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CHANGING LANDSCAPE FOR CHARITIES AND NON-PROFIT ORGANIZATIONS: AN OPPORTUNITY FOR REVIVAL

In the current economic climate, uncertainty and risk abound. What began as a financial crisis has developed into a tough slog of modest economic growth. While Canada had a shallower recession than most, everyone is still experiencing the aftermath. The unemployment rate is higher than what it was heading into the recession. Governments are now dealing with large deficits after injecting fiscal stimulus. They are being asked to cut back on every level and on every issue. Businesses are sitting on healthy cash reserves as leaders are worried about what the future holds. In short, everyone is impacted in different ways, including charitable and non-profits and the millions of people who rely upon these groups and their services.

What might modest economic growth mean for the 161,000 charities and non-profit organizations in Canada? How will the 1.5 million employees in the non-profit sector and their organizations continue to meet the demands facing them in this environment? Demand for social services rose during the global financial crisis, but has not reverted to pre-recession levels. In response, many organizations have sought to provide services to the community that engage and empower citizens, including job coaching and employment transition support. Support has included cash payments, subsidies and/or in-kind benefits like non-perishable food items at food banks. The ability of these organizations to meet the needs they face is, however, increasingly threatened.

While the demand for charitable and non-profit services has increased, revenues have stagnated. According to Imagine Canada, the collective voice for the charitable and non-profit sector, 85% of charities are expecting government funding cuts in the next two years. Morale across the sector is low as policy makers at all levels of government levels grapple with large deficits and increasing demand for public services. Approximately half of the charitable organizations surveyed predicted that they would be weaker over the next few years. Of course, governments are not the only funding source: individual donors also play an important role. Each year, 84% of Canadians aged 15 and older donate money to charities. Since 2005, however, the average dollar amount per donor has stagnated at around \$450. These data suggest that donations are not even keeping up with inflation, which makes the task of charitable and non-profit organizations that much harder.

What might the future hold? The ageing of the Canadian population might mean more donations for charities and non-profits, as the propensity to donate generally increases with age. Increasingly, however, there is concern that Canadians may not be saving enough for their own retirement. Given potential financial difficulties in the future, it is unlikely that Canada's seniors will be in a position to sustain charities and non-profits going forward. Furthermore, as the population ages, demand for community services and/or health-related care will most likely grow. The financial situation for the non-profit sector is clearly not sustainable if donations continue to stagnate (or even decrease) and demand for services continues to increase.

Imagine Canada has already started a dialogue to develop a renewed framework for action for the non-profit sector. This conversation should continue as charitable organizations play a vital role in

society; and the renewal of the non-profit sector could ensure the sustainability of charitable programs and services into the future. These organizations must clarify their objectives, employ the most effective tools for delivering on these targets, develop and maintain partnerships, and encourage innovation.

Innovation may mean something different to each organization in the non-profit sector. Some are thinking about ways to take on new public services and programs if they can be administered more cheaply than at present. A call has been issued for the non-profit sectors in Australia, Britain and the United States and now, Canada. With governments around the world strapped for cash, charities and non-profits can be part of the solution by tapping into the core strengths that many of these institutions already possess.

In the past, charitable organizations have relied on mailing and (later) e-mail lists to increase awareness and solicit donations. While such methods will continue to have a role to play, one-way dialogues with a donor base will no longer suffice. Increasingly, the focus must move from donor education to donor engagement. Charities will be expected to do more to interact with their donor base to preserve and potentially enhance their revenue stream. The engagement trend is materializing in other avenues like mainstream advertising. Here, many consumers feel that they are being talked to, instead of feeling like they are part of the conversation. In the rapid pace of life many find themselves in, it is hard to pay attention to everything going on at the same time. Everyone is simply doing too many things at once. For donors to contribute to a worthy cause, they must be informed, engaged and motivated to act.

To this end, the power and reach of social media has tremendous potential. Many charities and non-profits are currently considering how best to use this tool in their fundraising efforts. Online forums and multi-media channels are able to bring people and communities together for a common cause. They can spread the message rapidly – something that traditional fundraising cannot do. Social media harness the power of the crowd and avoid the limitations of two-way conversations. By reaching a large audience quickly, social media have the potential to reduce administrative costs. Social media tools can change the motivation of donors from extrinsic – a canvasser on the street or a letter in the mail – to intrinsic – they believe in the cause and are willing to spread the message. The feedback loop and network effect have contributed to the success of many charitable fundraising campaigns.

What role do businesses play in the non-profit sector? The private sector is increasingly getting involved through social financing opportunities. In this case, dollars are invested in social services not by the traditional funding source, government, but by businesses. The model encompasses a private and non-profit partnership, but every model and opportunity is different and project-specific. With social financing, firms are not sitting on the sidelines and observing the social and economic outcomes outside their buildings. Instead, leaders and employees collectively are participating in the community and have a vested interest to take an active role. Social financing is corporate social responsibility, but with dollars added to the mix.

Social enterprises are also growing in popularity. These business entities are interested in earning a profit, but have made social, community and environmental outcomes key indicators of their success. This dual approach has been called a “double bottom line.” To social enterprises, sales and a social cause are of equal importance. This business model is therefore distinct from classic corporate social responsibility. Here, securing profits is task number one and social initiatives come later on in the business mandate.

Social impact bonds are another funding source getting a lot of attention. Through these bonds, the government commits to pay for improved social outcomes today if the results ultimately lead to public sector savings. Think of these tools as an outstanding government contract with an external organization to perform a task. Payment between the parties occurs only when the contract deliverables are met.

They are not bonds in the traditional sense, as they do not provide a fixed rate of return. Instead, investor money is returned if the improved social outcomes are demonstrable and measurable. This is why they are called pay for success bonds in the U.S. Prevention in health care is a good example where social impact bonds could be further explored. Addressing a medical condition in its early stages could mean less health care spending for the government down the road. These bonds could therefore be win-win-win for service providers, governments and investors if used in the right circumstance.

A wide variety of innovative approaches will help to put the charitable and non-profit sector on a sustainable footing going forward. However, an effective strategy will not be implemented overnight; and continued fundraising is vital to ensuring that programs and services meet the demands of Canadians. There are several actions that everyone can do heading into this season of giving. Be engaged. Remember that giving is not just about donating funds, as volunteer work can be equally important. Harness the power of social networks to educate friends and family about social issues. Last but not least, take part in the dialogue on how best to equip charities and non-profit organizations with the tools they need to succeed in the future.

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