from project funding.”

All agree the sector’s lobbying and advocacy voice has long been too muted and it is paying the price as business and labour groups have been far more successful at securing bailout funding.

Access to better and more current data will be another requirement in the coming years, McCort adds. “The data is terrible. We’re flying blind and don’t know the real impact of this on charities themselves.”

Looking forward, Charters sees a fraught re-opening as charities and non-profits face heightened demand for service but shrunken government and donor funding.

The challenges facing Canadian charities, notes Imagine Canada’s president and CEO Bruce MacDonald, also confront charities worldwide. Charities in the United States, United Kingdom, and Australia all face the same fault lines, with funders failing to provide the support for technology and infrastructure or allowing front-line services to build cash reserves, he says.

Like other businesses, charities are finding new ways to deliver their services, with more than half reporting they have moved programs online or expanded existing virtual programming. And, although there will be casualties as the crisis continues to worsen, many are taking this crisis as a sign that the status quo must change.

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For a look at what the sector has learned, or can learn, from the crisis, we turned to Gordon Floyd, former vice-president of Imagine Canada, former CEO of Children’s Mental Health Ontario, and a current member of the board of the Agora Foundation, which publishes *The Philanthropist*. (The following is an edited version of this conversation.)

### **What has this pandemic exposed as weaknesses in the business models of the philanthropic sector?**

**Gordon Floyd:** The revenue models that have worked for the sector in the past, consisting of a mix of corporate and individual giving and government funding, have already been disrupted by the pandemic and will continue to be disrupted in a huge way.

The heavy reliance in the social service sector on government funding is going to cause real problems as governments coming out of COVID have to focus on investments in the health system, particularly seniors care, and will be struggling with a massive deficit. We will see the Canadian model of very heavy reliance on government funding called into question. Despite the current challenges, including the recovery from COVID-19, organizations are going to have to take a hard look at developing alternative kinds of revenue sources – primarily individual donations and earning money.

Trends that existed before the pandemic are going to be magnified and one of the trends for this sector was a move toward earning more revenue to ensure that revenue would be less susceptible to political whims or business cycles. That’s one area that is going to have to pick

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up.

**Can you cite an example of an earned revenue initiative that could act as a model?**

Imagine Canada has historically earned a significant portion of its revenue by selling a service that helps charities identify which foundations are their best prospects and (provides) the giving history of those foundations. It's an online tool called Grant Connect. It's a business operating within the charity which is part of the charity's mission.

**How can the sector deal with a downturn in individual donations?**

We're going to have a big recession. Individual budgets are going to be pinched and that will obviously push against an increase in individual giving. But I think the other significant thing that has happened [during the pandemic] is a rising awareness of the interdependence we have in our society and our world. [Former Bank of Canada governor] Mark Carney wrote recently in *The Economist* that we're going to see a new set of values driving a lot of activity in our society and those new values will reflect less self interest and more altruism. That augurs well for our sector.

**How did the sector get to a point where it largely lacked sufficient cash reserves to see it through this storm?**

This is a huge problem and a huge challenge. The professional advice of organizations of any size is to make sure you have a minimum of three months of cash on reserve. The vast majority have essentially no reserves and the psychology behind those decisions is the same psychology which has led to chronic underpayment of staff who work in the non-profit sector, a psychology which is all about service rather than self.

The notion has been if you get a dollar in, you put that dollar to services rather than cash reserves or salary for your staff or toward new computer equipment.

Those decisions are made with admirable commitment to the community, but they have now been exposed as short-sighted. One of [the] big challenges to boards of charities coming out of this is going to be the need to shift the financial management of their agency to ensure survival.

We are going to see a lot of organizations collapse because of this failure to ensure reserves. Challenge number one for charities is to get through this one way or another. Then challenge two is make sure this doesn't happen again. The next time there is a disaster, make sure you are structured to come through it alive.

**This will take a major shift in the mind-set of a rather conservative sector. Will it also mean more unrestricted funding that provides more freedom to frontline organizations? Is the sector ready to move in that direction?**

Those who aren't prepared to move in that direction – assuming they make it through this first wave – will probably not make it through a second. Some people are probably going to have to get hammered one more time to get the message.

The way so many charities have been managed is so close to the line that their futures have

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been put in jeopardy and that is not responsible management.

It is an extremely tough decision to keep money away from the frontlines and squirrel it away for a reserve fund. It's hard to get that money and it's hard to protect that money.

At Children's Mental Health, it took us three years to build up a three-month reserve, just chipping away and adding a little bit by bit until we got three months of operating cash in reserve.

### **Doesn't this mean educating grant-givers that it's okay for grant money to be used for reserve funds?**

There needs to be more education of the grant-givers. Some are there. The United Way Greater Toronto has been quite sophisticated in their understanding that having a reserve is a good thing. More foundations will have to be educated in why this is something that charities need to do, rather than be penalized for.

### **Has the sector properly and effectively advocated for its needs?**

Charities need to move at lightning speed now to become much more vigorous advocates. The government funding model coming out of this is going to be brutal for charities, in part because of the size of the deficit, but in large part because there is such a heavy demand for spending in other areas.

Whether it is business support or fixing the seniors care system, there are going to be big investments that have nothing to do with charities. If charities want to get a piece of government spending or even to maintain existing levels of funding, then there's going to have to be a much more organized and vigorous advocacy campaign.

Over the past month or so I have watched the activities of a variety of lobbying organizations as they start to appeal to governments for bailout funding. We've read in the media about the airlines and the oil industry – the list is long – and at the same time the charitable sector has been trying to get some attention about a stabilization fund that would help charities come out of this.

But there is no structure within the charitable sector to make a lot of public noise about these requests. So while the requests of the airlines and the oil and gas industry are being buttressed with a slow and steady drumbeat of news stories about their plight, I have yet to see a story anywhere in the mainstream media about charities struggling.

### **Is that a failing of the mainstream media or the sector?**

It's a failure of the sector to deliver its message in an effective way to the mainstream media. If you want a story to run, you have to package something, establish relationships in the media and you have to deliver your version of the story to a journalist who will then take it and turn it into a more independent report.

The sector just hasn't been doing this kind of thing.

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**How many organizations do you believe will not survive this period – and how many do not really deserve to survive?**

In any given year there will be 2,000 to 3,000 charities that give up their registration and go out of business. That number will spike over the course of the next two years. Some will survive for a bit and will be able to stagger forward before succumbing. There are others who have already closed their doors. Of course, there are some that should be closing their doors.

**Something like COVID-19 can cull the weak in any business. Were there too many weak performers in this sector?**

Yes. Another trend that already existed and will be accelerated is collaborative work and mergers. We're in an environment where we will have many weakened organizations and many more demands for the services that charities provide.

The only way that we will get through that is to see many more partnerships, strategic alliances, collaborations, mergers . . . particularly in the social services sector, but also the arts sector.

The arts sector appears to be in the lead in creative solutions to post-COVID realities. We've already seen many efforts from them to go virtual and we will need to see more of that.

I hope this will give more room and voice to some of the younger leaders in the sector who are more tech savvy than much of the existing leadership. I hope we will see some very healthy renewal at the top.

**Do you see a role for this publication in helping the sector go forward?**

*The Philanthropist* and the board of the Agora Foundation which funds it decided last autumn it was time for us to start covering some of the more immediate and critical operational and value-laden issues facing the non-profit and charitable sector in Canada.

We decided to create some content that might be a bit more controversial, that might stir the pot a bit, and force leaders in the sector to think more deeply about challenges and opportunities that are facing their organizations.

So we've been looking at the impact of COVID on the sector over the past couple of months. We now want to look at what the future holds and we want to provide a platform for discussion and thought about ways the charitable sector has to change in the face of COVID-19 and its aftermath.

This is a critical time for charities to rethink their role in communities and to rethink their relationship with governments and the private sector. The shock of this can be an opportunity to update structures and methods of work within a sector that has been very slow to evolve and modernize over the years.

We've almost got a clean slate here. We should be thinking about what to put on it.

**You're not full of despair, but you have painted a stark picture.**

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What's coming will not be pretty. But this is an incredibly resilient sector which manages to get beat up one way or another every decade or so.

When these crises hit [previously], we try to scale back and muddle through. Coming out of this pandemic, I hope we will see changes to our economic model that have underpinned much of our sector because this is so much bigger than [what] we have experienced in the past.

I hope this leads to some fundamental rethinking of the way some charities are organized, the way they deliver to services, the way they relate to their partners in the community and the way they deal with risk.

One way or another, this sector will come out of this. There will be opportunities in elder services, children services, the mental health field, domestic violence. These issues will continue to be big in a depressed economy.

The phrase that in every crisis is opportunity is true in this case.

*The charitable sector is responding rapidly to the expanding impact of the pandemic, in terms of outreach, operations, and advocacy. In the coming weeks, The Philanthropist will provide up-to-date coverage, as well as our usual reporting and commentary on other news of relevance to foundations, charities, and non-profits. [Read more of our COVID-19 coverage.](#)*