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Grantmaking in Canada and the United States:

A Comparative Review and
Analysis of the Literature

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Abstract: This review uses primary data and secondary literature to compare and contrast grantmaking foundations in Canada and the US, with respect to history and cultural influences, sector size and practices, and legislative context. Our main findings are as follows: The Canadian and American grantmaking sectors share much in terms of history, role, per capita size, and legislative limitations. Differences are most apparent with respect to citizen attitudes concerning charitable organizations (Canadians more in favour of government financing of public institutions than Americans), government endowments of large foundations (absent in the US), annual foundation disbursements (slightly lower in Canada, particularly among community foundations), definitions of charitable purposes and permission to engage in advocacy (slightly more circumscribed in Canada than in the US), and foundation disbursements for international causes (lower in Canada). Suggestions for further research on Canadian grantmaking foundations are offered to increase understanding of the role played by these institutions.

Keywords: Grantmaking foundations, Philanthropic foundations, Canada, United States, International comparisons.

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Grantmaking in Canada and the United States: A Comparative Review and Analysis of the Literature

In Canada and the US, the number of grantmaking foundations has steadily increased over the past fifty years. Due to a lack of scholarly research however, grantmaking in Canada remains something of a “terra incognita,” with only a handful of peer-reviewed articles published to date on grantmaking foundations (Jackson, 2004; Khovrenkov, 2016; Mittoo, 2007). Canada has largely been excluded from the body of international comparative research on grantmaking foundations. Differences in the ways in which data on grantmaking is collected between the two countries makes “apples to apples” comparisons difficult. Still, no scholarly effort has yet been made to compare the Canadian grantmaking sector to that of the United States – the only country to have produced a substantial body of knowledge on foundations, and often a normative standard for understanding foundations internationally (Hammack & Anheier, 2013; Toepler, 1999). Drawing on the available data, and cognizant of the limitations therein, this article 1) draws on primary data and secondary research to propose how and why the Canadian grantmaking landscape diverges from and converges with that of the United States; and 2) Makes recommendations for research on Canadian grantmaking that would be useful to generating richer international comparisons.

More specifically, this review compares Canadian and American grantmaking across three key areas: 1) Historical and cultural influences; 2) Sector size and practices (institutional forms, assets and expenditures, areas of investment); and 3) Legislative frameworks. Based on this review, we found that Canada and the US share many similarities in the origins and contemporary roles of their grantmaking sectors, their current disbursement levels and patterns, and the per capita size of the grantmaking sectors. Differences in grantmaking (and charity)

between Canada and the US appear to be shaped in part by 1) cultural differences concerning citizen expectations of the state vs. the charitable sector; and 2) legislative context.

FOUNDATION TYPOLOGIES IN CANADA AND THE US

Comparing grantmaking foundations internationally is difficult, due to the varying forms that foundations take around the world⁵ (Anheier 2001). For our purposes, we expand on the definition of a grantmaking foundation proposed by F. Emerson Andrews, the first director of the New York-based Foundation Center, as “a nongovernmental, nonprofit organization having a principal fund of its own, managed by its own trustees or directors and established to maintain or aid social, educational, charitable, religious, or other activities serving the common welfare” (in Hammack and Anheier 2013:157). Ideally organizations should formally issue grants to multiple recipient organizations as a *significant* part of their operations, although they may also operate their own programs. Anheier (2001) adds that foundations generally have a separate, identifiable asset base donated for a specific purpose, which is generally public in nature.

In both Canada and the US, most grantmaking foundations are philanthropic, or based on donor contributions, although some large foundations also rely on corporate largesse or government funds, while a smaller number draw on professional levies (e.g. real estate foundations). Likewise, in both Canada and the US, most public and private foundations in are classified as registered charities, which exempts them from paying income tax and allows them to issue official tax receipts to donors. Exceptions include certain profession-based foundations not capitalized through tax-receipted donations (e.g. most real estate and law foundations), which

⁵ For examples, see Lajevardi, Nazita; Mirle Rabinowitz-Bussell, James Stauch, Nicole Rigillo (forthcoming). Room to Flourish: Lessons for Canadian Grantmaking Foundations from Sweden, Germany, and the Netherlands. *Canadian Journal of Nonprofit and Social Economy Research*.

classify themselves as nonprofit organizations because they operate not strictly for charitable purposes.

TYPES OF REGISTERED CHARITIES IN CANADA

Since 1977, Canada's Income Tax Act has defined three kinds of registered charities: charitable organizations, public foundations, and private foundations. In terms of commonalities, all registered charities are: 1) able to make grants; 2) must have charitable purposes; 3) can be classified as corporations, trusts, or under a constitution; and 4) must not engage in political activities.

According to 2016 data from the Canada Revenue Agency, charitable organizations are the largest group, comprising 75,767 organizations. Charitable organizations must primarily carry out their own charitable activities, have more than 50% of its directors or like officials dealing with each other at arm's length, and must generally receive their funding from a variety of arm's length donors. Charitable organizations may also make grants to qualified donees, although grants may not constitute more than 50% of annual income, unless they are made to associated charities (Man, 2006).

By contrast, grantmaking is defined as the principal activity of public and private foundations, which in 2016 numbered 5,107 and 5,536, respectively (Canada Revenue Agency, 2016c). The primary distinctions between public and private foundations relate to their sources of funding, their disbursements, and the relationship of trustees to the organization. Public foundations generally receive their funding from a variety of arm's length donors, for example through public funding campaigns. They are required to give more than 50% of their income annually to other qualified donees, usually other registered charities, though they may carry out

some of their own charitable activities. More than 50% of their directors, trustees, or like officials must deal with each other at arm's length.

By contrast, more than 50% of private foundation funding must come from a person or group of persons that control the charity, or make up more than 50% of the directors, trustees, or like officials of the charity. Private foundations may carry out their own charitable activities and/or fund other qualified donees, usually other registered charities. Unlike public foundations, there is no requirement on private foundations to give more than 50% of their income annually to other qualified donees. Finally, private foundations are usually formed around a family or entrepreneurial core, meaning that 50% or more of its directors, trustees, or like officials do not deal with each other at arm's length (Canada Revenue Agency, 2016b). As in the American context, private foundations comprise various types – e.g. family, independent, and corporate – although these are not formal legal designations.

While under earlier legislation, only private foundations were required to make a minimum annual disbursement, since 2004 both public and private foundations holding assets greater than \$25,000 must annually disburse 3.5% of the average value of these assets over the past two years. Since 2010, rules requiring that the majority of donations be spent in the year in which they were received have been removed for all three categories, with the exception of donations received from other registered charities (Man, 2006:5-6).

TYPES OF FOUNDATIONS IN THE US

American tax law organizes all nonprofits, including grantmaking foundations, around the 501(c)(3) designation, which is the umbrella for twenty-nine types of exclusively charitable organizations exempt from some or all federal income taxes. 501(c)(3) organizations may not use their earnings to benefit private individuals, may not engage substantially in lobbying, and may

not engage in any political activity (Internal Revenue Service, 2016b). Grantmaking foundations are classified by the US Internal Revenue Service according to three slightly different types than those found in Canada: public charities, private foundations, and private operating charities. Notably, the legal designation of the Canadian public foundation is absent in the US; foundations obtaining funds from multiple sources would there be classified as a public charity.

According to the Internal Revenue Service (2016c), public charities carry out their own activities, funded by active fundraising programs and contributions from multiple sources – at least 33% of revenues must come from small donors, other charities, or government. Public charities must benefit the public good; its governance must therefore be at arms-length and without private benefit to insiders, which is generally taken to mean that more than 50% of the board must be unrelated by blood, marriage or outside business co-ownership and not be compensated as employees of the organization. There is no mandatory annual payout required for public charities.

By contrast, private foundations typically have a single major source of funding (usually gifts from one family or corporation rather than funding from many sources), and can be controlled by a majority of related parties. Private foundations are subject to a 5% minimum annual asset distribution, and are subject to greater oversight by the IRS through more stringent reporting requirements than exist in Canada (McRay, 2015).

Finally, a private operating foundation is any private foundation that spends at least 85 percent of its adjusted net income or its minimum investment return, whichever is less, directly on the active conduct of its own charitable activities. A private operating foundation is a kind of private foundation, and must operate under similar rules. However, it does not have to pay out 5

percent or more of its assets each year in grants. Instead, it must carry out its own charitable purposes (Internal Revenue Service, 2016a).

HISTORICAL INFLUENCES IN THE DEVELOPMENT OF GRANTMAKING IN CANADA AND THE US

Grantmaking sectors vary significantly depending on the nation in question. Salamon and Anheier's (1998) social origins theory proposes that this variation is the result of more than a single factor, such as government or market failure or the presence of religious nonprofit actors. Rather, different social and historical contexts give rise to four distinct nonprofit regimes arising out of differences in the relation between the state and the nonprofit sector. Salamon and Anheier classified the US under the "liberal" model, where government welfare spending was low, due to a lack of working-class movements and political hostility towards welfare expansion, creating space for a large nonprofit sector. The UK, by contrast, was classified under the corporatist model, characterized by a high level of welfare spending and a large nonprofit sector. Canada was not included in Anheier and Salamon's typology, though it might have been characterized as an amalgam of the liberal and corporatist models, with medium welfare spending and the second largest nonprofit sector in the world after the Netherlands – the Canadian sector employs 12% of the economically active population and contributes 6.8% of Canada's GDP. By comparison, the US ranks fifth (Hall, Barr, Easwaramoorthy, Sokolowski, & Salamon, 2005).

According to social origins theory, increases in welfare spending lead to a decrease in the size of the nonprofit sector in liberal regimes, and to an increase in corporatist regimes. This framework is somewhat ill-fitting when applied to the grantmaking sector, however, considering that grantmaking foundations are designed to exist in perpetuity, and therefore likely to only increase in number with time, in the absence of regulation limiting their operations. Indeed, as will be discussed below, foundations have grown in number over the past thirty years in both in

Canada and the US, despite a decrease in welfare spending in the former, and an increase in the latter. Examining the rise of foundations in Canada and the US at the beginning of the twentieth century, as well as their contemporary roles in both countries likewise shows more similarities than differences.

The history of the rise of foundations in the US is well-explored (Lagemann, 1999; Nagai, Lerner, & Rothman, 1994; Zunz, 2014), and so is covered only briefly here. Modern foundation philanthropy in the US began with the growth of industrial wealth in the late 19th and early 20th centuries, bringing a rise in charitable giving among “enlightened” industrialists such as Andrew Carnegie and John D. Rockefeller. Such efforts departed from religiously-guided forms of charity, appearing instead as a “capitalist venture in social betterment,” one concerned with spending money well and channeling it through new philanthropic institutions. Political support for the development of the charitable sector in the US, discussed further below, has made the US a world leader in grantmaking: in no other modern society are grantmaking foundations more numerous, prominent, or have enjoyed “such sustained autonomy for such a long period of time” (Hammack & Anheier, 2013:4).

In Canada, the historical origin of the foundation sector varies according to the region in question. In Western Canada at the turn of the twentieth century, community foundations, a type of citizen-governed foundation focused on improvements in a defined geographic area (Sacks, 2005), began to grow out of the region’s robust cooperative movement, which provided financial and other forms of support to community members in exchange for contributions (Bowen, 1980; Emery & Emery, 1999). While community foundations today exist across Canada, their longer history in Western Canada means that they are particularly influential and well-endowed there. Examples include the Winnipeg Foundation, founded in 1921 and modeled

after the Cleveland Foundation (1914), America's first community foundation (Feurt & Sacks, 2001) and the Vancouver Foundation (1943), Canada's largest community foundation and the fifth largest in North America (Arlett, 2011; O'Halloran, 2012).

In Eastern Canada, as in the US, a more formalized private foundation philanthropy emerged out of the large business interests centered there in the early twentieth century. Counterparts to the Carnegie and Rockefeller Foundation in Canada included the Massey Foundation (1918) and the McConnell Foundation (1937), similarly founded by prominent members of the industrial elite. These individuals were instrumental in financing higher educational and artistic institutions in Canada, such as the University of Toronto, McGill University, and Massey Hall. In some cases, they were also closely networked with their American grantmaker counterparts, as was Vincent Massey, a distant relation of George E. Vincent, then-president of the Rockefeller Foundation (Lefèvre & Rigillo, 2017).

The evolution of philanthropy and grantmaking within the French-speaking province of Quebec was and remains unique vis-à-vis the rest of Canada, growing out of forms of charity largely managed by the Catholic Church, and later eclipsed by a socially interventionist provincial government following the 1960s (Lefèvre & Rigillo, 2017).

As Canada began to distance itself from the British Empire in the early twentieth century, American grantmakers began to take an interest in funding Canadian causes. Between the 1930s and late 1950s, American foundations supported a variety of public initiatives in Canada, making grants across a "semi-permeable border", guided by the desire to integrate Canada into a North American mainstream (Brison, 2005; Fedunkiw, 2005:65). Together, the Carnegie and Rockefeller Foundations alone contributed more than \$20 million dollars to the Canadian cultural economy during this period, channeling funds towards Canadian universities, private

galleries, libraries, museums, and individual artists and scholars. Funding from American foundations was significant at least until the 1950s, when the Canadian government began to develop and expand its own financing for the arts and social welfare (Brison 2005:7-11). Interestingly, over the past ten years American foundations have recommenced grantmaking activities in Canada, this time intervening into politically and environmentally sensitive issues. In 2008, for example, the Tar Sands Campaign was launched by the Rockefeller Brothers Fund and the Tides Foundation, with the goal of stopping the environmental damage caused by oil extraction in Alberta's tar sands, the second largest source of imported oil to the United States (Schnurr & Swatuk, 2010). Canada's conservative Harper government responded by cracking down on foundation efforts to limit pipeline expansion and effect policy change across borders by revising anti-terrorism legislation to include environmental groups as potential threats to national security, as well as by providing additional resources for government audits of Canadian environmental charities and grantmakers (McQuaig, 2012; Northrop, 2008).

THE RELATIONSHIP BETWEEN GRANTMAKING, CHARITY, AND THE STATE IN THE US AND CANADA

In both Canada and the US, grantmakers today play important roles as financiers of public services provided by charitable organizations. This role is embedded within a broader global reconfiguration of the relationship between governments, the charitable sector, and the private sector that is indexed by a shift away from social programming provided and financed largely by government, and towards programming provided by charitable organizations and financed by a variety of state and non-state actors (Cammett & MacLean, 2014).

In the US, government has alternatively promoted and curtailed philanthropic giving throughout the twentieth century, as the state alternatively assumed or deferred its responsibility

for social welfare. For example, Herbert Hoover's vision of an "associative state" mandated a limited role for government, one where philanthropic and community organizations and funds were incorporated into federal social policy as primary service providers. Under Roosevelt's New Deal, by contrast, the federal government assumed full autonomy in the distribution of federal resources for social programming, generally excluding philanthropy from federal-state relations (Zunz, 2014:5). President Johnson's calls for the Great Society created an original fusion of private and public funds to deliver social services to the poor, many of which emerged from philanthropic pilot programs. One prominent example here is the Ford Foundation's Gray Areas program, which targeted urban poverty and decay through the 1960s (O'Connor, 1996).

As Jennifer Wolch notes, these processes led the installation of voluntary sector "vendorism," where the state began to provide social services through the voluntary sector as a means of costs-savings, to limit the role of government in direct service provision, and to promote innovation and community self-sufficiency (Wolch 1990:53). Wolch argues that these processes gave rise to a "shadow state," one comprised of voluntary organizations that receive governmental funds to provide services, exist outside of the political system, and yet are subject to state control and hence limited in the roles they can play in policy advocacy and social justice. Consequently, the number of voluntary organizations in the US grew exponentially between the 1960s and 1980s, as did its service-providing role, and by 1982 provided 56% of social services, 48% of employment training, 44% of health services, and 51% of arts and culture programming (Salamon 1987:103, Wolch 1990:53-58). Despite federal funding cuts to public social expenditures throughout the Reagan and Bush administrations, the voluntary sector's service providing role relative to the state's continued to expand as it began to bear a greater burden for welfare provision, bolstered by increases in state and local funding (Wolch 1990:73-74, (Smith

& Lipsky, 2009:63). The US government gradually became the largest “grantmaker” to (nonreligious) voluntary organizations, providing an estimated 35% of all funding – the largest single source – with much of this channeled indirectly through federal subsidies of individual fees (Wolch 1990:57-58).

A similar “shadow state” began to manifest itself in Canada following government cuts to social spending between 1990 and 2000. During this period, then-Prime Minister Brian Mulroney began a process of revising social programs to make them more dependent on voluntary labour and competitively contracting them out to voluntary organizations. Such organizations have increasingly assumed service delivery roles rather than functions centered around policy advocacy or social justice (Elson, 2007:52-53). Community foundations in particular experienced “explosive” growth during this period, vaunted as alternative providers of state funding for social welfare (Feurt & Sacks, 2001:24). The government’s reliance on nonprofit organizations to provide social services in Canada means that, similarly to the US, the government itself is one of the largest “grantmakers”, providing 51% of all funding to voluntary organizations in the country. Most of this funding comes through provincial governments, which are constitutionally responsible for health, education, and most social services (Hall et al., 2005:15). There are of course differences between the mandates pursued through the contractual service-providing relationships that have arisen between the state and voluntary organizations on the one hand, and the relationships forged by the (often shorter-term) contributions of grantmakers to these same organizations on the other. While the nature and goals of such relationships may differ, both government and grantmakers similarly finance the nonprofit sector as a means of providing social services. The eclipsing of the contributions of grantmaking foundations to the voluntary sector by governments in both the US and Canada is thus an

important feature of the voluntary sector landscape in both countries, and one that is also apparent in other contexts – in New Zealand, for example, Margaret Tennant (2007) has similarly noted that the government is the country’s biggest philanthropic provider, with government funds second only to payments and fees for services as a proportion of nonprofit income.

SPECIFICITIES OF THE CANADIAN CONTEXT

Unlike in the US, since 1993, the Canadian federal government has been a founder of a group of well-endowed public grantmaking foundations, following a massive restructuring of the ministerial departmental system. These dozen or so foundations are officially classified as “shared governance corporations,” or privately owned not-for-profit corporations governed by public mandates established in their enabling legislation. Shared governance corporations were provided one-time endowments of \$10 billion by the federal government to implement public policy objectives, conduct research, and deliver services as a part of the move toward greater managerial autonomy and decentralization of government (Aucoin, 2006). The Canadian government has explained the emergence of these arms-length-from-government foundations as necessary to address research, development, and educational challenges in a “highly effective non-partisan manner,” as well as to implement policy informed by expert knowledge and guided by third-party partnerships, stable funding, and peer review (Department of Finance, 2008). The first of these was the Canadian Foundation for Innovation (CFI), founded in 1997 following political lobbying by university presidents, to strengthen the capacity of Canadian universities, colleges, research hospitals, and nonprofit research institutions to carry out world-class research and technology development (Doern & Levesque, 2002:136-137). Other research funders include the Canadian Foundation for Climatic and Atmospheric Sciences (2000), the Pierre

Elliott Trudeau Foundation (2001) and the Canada Millennium Scholarship Foundation. The Aboriginal Healing Foundation (1998) funds programs to address the healing needs of Aboriginal people affected by the legacy of Indian Residential Schools (Treasury Board of Canada, 2010). These organizations are neither public nor private, but a hybrid of the two, funded by government but possessing a significant degree of autonomy from ministers and Parliament, a fact that has raised critiques concerning democratic state control and public accountability (Aucoin 2002:125). For example, these foundations cannot be categorized as part of the federal government since only a minority of the members of their boards of directors are government-appointed (Department of Finance, 2008). They are subject to performance audits not by the Auditor General, but rather by private firms such as KMPG and Deloitte (Treasury Board of Canada, 2010). These performance audits are, however, immune from public or governmental sanction; although the foundations were financed by tax revenues, citizens are not considered shareholders, and so can do little more than register public complaints. Following the Conservative Harper Government's funding cuts in October of 2006, a freeze was put on the development of further shared governance corporations, which have not grown in number since.

Provincial governments have likewise founded a small number of foundations identified as "arms-length" agencies of their provincial governments, usually financed through the sale of lottery tickets or gambling revenues. One of the most prominent is the Ontario Trillium Foundation, founded in 1982 to provide grants to social service organizations, and today one of Canada's largest community foundations. Similarly, in 2000, with a grant of CAD \$45 million, the government of Quebec founded the Fonds d'action québécois pour le développement durable (the Quebec Action Fund for Sustainable Development), which has supported 475 sustainable development initiatives in the province (FAQDD, 2016).

ATTITUDES TOWARD CHARITABLE ORGANIZATIONS

Attitudes toward foundations and other charitable organizations differ across cultures. In much of mainland Europe, foundations are viewed with caution, given expectations that the state should take responsibility for the provision of social welfare. In the US they tend to be seen as resources to fill the gaps left by the public and private sectors, while in the UK they are neither overtly admired nor feared (Anheier & Leat, 2013:452; Wolch, 1990). No studies have yet been conducted on how Canadians perceive grantmaking foundations, although studies do exist on public attitudes towards charitable organizations in general. While it may be questioned whether the findings on attitudes toward charitable organizations can be extended to grantmaking foundations – which are often less visible than charitable organizations, and, with the exception of operating foundations, usually do not provide services directly - in the absence of better comparative research, these studies may serve as a rough barometer of the differences between Canada and the US in public attitudes towards charities and their function in society.

In Canada, despite the state's relatively stronger role in social welfare provision, attitudes toward charities are generally positive. A 2014 study found that “most (77%) Canadians ‘agree’ (32% strongly/46% somewhat) that charities play an important role in society to address needs not being met by government or the private sector.” Confidence in the charitable sector is significantly higher than for the private and public sector (75% very/somewhat confident versus 63% and 49%, respectively), though Quebecers express less confidence on average (Foundation for Philanthropies Canada, 2014:1).

The majority of Americans are likewise confident about charities, although slightly less so and in a more polarized way. In 2015, almost two-thirds of Americans expressed having a great deal or a fair amount of confidence in charities, while 35% said that they had “little or no

confidence in charities” (Perry, 2015). Reflecting the governmental policies described above, Unlike Canadians, Americans appear to have a preference for the philanthropic sector to solve social problems rather than government. In response to the question, “would your first choice for solving a social problem in America be to use government or to use philanthropic aid?” 47% of Americans chose philanthropic aid, 32% chose government, and 21% were not sure. Similarly, 59% of Americans thought that private charities were more cost-effective in promoting the social good, in comparison to the 20% who thought that government was, and the 12% who thought that both were (Philanthropy Roundtable, 2015). In contrast to Americans, however, Canadians value the role that the state plays in financing pivotal social institutions such as hospitals and schools, with the majority (81%) believing that government should provide *more* funding to such institutions so they are *less* reliant on charitable donations (Foundation for Philanthropies Canada, 2014). These attitudes concur with research on differences in actual individual charitable giving between Canadians and Americans. In 2014 the percentage of Canadian and American tax filers claiming charitable donations were similar – 23 percent and 26 percent, respectively (Fraser Institute 2014:6-8). But Canadians contributed less than half of the amount to charity that Americans did: an average of 0.6% of their income compared to Americans’ 1.3%. The extent of charitable giving was also variable among Canada’s provinces, with Manitobans donating the highest percentage of their aggregate income to charity (0.81%) and Quebeckers donating the lowest (0.28%) (Lammam, MacIntyre, & Ren, 2015:3).

The existing literature on determinants of charitable giving cites several possible drivers, including income, the after-tax cost of donating, scope of government, the age of the population, levels of education, religious affiliation and volunteerism (Lammam & Gabler, 2012). Indeed, differences in giving between Canada’s provinces are likely related in part to differences in

income, with Alberta home to the highest incomes nationally and also the largest annual charitable gifts (\$2,372), and Quebec to some of the lowest (\$735) (Conference Board of Canada, 2016; Lammam et al., 2015). Likewise, the differences in giving between Canada and the US can be explained at least in part by differences in income: in 2013, the average gross national income in Canada was 42,610 purchasing power parity (PPP) dollars, compared to 53,750 PPP dollars in the US (World Bank, 2016a). Also relevant, however, are the differences between citizen expectations concerning the state's responsibility in financing and providing social services.

This is clear both when examining the case of Quebec's low levels of giving within Canada, as well as Canadian patterns of giving vis-à-vis American ones. Due to its unique cultural and political history, Quebec's provincial government takes a stronger role in social welfare provision than other Canadian provinces, providing additional services such as subsidized daycare, paternity leave benefits, and heavily subsidized tuition fees, financed through higher taxes (Vaillancourt & Tremblay, 2002). The province is also home to lower incomes, but also lower levels of inequality (Beaujot, Du, & Ravanera, 2013). As Lefèvre and Rigillo (2017) note, factors such as a lower level of religiosity and giving to religious organizations, low levels of volunteering, and higher levels of social solidarity, as evidenced by higher levels of spending on social programming and increased presence of unions and cooperatives, also likely play a role in Quebec's lower levels of giving and lower levels of confidence in charities.

Similarly, a likely source of difference in the attitudes and practices toward charities and giving among Canadians and Americans is the role played by more robust universal public systems of health, education, and social welfare in Canada as compared to the US, with attendant

expectations, as the attitudes above illustrate, that such systems are primarily the responsibility of the state. At the same time, real social welfare spending in Canada as a percentage of GDP is lower than it is in the US, and has been declining steadily through the last quarter of the twentieth century. In 1990, the Canadian government spent 17.6% of its GDP on social expenditures, significantly more than the US government's 13.1%. But by 2014 the US spent 19.2% of its GDP on social expenditures – 2.2% more than Canada's 17% (OECD 2016). These numbers do not of course serve as a useful measure of universality of access or the extent or quality of services provided. But they do gesture to important convergences in welfare spending between the two countries, as Canada moves towards increasingly austere social spending, and as the US expands its welfare offerings, as seen in 2010 with the passage of the Affordable Care Act. It should be noted however that these differences in citizen attitudes stand quite apart from the actual functioning of the charitable sector – which, as was discussed above, occupies a very similar role in social service financing and provision in both countries.

GRANTMAKING SECTOR SIZE AND GIVING IN CANADA AND THE US

Interestingly, despite these differences in giving attitudes and practices at the level of the general population, the number of foundations and the amount of their disbursements is fairly similar in Canada and the US, indicating a similarity concerning the place of grantmakers in society as well as their giving behaviours.

The number of foundations in both Canada and the US has increased dramatically over the past twenty years. From 1994 to 2014, the number of Canadian private foundations increased by 76% and currently stands at just over 5,300. Over the same period, the number of public foundations increased by 69% to just over 5,100, making a current total of about 10,500 foundations out of a total of 86,700 charitable organizations in Canada, with the numbers fairly

evenly split among private and public foundations (Imagine Canada and Philanthropic Foundations Canada, 2014). In 2012, Canadian public and private foundations held combined assets of \$38.4 billion USD and made grants totalling \$5.1 billion USD.

Similarly, the number of foundations in the US has grown steadily over the past thirty years, from 22,088 in 1980 to 87,142 in 2012 (Foundation Center, 2011, 2016b). In 2012, foundations in the US held combined assets of \$715.5 billion USD and disbursed gifts totalling \$51.8 billion USD. Of these foundations, the majority (79,616) are classed as “independent,” meaning that they are usually funded by endowments from a single source, such as an individual or group of individuals rather than a family or a corporation, and gave the majority (67%) of all gifts, as well as holding the majority (82%) of assets (Foundation Center, 2016b). In both Canada and the US, the geographical distribution of foundations reflects the size of the populations of the regions in which they are located, with the largest number concentrated in large urban centers that were or are currently home to large business communities, such as Ontario, Quebec, New York, Pennsylvania, and California (Foundation Center, 2016b; Imagine Canada and Philanthropic Foundations Canada, 2014; Lenkowsky, 2002).

As Table I below illustrates, despite the significantly larger total size of the American grantmaking sector, the number of foundations per capita in the US and Canada are nearly identical, with Canada having only slightly more foundations per capita than the US (29.1 per 100,000 vs. 27.4 per 100,000). Disbursement levels were likewise similar: in 2012 American foundations disbursed only twelve percent more funding per capita than Canadian ones did (\$165 USD vs. \$147 USD). Higher mandated minimum disbursement quotas in the US, as well as the tendency of American grantmakers to disburse more than the legislated minimums, as will be discussed below, are likely responsible for these differences in giving.

Table I: 2012 Foundation Data for Canada and the US

	Population	Total foundations	Total foundations per capita	Total Assets (billions of USD)	Total Giving (billions of USD)	Per capita giving (USD)
Canada	34,751,476	10,117	29.1 per 100,000 people	38.4	\$5.10 ^a	\$147
US	314,112,078	86,192	27.4 per 100,000 people	715.5	\$51.8	\$165

Sources: Calculations based on Canadian foundation data from the Canada Revenue Agency and Public Economics Data Laboratory, Department of Economics, McMaster University.. Variables have been compiled by Iryna Khovrenkov. These numbers differ slightly from those reported in the 2014 PFC/Imagine Canada report. This could be because Khovrenkov assigned organizations according to their last reporting status to avoid double counting, as some foundations switch to charities and vice versa (personal communication). Total giving includes giving by charitable organizations. 2012 American foundation data is from the Foundation Center (2016a). Foundation Center data includes independent, family, corporate, community, and operating foundations (Foundation Center, 2016a). Canadian population data from Statistics Canada (2014); US population data from World Bank (2016b).

^a Removing charitable organizations gives a figure of \$3.4 billion USD in total giving and \$99 USD of per capita giving in 2012 in Canada. Amounts adjusted to May 2012 currency exchange rate (1.00 CAD to 0.97 USD).

Table II: 2012 and 2014^b data for Community Foundations

	Number of Community Foundations	Total Assets	Total Grants	Total Community Foundations per capita	Total assets per capita	Total giving per capita
Canada (2014)	191	\$4.6 billion USD	\$189 million CAD (174.2 million USD)	1 per 186,075	\$129 USD	\$4.90 USD
US (2012)	780	\$65 billion USD	4.6 billion USD	1 per 402,707	\$207 USD	\$14.64 USD

Sources: Author’s own calculations. Community foundation data from Community Foundations of Canada (2014), the Foundation Center (2012b), and Council on Foundations (2012). Canadian 2014 population estimate of 35,540,400 from Statistics Canada (2014). Canadian currency adjusted to May 2014 US exchange rate of CAD \$1 to USD 0.966.

^b While comparative data for community foundations was not available for the same year, Canada’s 2014 levels of giving nonetheless remain far lower than 2012 levels in the US.

In both Canada and the US, community foundations have been vaunted as important vehicles of place-based philanthropy (Jung, Phillips, & Harrow, 2016). Community foundations have been argued to play a proportionately larger role in Canada than in the US (Feurt & Sacks, 2001), and unlike in the US, they are represented by an exclusive organization, Community Foundations of Canada (CFC). But the available data shows that while there are indeed *more* community foundations in Canada per capita than in the US (1 per 186,075 vs. 1 per 402,707), and despite holding more than two-thirds (62%) of the assets per capita of American foundations (\$129 USD vs. \$207 USD), Canadian community foundations disburse only about *one-third* of the funds per capita that American community foundations do (\$4.90 USD vs. \$14.64 USD).

On the surface, issue areas funded by foundations likewise appear to be fairly similar in Canada and the US. According to a 2014 study (p. 12) by Imagine Canada and Philanthropic Foundations of Canada, education and research, health, and social services formed the highest percentage of total grant value by funding area for the top Canadian grantmaking foundations, constituting a total of 59% of grant value. Similarly, a study of a subset of the largest US foundations estimated that in 2012, education, human services, and health occupied the top three top-funded issue areas, constituting grants totalling US \$10.2 billion, or 62% total of all grants made. This was followed by public affairs/society benefit 2.2 billion (13%), arts and culture at 2 billion (13%), environment and animals at \$928 million (5%), science and technology at \$520 million (3%), religion at \$323 million (1%), and social sciences at \$88 million, or 0.5%. The highest number of total grants was awarded to issues concerned with human services (42,037) (Foundation Center, 2013). At the same time the generality of these categories and a lack of formal definition – for example, where would poverty alleviation activities be placed? – makes more nuanced comparisons difficult.

THE ROLE OF LEGISLATION

The legislative histories governing grantmaking in Canada and the US are similar, though more recent amendments have conditioned grantmaking somewhat differently in each country. In both

Canada and the US, the British Charitable Trust Act (1853) served as the first legal guideline regulating the activity of charitable foundations. Today, the Canadian regulatory landscape for giving, like the American one, is relatively hospitable. Generous tax incentives are provided to individual donors to public and private foundations in both countries, as well as incentives for foundations giving larger gifts (Patten & Pearson, 2010:100). In Canada the process for registering foundations is somewhat more straightforward than in the US, which uses a long and complex tax code defining 31 categories for tax-exempt organizations. Canadian foundations file an annual reporting form with the Canada Revenue Agency (CRA), but overall relatively little information is required by the regulator in terms of accountability. Many foundations (all those that are incorporated) must have an annual independent audit, and all registered foundations must file financial statements with the CRA. In the US, private foundations are subject to stricter rules and greater oversight than other kinds of foundations because they operate out of public view. For example, private foundations must follow stricter Internal Revenue Service (IRS) procedures for making grants to organizations outside the US. In 2006 these private foundation rules were extended to cross-border grants made from donor-advised funds at public charities (Buchanan, 2010:106). Despite these stricter rules and greater oversight, however, private foundations are not required to make public annual reports, but only to submit a 990 form to the IRS on an annual basis.

Legislative Restrictions on Grantmaking Foundations

Foundations in Canada and the US are similarly restricted in the kinds of activities they are permitted to engage in. The CRA's definitions of charitable purposes restricts Canadian charities both with regard to the activities that may be engaged in, and the groups that may benefit. To

qualify as charities, foundations must have purposes that are “exclusively charitable” and engage in activities that support those purposes. As registered charities, Canadian foundations are required to invest only in activities supporting the four categories of charity defined by Canadian law: 1) relief of poverty; 2) advancement of education; 3) advancement of religion; 4) certain other charitable purposes that benefit the community, including elder care, addressing illness and disability, providing public amenities, and operating animal shelters or volunteer fire departments (Canada Revenue Agency, 2009). To be registered as a charity, a foundation’s purposes and activities must also meet a public benefit test. To qualify, an organization must show that: 1) its purposes and activities provide a measurable benefit to the public; or 2) The people who are eligible for benefits are either the public as a whole, or a significant section of it, and not a restricted group or one where members share a private connection (e.g. members of a professional association). These regulations have been used by the Charities Directorate to refuse registration organizations focused on uplifting marginalized target groups, as was the case with the CRA’s 1999 refusal to register the Vancouver Society of Immigrant and Visible Minority Women, which sought to promote racial tolerance of minority women (Webb, 2000). It is unknown if foundations have faced similar refusals.

The IRS likewise sets out a similar, yet slightly more elaborate, set of exempt purposes for which a 501(c)(3) organization must be exclusively organized and operated, namely those that are “charitable, religious, educational, scientific, literary, testing for public safety, fostering national or international amateur sports competition, and preventing cruelty to children or animals.” The IRS further specifies the term charitable as inclusive of “relief of the poor, the distressed, or the underprivileged; advancement of religion; advancement of education or science; erecting or maintaining public buildings, monuments, or works; lessening the burdens of

government; lessening neighborhood tensions; eliminating prejudice and discrimination; defending human and civil rights secured by law; and combating community deterioration and juvenile delinquency” (IRS 2015).

While Canadian charities can engage in certain allowable political activities – such as communicating a call to political action, or putting pressure on elected or public officials to change laws or government policies in Canada or abroad – so long as they advance, and not supersede, its charitable purpose, Canadian law limits charitable involvement and expenditure on political activity in various ways (Canada Revenue Agency, 2003; Elson & Hall, 2015). The Canada Revenue Agency permits charitable organizations (including grantmaking foundations) to spend only 10 percent of their time and 10 percent of their income on policy advocacy and law reform. However, charities reporting an annual income between \$50,000 and \$200,000 can spend between 12-20% of their income on political activities (Canada Revenue Agency, 2003). Government has however enforced the laws on political activity by charitable organizations to varying degrees through time. For example, commentators noted a distinct “advocacy chill” during the Harper Government (2006-2015), one marked by a rise in investigations, particularly of environmental grantmakers. The involvement of Canadian grantmaking foundations in advocacy therefore remains limited (Elson & Hall, 2015). Given that for-profit actors in Canada face no restrictions on lobbying, which can be written off as a legitimate business expense, those faced by charitable organizations have been argued to limit the scope of public debate on important issues (Mahood & Iler, 2015). In recognition of this, the Canada Revenue Agency is soliciting feedback concerning the existing laws on political activities, which are to be “modernized” in the near future (Canada Revenue Agency, 2016a).

Similarly, since 1969, American tax law has required that charitable organizations limit the funds used for direct and grassroots lobbying to “insubstantial” amounts. Exceptions include private foundations, which are expressly prohibited from all lobbying, and 501(c)(4) organizations such as the Sierra Club and the National Rifle Association, which since 1959 have been permitted to devote a larger proportion of their funds and activities towards lobbying. 501(c)(4) organizations became key political players in the 2012 elections, following a 2010 Supreme Court ruling that permitted corporations, nonprofits, and for-profit actors to spend unlimited amounts on political campaigns (Kirby, 2015). Unlike in Canada, however, *advocacy* activities may be undertaken in unlimited amounts by 501(c)(3) organizations. Despite these provisions, American foundations and charitable organizations that have engaged in activities that challenged the status quo have faced IRS investigations, as well as covert and overt forms of political intimidation (Wolch, 1990). Despite this, certain American foundations have effectively challenged the status quo through grantmaking. For example, during the civil rights movement, American philanthropists successfully pushed the boundaries of limits on political activity by investing in education and community-building for blacks in the American South during segregation, despite remaining unable to formally challenge discriminatory laws (Zunz 2011). Similar forms of “social justice grantmaking” remain active, despite recurrent crackdowns over the past thirty years, particularly among smaller foundations, younger foundations, and public foundations, which are more likely to mention social justice or social change in their program descriptions, as are foundations focused on international grantmaking and rights activities (Suárez, 2012).

Annual Disbursements

Legislation on minimum disbursements for foundations exists in both the US and Canada to ensure that foundation funds are actually spent. In 2004, the annual disbursement quota for public and private foundations in Canada was lowered from 4.5% to 3.5% of the value of invested assets (Alepin, 2014). The majority of funds received that are not classified as long-term endowments must be disbursed the following year (Patten and Pearson 2010:100). American private foundations are required by law to make charitable disbursements of approximately 5% of the value of their assets each year, which can include administrative costs. While exempt from federal income tax, private foundations must pay a yearly excise tax of 1%-2% of their net investment income.

In both Canada and the US, data measuring actual payouts is minimal – until recently the only inquiry in Canada relied on self-reports from 14 grantmakers, who claimed disbursements ranging from 4.5-5% (Northcott & Uytterhagen, 2002:10). More recently, data from a study by Iryna Khovrenkov (2016) shows that disbursements among Canadian foundations differ significantly depending on the size of the organization. Between 1992 and 2008, medium-size public and private foundations (with assets between 25,000 and 1 million) had average disbursements in 78% and 38% in excess of the 3.5% minimum, respectively. Similarly, large public foundations (total assets of between \$1 million and \$100 million in a given year) had average disbursements 43% in excess of the minimum. By contrast, large private foundations (assets between \$1 million and \$100 million in a given year) disbursed the least, with disbursements only 6% in excess of the minimum.

In the US by contrast, a recent study found that the average annual payout of American foundations was nearly 8.7 percent, and that six of every seven foundations distributes more than the legal minimum yearly (Sansing & Yetman, 2006). While critics in both Canada and the US

have called for an increase in annual disbursement quotas to increase the circulation of largely tax-exempted wealth intended for charitable purposes, re-examinations of disbursement policies in both countries have not resulted in concrete policy changes (Jansen & Katz, 2002; Lenkowsky, 2002).

International Grantmaking

International grantmaking is likewise an area where legislation appears to have fostered different practices in Canada and the US. While international grantmaking has been somewhat constrained in the US by antiterrorist legislation (Guinane, 2007), the practice nonetheless remains well-developed. In 2008, for example, international grantmaking constituted nearly a quarter (24%) of all grants made – \$6.3 out of a total of \$25.8 billion dollars granted. In 2014, the top issue areas for international grantmaking for a subset of the largest US foundations were health, international relief, and environment (Foundation Center, 2012a).

A significant contrast is seen with international grantmaking in Canada, which remains fairly limited. The Canada Revenue Agency limits grants made across borders to “qualified donees,” a small set of organizations including Canadian registered charities, certain universities outside Canada, the United Nations and its agencies, and a few foreign charities. Grantmakers are also permitted to carry out their own international activities; these activities may be contracted to another organization (agent), but the Canadian organization must be the active and controlling partner (CRA, 2000 in Moreno and Plewes 2009:5).

These limitations are reflected in the low levels of grantmaking to international causes in Canada. In 2008, public and private foundations gave \$74.5 million to international causes, out

of a total of \$5.8 billion in expenditures (1.3% of total expenditures).⁶ By 2014, 108 Canadian charities (including public, private foundations and registered charities) spent \$254 million on international giving. The vast majority of these grants went to Canada Revenue Agency-approved foreign universities, most in the United States and Israel (Blumberg, 2016). A handful of the remaining grants (6 out of 108) went to UN agencies and the Clinton Foundation, exceptionally listed as a foreign qualified donee between 2013 to 2015 because it had received a gift from the Queen of England in right of Canada (Canada Revenue Agency, 2016d). At the same time, grantmaking foundations are also able to make grants beyond qualified donees. A small number of operating foundations develop their own programs overseas and fund them directly through agency agreements with overseas organizations or through a Canadian intermediary. In 2014, 66 private foundations and 112 public foundations reported expenditures on “activities/programs/projects carried on outside Canada, excluding gifts to qualified donees” - these expenditures totalled about \$162 million and \$38 million, for private and public foundations respectively (David Lasby, personal communication). Foundation support for Canadian charities operating abroad is also permitted; while the contributions of foundations may be quite substantial in this area, it is difficult to parse out their contributions from those of charitable organizations more generally.

CONCLUSION

In conclusion, Canada and the US appear to share much in the size and extent and practices of giving in their grantmaking sectors. The two countries share a common configuration of welfare provision, where nonprofit organizations have increasingly come to

⁶ Data is from the Canada Revenue Agency and Public Economics Data Laboratory, Department of Economics, McMaster University. Variables have been compiled by Iryna Khovrenkov.

serve as contractors for the state, and where social services are in many cases jointly funded by government, the private sector, and charitable donations. Consequently, grantmaking in both countries plays a similar role in supporting domains of health, human services, and education. Despite significant differences in the overall number of foundations, the per capita size of the grantmaking sectors are similar between Canada and the US, as are the limitations placed on advocacy by grantmaking foundations. Differences are most apparent with respect to attitudes concerning charitable organizations (greater favour for state support of public institutions in Canada), state practices of endowing large foundations (absent in the US), annual foundation disbursements (slightly lower in Canada, particularly among community foundations), the definition of charitable purposes (more circumscribed in Canada than in the US), and foundation disbursements for international causes (lower in Canada).

Still, much remains unknown about grantmaking in Canadian. We offer the following suggestions to fill gaps in the existing knowledge base on Canadian grantmaking foundations. Future research should focus on: 1) Canadian foundations to understand the history of grantmaking in Canada, as well as to better understand how Canadian grantmaking – its goals, target beneficiaries, and techniques – has and continues to shift through time in response to political and social pressures; 2) The potentially different role played by foundations in financing public institutions such as hospitals and universities in the US and Canada; 3) Case studies concerning the nature and extent of partnerships with government and other foundations to provide services; 4) The current status of the contracting out of social services to voluntary organizations in Canada and the US, given recent shifts in social spending; 5) The substantive differences in grantmaking practice between Canada and the US, for example in fostering social innovation, the use of approaches such as social justice grantmaking, and specific differences in

issue areas funded; 6) Comparative research on the nature and extent of grantmaking to specific sub-populations, such as Aboriginal/Native American beneficiaries and causes in Canada and the US.

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