

# Intelligence MEMOS



From: Brian Dijkema and Sean Speer

To: Department of Finance

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Re: **SAVING THE CHARITABLE SECTOR FROM ITS COVID CRISIS**

The charitable sector has not been spared by the sharp decline in economic activity brought on by COVID-19.

Charities normally function as society's [shock absorbers](#) when crisis hits, but the pandemic poses serious threats to the sector's ability to absorb these shocks as donations, grants and fees dry up. Canadian charities may see financial losses this year of between \$9.5 billion and \$15.7 billion, according to one [estimate](#), and may have to lay off between 118,000 and 194,000 workers.

Canadian governments have taken steps to address these challenges. Charities and their employees are eligible for wage supplements and enhanced unemployment benefits. But some with irregular revenue flows or primarily volunteer work forces may not qualify or fully benefit from these programs. More needs to be done. Ottawa is now reportedly considering the creation of a significant [stabilization fund](#) (ranging from \$8-10 billion) for the sector.

In a recent [policy briefing](#), we recommend that the federal and provincial governments adopt a matching funds model as the primary means of allocating and distributing immediate-term support to Canadian charities. We identify some of the key design and implementation considerations, including eligibility criteria and possible funding caps.

Program design and administration details need to be refined, but there are six virtues to the matching funds model as opposed to other policy options.

1. **Speed:** Various factors (ranging from legal limits, to the nature of competition in the market for donations) prevent charities from holding cash reserves that can tide them over in tough times. The upshot is they need cash quickly. Delivering incremental support via the tax system or an application-based process will necessarily involve a lag. In a matching scenario, by contrast, charities could submit charitable donation receipts to the government on a monthly or semi-monthly basis and receive matching public funds equivalent to those receipts immediately.
2. **Administrative Simplicity:** There are already systems in place within the federal bureaucracy (e.g., [Global Affairs](#) and [Health Canada](#)) that administer matching funds. These systems can be expanded and mobilized rather than built from scratch or shoehorned into agencies or processes built for other reasons (e.g., local economic development agencies). The administrative burden on charities is similarly light when compared with application-based models.
3. **Accountability:** Charities are already required by law to provide proper accounting of charitable receipts to maintain their charitable status. Matching funds leverage these pre-existing processes and structures, and do not require new or additional reporting that other policy options such as application-based grants might.
4. **Equitable:** A matching model would have public monies follow private decisions and in so doing would preclude the government from having to pick and choose which charities get access to public support. The matching fund model, in this sense, aligns with, and reinforces, the voluntary character of the sector. This decentralized approach would have the government play a bridging and supporting role rather than a top-down one. The result is that funds would be broadly distributed based on the preferences of Canadians rather than public officials.
5. **Enables, enhances, and expands existing donor base:** Matching funds serve as a spur to greater giving by private donors. [Studies](#) show that matching increases the likelihood of charitable giving and revenue per solicitation by around 20 percent, and these positive outcomes can persist [after](#) the matching period ends. Both the more direct grants and enhanced tax credits, by contrast, seem to risk [crowding out](#) individual contributions over time.
6. **Inspires and Builds Solidarity:** The COVID-19 crisis is analogous to wartime. In such times, social solidarity is key to maintaining trust, a sense of common sacrifice, and ultimately stronger institutions and relationships. A national effort around charitable giving can be a key ingredient to a sense of national unity and a common mission. Giving has significant psychological effects on both individuals and communities. One [study](#), for instance, notes that "giving is in many cases an almost automatic emotional response, producing a positive mood." A matching fund initiative can therefore help to spur positive feelings of solidarity and togetherness in a time of crisis. Incremental tax relief or an application-based program would not ostensibly have the same effect on Canadian society.

A matching funds model would thus meet the government's primary objective of stabilizing the charitable sector but also have secondary benefits such as contributing to social solidarity that, in our view, make it superior to the other options available.

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