A Toolkit for Working with Non-Qualified Donees

May 2024

Executive summary

Considering the importance of the work being done by non-qualified donees (NQDs), a group of funders — including Fondation Lucie et André Chagnon, Inspirit, Laidlaw Foundation and the McConnell Foundation — have come together to create a toolkit to help and encourage more funders to support NQDs. As a collective, our experience lies primarily in partnering with non-profit grantees; as a result, they are the focus of this toolkit.

Many organizations doing impactful work in communities are non-profits without charitable status. These organizations are defined by the Canadian Revenue Agency (CRA) as "non-qualified donees," an umbrella term that includes a broad range of non-charitable organizations, such as non-profits, grassroots organizations, international charities, and other groups. Following the 2022 federal budget, in 2023 the CRA issued new guidance to make it easier for funders to support NQDs.

In addition to carrying out their own charitable activities and making gifts to qualified donees, a charity can now make qualifying disbursements to NQDs if they meet the following criteria:

- The disbursement furthers the charitable purpose of the charity.
- The charity ensures that the disbursement is exclusively applied to charitable activities in furtherance to its charitable purpose.
- The charity maintains documentation sufficient to demonstrate:
  - The purpose for which the disbursement is made.
  - That the disbursement is exclusively applied by the NQD to charitable activities in furtherance of a charitable purpose of the charity

A qualifying disbursement may include financial resources, as well as physical resources such as staff, intellectual property and real property.

Why work with non-qualified donees

We encourage funders to consider the following questions when deciding whether to support NQDs:

If you were choosing who to fund based on an organization's ability to effectively deliver on your mission, is charitable status an important consideration?
If not, is the requirement of charitable status an arbitrary limitation that is preventing you from supporting people and organizations who can effectively advance your mission?

NQDs can play an important role in achieving charitable impact. Partnerships between charities and NQDs can offer significant means and scale for impact. Further, when partnering with organizations internationally, it is nearly impossible to carry out charitable work through qualified donees alone.

With the CRA disbursement quota set at 5%, it is estimated that an additional $200 million will flow to the charitable and non-profit sector.[1] Research indicates that initiatives serving and led by equity-deserving groups, including Indigenous-led and Black-led organizations, tend to receive fewer charitable dollars.[2] Many of these groups are also NQDs. If funders increase disbursement without diversifying grantees, inequities within the sector will only be reinforced.

Addressing risk
In the past, funders may have been reluctant to work with NQDs out of a concern for greater administrative hurdles and risks. But funding NQDs does not need to involve significant extra work.

1. Imagine Canada, *Policy priority: A scaled disbursement quota to increase funds available to communities* (2022)
2. Network for the Advancement of Black Communities and Carleton University's Philanthropy and Nonprofit Leadership program, *Unfunded: Black communities overlooked by Canadian philanthropy* (2021).

Under new CRA guidance, organizations may now assess NQDs using the same rigorous processes and due diligence tools they have in place for qualified donees. This option exists in addition to previous processes, including the more restrictive direction and control.

Funders may also be concerned that they are assuming risk for the actions of a grantee. However, under new CRA rules, funders that follow an existing due diligence process can discharge their obligation and avoid assuming additional risk, depending on the specifics of the situation.

Working under new CRA guidance

Updated CRA guidance does not represent a checklist of rules for funders. Rather, it involves a holistic determination of what makes sense on a case-by-case basis given the funding amount and the level of risk.

This toolkit includes an overview of NQDs, highlights of their important work, and tools and examples that can be used to facilitate working with these organizations. We hope this project can also help initiate internal conversations for funders who hold concerns and questions about partnering with NQDs. Finally, we have created this toolkit so NQDs themselves may share it as a resource with prospective funders or partners.

We look forward to engaging in conversations across the sector about how supporting NQDs can both facilitate progress towards a charity's mission and purpose, and address inequities in the funding landscape.

Fondation Lucie et André Chagnon

INSPIRIT FOUNDATION   FONDATION INSPIRIT

LAIDLAW FOUNDATION

Fondation McConnell Foundation

Table of Contents

Part One: Why work with non-qualified donees

Part Two: A step-by-step guide to work with non-qualified donees

A note on language
- Throughout this toolkit, the term "funders" is sometimes used for clarity to describe charitable organizations, including public foundations, and private foundations.
- In philanthropy, many funders use the term "partner" to describe the organizations they fund. We use the term "grantee" in this document for clarity and to be consistent with the terms used in the CRA Guidance.

Part One

Why funders work with non-qualified donees

Differences between qualified donees and non-qualified donees

In Canada, it is estimated that just one half of all non-profits serving communities have registered charity status.[3] Organizations without charitable status are classified as non-qualified donees (NQDs). Below are the differences between qualified donees and NQDs.

Qualified donees

As defined by the Government of Canada's Income Tax Act, qualified donees are organizations that can issue official donation receipts for gifts. They include[4]:

- Registered charities,
- Registered journalism organizations,
- Registered housing corporation resident in Canada constituted exclusively to provide low-cost housing for the aged,
- Registered Canadian municipalities,
- Registered municipal or public bodies performing a function of government in Canada, registered First Nations (barriers to First Nations gaining qualified donee status are discussed later in this toolkit),
- Registered university outside Canada where the student body ordinarily includes students from Canada,
- Registered charitable organizations outside Canada to which His Majesty in right of Canada has made a gift,
- His Majesty in right of Canada, a province or territory,
- The United Nations and its agencies.

To be a registered qualified donee under the Income Tax Act, an organization's purposes must be exclusively charitable, and its resources must be devoted to activities that further these purposes.[5] The qualified donee must also meet the public benefit test, meaning it must deliver a measurable and socially useful benefit to the public.[6]

To obtain and retain charitable status with the CRA, a qualified donees must keep proper records and be able to provide these to the CRA upon request. A qualified donee must also ensure official donation receipts meet Income Tax Act requirements.[7]

3. Imagine Canada, *Supporting non-charities is about to get easier. Why should funders consider it?* (2022).
4. Government of Canada, *Qualified donees* (2011).
5. Government of Canada, *How to draft purposes for charitable registration* (2013).
6. Government of Canada, *Guidelines for registering a charity: Meeting the public benefit test* (2006).
7. Government of Canada, *Books and records* (2016).

Non-qualified donees

NQDs are not defined within the Income Tax Act. NQDs are groups or organizations that do not fit qualified donee criteria, but still pursue a charitable purpose. NQDs can include, but are not limited to:

- Registered non-profit organizations without charitable status,
- Indigenous bands,
- Social enterprises,
- Collectives,
- Grassroots organizations,
- Resident-led community groups,
- Mutual aid groups,
- Societies and clubs,
- Businesses and B Corps,
- Individuals or non-incorporated groups of individuals,
- Social movements.

NQDs can, in principle, take on any legal form, including a corporation, partnership, trust or other juridical person.

NQDs are unable to issue charitable donation receipts and have historically been unable to access donations or grants from philanthropic foundations. This has made fundraising a challenge.

Non-qualified donees: An important partner

Many NQDs carry out vital services or address priority issues on the ground, mobilizing quickly to meet changing needs and offer solutions generated from within communities. Often, these organizations are led by and serve communities facing systemic barriers.

Why non-qualified donees do not have charitable status

While becoming a registered charity would create new funding opportunities for NQDs, there are many valid reasons why these organizations may operate without charitable status.

First, it takes time, money, resources, organizational infrastructure and expertise to become a registered charity. New organizations may lack the financial resources, time, governance and legal infrastructure to pursue the charitable registration process or may be unaware of its advantages due to a systemic lack of access to the philanthropic sector.

Second, organizations may have limited administrative capacity to track their financial records to the level required by the CRA. This could be the result of systemic barriers to funding in the first place. Many volunteer-led groups doing frontline work do not have administrative staff.

Finally, some organizations make an intentional decision to not pursue charitable status. This is the case for many Indigenous-led organizations that wish to uphold rights of self-determination, Black-led advocacy and mutual aid collectives, as well as some grassroots climate justice organizations concerned about institutionalization eroding member trust.

Organizations on the path to achieving charitable status

Some organizations are formed in response to an unexpected and urgent need. These entities might pursue and eventually receive charitable status, but this process can take several years and a large investment of staff time and resources. In the interim, an initiative's work continues to require financial support.

Example: Resilience Montreal was formed in response to an urgent need to serve under-housed and homeless individuals in the Cabot Square area of Montreal during the COVID-19 pandemic. An existing facility had left the area, putting the lives and wellbeing of many people in a precarious state. Though Resilience Montreal now has charitable status, it started as a non-profit organization and NQD, which enabled it to move quickly to address community need.

Innovative organizations that do not meet the strict definition of a charity

In Canada, what qualifies as a charity is strictly defined.[8] This means that organizations that take an innovative approach may not be able to qualify, even if the work is for public benefit and not intended to generate a profit. The activities of some organizations are not eligible because they are not exclusively charitable, or because its activities do not fall within the categories recognized by the CRA: the relief of poverty, the promotion of education, the advancement of religion or other purposes beneficial to the community.

Example: Maison de l'innovation sociale (MIS) is a non-profit social enterprise that acts as an incubator for projects with social impact. MIS reinforces stakeholder capacity and identifies systemic barriers, including regulatory and financial issues. While the purpose of the organization is to provide a social benefit, its entrepreneurial approach means it does not fit within the CRA's definition of a registered charity and as such is not eligible for charitable status.

Grassroots organizations

Small and medium-sized community-based organizations have tremendous impact, even if they are heavily or entirely reliant on volunteers. Often groups are formed for a time-limited purpose, such as an event or for crisis response. Grassroots organizations may seek non-profit status but decide not to pursue charitable status, either because it is too costly or not necessary to achieve their goals. For funders, working with grassroots organizations may be the most direct and cost-effective way to support specific communities.

First Nations governments and Indigenous-led organizations

While Canadian municipalities are automatically considered qualified donees, First Nations governments must seek recognition as qualified donees to receive charitable donations. This is an inequitable approach to funding that results in fewer charitable dollars flowing to Indigenous communities. Further, many Indigenous-led organizations are NQDs due to the reasons described in **section 2 on page 9**.

Funder perspective: Indigenous Peoples Resilience Fund "When I first joined the **Indigenous Peoples Resilience Fund** (IPRF) a year into the pandemic, IPRF had already been supporting communities from coast to coast to coast. Though what seemed at first glance to be the norm, I soon learned that supporting qualified and non-qualified groups was not the case for the rest of the philanthropic sector. IPRF provides for all Indigenous organizations and communities, and the only time we differentiate between qualified and NQD applicants is for CRA reporting purposes. IPRF has always viewed our bundle recipients in this way, we don't see the difference, all organizations have the funding gaps that we strive to support." Joe Plant from IPRF.

Example: The Indigenous Curatorial Collective / Collectif des commissaires autochtones (ICCA) serves Indigenous curators and artists across the country and offers professional training and networking opportunities to further Indigenous arts and culture in North America. An NQD, ICCA has operated as a non-profit since its establishment in 2006.

Impact and data

86,000	registered charities in Canada
84,000	social-purpose organizations not registered as charities in Canada, not including unregistered grassroots groups and non-incorporated associations
Almost half	of social purpose organizations in Canada in 2022 were NQDs[9]
0.13%	of total grants disbursed went to Black-led organizations
Less than 1.3%	of grants were granted to Indigenous groups

A report prepared by the **Network for the Advancement of Black Communities** and **Carleton University's Philanthropy and Nonprofit Leadership program** explores these issues and their impact on Black-led organizations. In 2017 and 2018, their research found that 0.13% of total grants disbursed went to Black-led organizations and just under 1.3% of grants were granted to Indigenous groups.[10]

9. Imagine Canada, *Supporting non-charities is about to get easier. Why should funders consider it?* (2022).
10. Network for the Advancement of Black Communities and Carleton University's Philanthropy and Nonprofit Leadership program (2021).

Testimonials: Why funders work with non-qualified donees

Funders partner with NQDs for a variety of reasons. Some of those perspectives are shared below.

Fondation Lucie et André Chagnon

- The Fondation Lucie et André Chagnon believes that partnering with NQDs broadens the scope of our support by reaching groups from marginalized and isolated communities, ensuring greater equity among the organizations we support.
- Community organizations, many of which are NQDs, are shaped by the needs of society. Partnering with these organizations enables us to adapt our support to communities and change the way we deploy our resources to respond to changing needs.
- Support for NQDs has grown steadily in recent years. Our portfolio of philanthropic contributions now consists primarily of endowments to NQDs. In 2022, the breakdown was 66% disbursed to NQDs. In 2023, this increased to 71%.

Indigenous Peoples Resilience Fund (IPRF)

- Many Indigenous organizations and communities struggle to get funding support because they're not officially recognized as charities and fall into the category of NQDs. IPRF acknowledges this gap by addressing it, ensuring the third sector gets the support they need. Since our inception, NQDs have made up more than 50% of total support given to all communities.
- We support the sovereignty of all organizations through the knowledge of "community knows what community needs." In this way, an organization's status as a qualified or NQD is peripheral to funding decisions.
- "We move at the speed of trust." By uplifting NQDs we respect and trust Indigenous organizations and communities' right to make their own decisions and let their community do what they need to do.

Inspirit

- Over 40% of Inspirit's funding went to NQDs in 2022, and 45 % of our grantees were NQDs.
- We often work with early-stage organizations that are developing their infrastructure to secure non-profit status and potentially qualified donee status. These organizations are typically led by and serve equity-deserving communities.
- We also work with other newer and established social purpose organizations that operate within or adjacent to sectors, such as the screen-based industry and journalism, where a non-profit ecosystem is less developed.

Laidlaw Foundation

- Across granting streams, over 80% of Laidlaw Foundation's funding went to NQDs in 2022.
- As a youth funder, we prioritize grassroots groups, youth leadership, and Black-led and Indigenous-led initiatives. Youth collectives are often registered non-profits or unregistered groups rather than charitable organizations.
- We fund NQDs to reduce access to barriers to Black and Indigenous communities and organizations who have historically and systemically been underfunded in the philanthropic sector.
- We strive to embody the Trust-Based Philanthropy Project's six practices, which include understanding power imbalances between funder and grantee, offering capacity building, and acting on community feedback.
- We also support the Truth and Reconciliation Commission's 94 Calls to Action, in particular, call 66 under Youth Programs to "establish multi-year funding for community-based youth organizations to deliver programs on reconciliation, and establish a national network to share information and best practices."

McConnell Foundation

- Partnering with NQDs allows the McConnell Foundation to go beyond registered charities in supporting initiatives that respond to urgent community needs, serve equity-deserving groups, and perform impactful roles in the non-profit sector.
- In 2023, $4.9 million of our funding went to NQDs. This represents 16% of our overall funding.

11. Trust-based Philanthropy Project, *The 6 Grantmaking Practices of Trust-Based Philanthropy* (2021).

Updates and changes to working with non-qualified donees

Own Activities Rules

Prior to the 2022 Budget Implementation Act, a charity could only operate by carrying out its own charitable activities or by making gifts to other qualified donees.[12] This means that a charity could only partner with NQDs through the own activities rule — that is, engaging the NQDs to carry out the charity's own charitable activities on its behalf, as an intermediary of the charity. This demands that the charity exert "direction and control" of the NQDs' resources, where the charity is responsible for making decisions and setting parameters on significant issues related to the activity.

Direction and control processes create a significant administrative burden and legal complexities for NQDs who often have limited administrative resources. It also enforces a paternalistic relationship and power imbalance between funder and donee, implying a lack of trust in the latter's decision-making and resource management. Critics point out that direction and control could constitute an extension of colonial practices counter to the spirit of reconciliation.

Over the years, many organizations raised concerns about direction and control. In 2021, after consultations with the sector, Senator Ratna Omidvar, a long-time advocate for the charitable and nonprofit sector, introduced Bill S-216, the *Effective and Accountable Charities Act*, to address the issue.[13] While the bill was still moving through Parliament, the 2022 federal budget was introduced with language intended to incorporate the spirit of Bill S-216.

To ensure the budget would effectively address concerns and introduce guidance to provide adequate flexibility and adaptability, many NQDs, charities and philanthropic foundations, including Imagine Canada, engaged in discussions with government in the lead up to and following the passage of the federal budget.
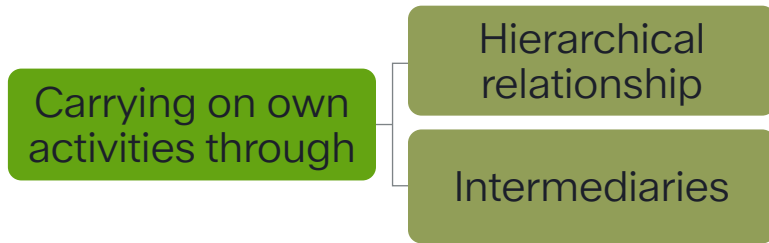
The rule changes governing partnerships with NQDs have broad support across the non-profit and charitable sectors.

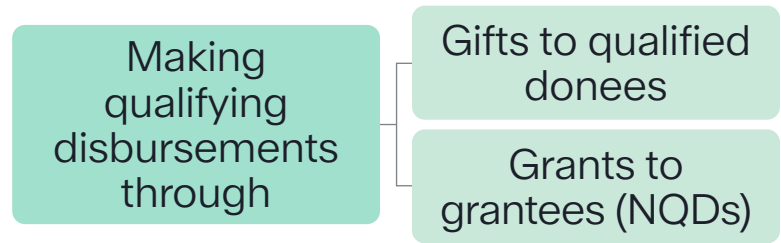12. Government of Canada, *Budget Implementation Act* (2022).
13. Parliament of Canada, *An Act to amend the Income Tax Act (use of resources of a registered charity)* (2022).

Own activities and new qualifying disbursement rules

Own Activities

| Carrying on own activities through | Hierarchical relationship |
| | Intermediaries |

Following the introduction of Bill S-216, in addition to carrying out its own charitable activities and making gifts to qualified donees, a charity can now also make qualifying disbursements to NQDs. A qualifying disbursement can include financial resources, as well as physical resources such as staff, intellectual property, and real property.

With these new qualifying disbursement rules, a charity is authorized to disburse funds to NQDs if they satisfy the following requirements:

- The disbursement furthers the charitable purpose of the charity
- The charity ensures that the disbursement is exclusively applied by the NQD to charitable activities in furtherance of the charity's charitable purpose.
- The charity maintains documentation sufficient to demonstrate:
  - The purpose of which the disbursement is made.
  - That the disbursement is exclusively applied by the NQD to charitable activities in furtherance of a charitable purpose of the charity

Qualifying Disbursements

| Making qualifying disbursements through | Gifts to qualified donees |
| | Grants to grantees (NQDs) |

In contrast to direction and control, under these new rules a charity is responsible for maintaining resource accountability. Part two of this toolkit outlines a variety of suggested options and tools to do this. Whichever tools are chosen, it is important for the charity to record all decisions and documentation in its books and records. Charities must still uphold the "public benefits" test for charitable activities and granting.

Credits: Chart from the Government of Canada's Guidance

Differences between own activities and qualifying disbursements

Own Activities

Hierarchical relationship

NQD is considered a representative of the charity

Activity needs to be the charity's own initiative, carried out by an intermediary

Charity needs to exert "direction and control" as if overseeing its own activities and resources

Narrow range of possible partners due to above barriers

Qualifying Disbursements

Collaborative relationship

NQD has the autonomy to carry out its own programs

Charity can support existing activities of the NQD

Charity responsible for maintaining resource accountability in a more flexible way

Opens opportunities for charities to work in new ways with a wide range of NQDs

How to work with non-qualified donees

Summary of grant-making process and accountability tools

There are different ways to pursue the qualifying disbursements grantmaking process for NQDs. Much depends on the specific charity's capacities and scope, its processes, and its relationship with the NQD. It is ultimately the charity's (funder) responsibility to maintain resource accountability, and to document decisions and the rationale behind them. As the focus shifts from direction and control, there should be an emphasis on reducing the administrative burden on NQDs, and on maintaining shared accountability with partners.

Charities that already have processes for the above can apply similar or the same procedures used for qualified donees NQDs. For funders that do not have pre-existing processes, **part 2** of this toolkit provides sample guidelines for accountability tools.

Accountability tools can include:

- Ensuring a furthering of funder's charitable purpose,
- Due diligence review of the NQD,
- Description of grant activity,
- Written agreement,
- Monitoring and reporting,
- Transfer schedule,
- Separately tracked funds.

Conclusion

Where to start

The work being done by grassroots organizations, social enterprises, budding non-profits, First Nations governments and many other organizations without charitable status is urgent, impactful and necessary. Partnering with NQDs has never been easier. Considering this, funders might ask: How do we get started?

Familiarizing yourself with this toolkit and updated CRA guidance on granting to NQDs[14] are great ways to get started. Meanwhile, connecting with umbrella groups in the charitable and philanthropic sectors will deepen the learning and connections needed to effectively partner.

Philanthropic Foundations Canada (PFC) has advocated on this issue extensively and offers resources and webinars on NQDs that can be viewed online. **Imagine Canada** has also advocated for NQDs and conducted educational outreach.

Funder affinity groups, such as **Environment Funders Canada**, focus on specific areas of funding, and can help connect and share knowledge useful to groups within an area of interest. PFC offers a list of philanthropic affinity groups on its **website**.

Ask a colleague

The foundations involved in the development and launch of this toolkit — Fondation André et Lucie Chagnon, Inspirit Foundation, Laidlaw Foundation and the McConnell Foundation — are committed to partnering with NQDs to achieve impact and effectively fulfill our mission and vision. We are keen to connect with others in the sector to share knowledge, answer questions and offer encouragement.

We look forward to hearing from you!

14. Government of Canada, *Registered charities making grants to non-qualified donees* (2023).

Part Two

How to work with non-qualified donees: A step-by-step guide

Grantmaking process and accountability tools

There are different ways for prospective funders to pursue the qualifying disbursements grantmaking process for NQDs. For funders who do not have pre-existing processes, the following are examples of accountability tools that can be adopted to meet a specific charity's context, capacities and relationships:

- Furthering a funder's charitable purpose,
- Due diligence review,
- Description of grant activity,
- Written agreement,
- Monitoring and reporting,
- Payment transfer schedule,
- Separately tracked funds.

Furthering a funder's charitable purpose

A funder's charitable purpose should be clearly stated in its governing documents. Purposes, sometimes called objects, are different from a charity's mission. The purpose is contained in the charity's CRA registration. It is important to review a charity's purposes, ensure they align with granting to NQDs, and if changes are needed to comply with CRA guidelines.[15]

There are different ways to check a qualifying disbursement's alignment with charitable purposes, including filtering grant alignment through mission-aligned funding streams, proactively solicited submissions or pursuing partnerships along mission-oriented parameters. Decisions on charitable alignment should be recorded in a charity's books and records, as well as in correspondence with a NQD about the terms of a funding agreement.

Due diligence review

As it is a charity's responsibility to guarantee that resources are applied exclusively towards its charitable purposes, funders should conduct sufficient due diligence on NQDs to ensure the individual or group feels they are capable of carrying out activities that align with the funder's purpose and will be able to fulfill the funding terms.

Existing due diligence processes for qualified donees may be adequate to apply to NQDs if they account for the size and length of funding terms, capacity of a funding recipient, and other important considerations to ensure appropriate funding management.

There are several practices that can be applied for charities that do not conduct due diligence on qualified donees. These practices consider the charity's specific context and capacities, as well as those of the groups receiving funding.

- A simple due diligence activity can include assessing a prospective NQD on a few of the following criteria:
- Purpose and mission,
- Programs,
- History,
- Reputation,
- Staff and volunteers,
- Associations,
- Experience and capacity to carry out funding activities,
- Potential use of funding resources.

15. Government of Canada, *How to draft purposes for charitable registration* (2013).

If the NQD is a registered non-profit or society, proof of registration can be obtained from the organization or found on provincial or federal databases.

For charities with greater capacity, due diligence can involve assessing a prospective NQD for capacity to fulfill funding terms, and positioning and alignment within a broader context. This includes the following criteria:

- **Collaboration:** Review of partnerships with key communities and stakeholders in the sector to determine who is, or needs to be, engaged in the work.

- **Capacity:** Review of organizational size, team leadership and structure, financial health and financial statements, and other resources to determine whether the prospective grantee can carry out the work at its proposed scale.

- **Feasibility:** Review of partnerships with key stakeholders in the sector to determine the degree to which the project goals are achievable with the available resources and the extent to which they address a sector need.

- **Partners:** Review the readiness of other partners and the credibility of the proponent to carry out the project to determine the degree to which the applicant is positioned to achieve success.

- **Governance:** Review the grantee's board and staff composition, stability and leadership, to determine if the applicant's governance is appropriate for its aims.

- **Finances:** Review the scope of the requested budget and other contributing partners to determine whether the project is properly resourced and diversified. Some funders ask for audited or unaudited financial statements of the organization. It is important to note that smaller organizations are often not required by law to have audited financial statements.

Due diligence may also take the form of independent research, in-person visits, virtual meetings, question and answer sessions with NQD leaders, requests for further information, reviewing the outcomes of past funding and letters of reference.

Description of grant activity

Creating a detailed description of the activity to be funded ensures a shared understanding of the terms between all partners. This can include: a project's charitable purpose, activity location, start and end dates, public benefit, deliverables and outcome objectives, and other program partners. Activity descriptions can be collected as part of an application form or through a written agreement created post-funding (see example below).

Written agreement

Written agreements can ensure the charitable purpose, budget, expectations, and terms and conditions for a funding arrangement are settled and mutually agreed upon in advance. This sets expectations for both parties. Contents of a written agreement are context specific. If a charity already has an agreement template for qualified donees, it can be adjusted for NQDs to ensure there are sufficient accountability tools in place.

Written funding agreements could include the following fields:

1. Full legal names and addresses of parties involved,

2. Description of the funder's charitable purpose and that the agreement is for a funding arrangement (versus establishing an intermediary relationship),

3. Description of funding activity,

4. Location of funding activity,

5. Start and end dates,

6. Reporting requirements, including timelines, and reporting expectations (oral, written, financial, etc.),

7. Payment/transfer schedule for resources (for example, funding at time of agreement or installments), contingent upon reporting and activity requirements or not,

8. Provision for withholding resources or returning unused resources if agreement conditions are not met,

9. Requirement for the NQDs' books and records to be sufficiently detailed to allow for the tracking of funds and provide an accounting of expenditures,

10. Requirement that the NQD track this funding support separately in its books and records,

11. Confirmation of the funder's right to survey the funded activity with reasonable notice,

12. Confirmation that resources transferred to the NQD will be used exclusively for charitable purposes throughout the course of the funding period,

13. Effective date and termination provisions,

14. Signature of directors, trustees or other officials authorized to grant and receive the resources,

15. Agreement signing date.

For charities that do not have an agreement template, the **Contract example and technicalities section** below provides a draft example that may help to create one.

Monitoring and reporting

Monitoring and reporting will help ensure that resources are being used towards the charitable purposes outlined in the written agreement. Monitoring approaches are context-specific, and if a charity has existing practices or guidelines for qualified donees, they can often be extended to apply to NQDs.

Monitoring and reporting can include:

- **Interim and final narrative reports:** Requesting key information on progress, learnings, and challenges from the work, with a focus on project-specific evaluation criteria or parameters as outlined in the written agreement. Reports can take several forms, including written, audio, video, notes from a conversation, or site visit, etc.

- **Interim and final financial reports:** Requesting an accounting of how funds have been spent and an overview of other financial contributions to the project.

- **Financial documentation:** Expense receipts, financial statements or audit reports, if appropriate.

- Communications records (email, phone, etc.).

- Photographs or videos.

- On-site visits.

At minimum, funders should ensure a final report is developed and keep a record of its approval.

Payment transfer schedule

Splitting large funding amounts into installments may help keep resources on track. If conditions are not met, funders should maintain the right to suspend, transfer or terminate an agreement prior to the next installment.

If a funder has existing practices around payment installment schedules, these can likely be extended and applied to NQDs. Keep in mind that NQDs generally have less capacity than qualified donees, so systems that place part of the reporting onus on the funder is generally a good idea. Some options for creating transfer schedules include:

- Creating a transfer schedule mirroring needs reported in a proposal budget (for example $10,000 in year one, $12,000 in year two and $8,000 in year three, for a three-year grant of $30,000).

- Frontloading funding, with a hold-back amount at the grant conclusion (for example $25,000 in year one, $0 in year two, $5,000 in year three, for a three-year grant of $30,000).

Transfers can be contingent upon the receipt and approval of the outlined reporting requirements. For smaller, shorter-term grants, funders may wish to consider a single transfer, though should still request a final report at the project's conclusion. This reduces the administrative burden on NQDs and makes sense especially for trusted or pre-established partnerships.

Separately tracked funds

Tracking a NQDs' funds will help both NQDs and funders document the use of resources. It should be requested that an NQD maintains books and records sufficiently detailed to track and report the use of the qualifying disbursement. It should be requested that support be tracked separately from other funds. Basic accounting standards should be able to accommodate this requirement, and a separate bank account should not be necessary.

For funders that have accountability tools in place (due diligence, written agreements, monitoring and reporting processes, transfer schedules, etc.) it is possible that the requirement for separately tracked funds will be the only additional step needed to fund NQDs.

Reducing administrative burden

For each accountability tool, funders will consider the balance between what is necessary information for proper resource accountability, and what might constitute an unnecessary administrative burden and barrier for NQDs (as well as qualified donees), who are often under-resourced.

Create an internal accountability checklist

Developing an internal accountability checklist can help funders decide on how to proceed. For instance:

- **Furthering a funder's charitable purpose:** On an application form or when soliciting submissions, a funder considers what degree of information is needed to determine alignment with charitable purpose. The shorter the form and the more standardized the questions, the less time it will take to complete. This lets NQDs focus on their mission-based core work. Many NQDs do not have the resources to hire a grant writer.

- **Due diligence review:** Before starting, a funder assesses what criteria need to be evaluated in the specific context, and who should be consulted. Focused due diligence will ensure an applicant's time isn't spent on unnecessary evaluation and will ensure that the correct stakeholders have input in the proposed work. Due diligence can also be used as a relationship-building opportunity, establishing shared understanding and a collaborative partnership.

- **Description of activity:** If possible, a funder uses a description that already exists (taken from the application form, for example). If a project description needs to be created ensure the final version is a collaborative, mutually approved effort.

- **Written agreement:** A funder considers what information is essential for resource accountability. A written agreement should be a moment of reciprocal expectation setting and a time to mutually agree on the terms of the relationship on an equal footing.

- **Monitoring and reporting:** A funder considers the time it takes to put together a report, and evaluate what requirements are reasonable, fair and essential for monitoring the funding. This considers whether it is possible to ask for shorter, less frequent, or no interim reports, as well as whether it is possible to broaden the type of reports accepted (oral updates, videos, etc.). In certain contexts it may be relevant to collaborate with a NQD to determine evaluation criteria and methods that work for them, and develop a flexible reporting schedule that aligns with their workflow and timeline. A funder may also consider accepting reports written for other funders. The onus is on the funder, not the NQD, to maintain documentation and ensure the legal requirements of granting are met.

- **Payment transfer schedule:** A funder considers collaborating with a NQD to determine a transfer schedule that works with their budget, fiscal year and project workflow.

- **Separately tracked funds:** A funder considers asking for only what is essential for resource accountability. Requesting additional steps such as opening separate bank accounts can be a significant administrative barrier for NQDs.

Contract example and technicalities

Agreement Example

❶ If relevant: with an additional [$XXX] to your fiduciary

❷ Insert a custom message about their project—a positive reference to what they will be doing

❸ (Charitable Alignment) Say how this project furthers FUNDER's charitable purpose: how it fits with FUNDER's mission, focus area, interests— how does funding this project promote FUNDER's end goal?

❹ and subsequent conversations with [NAME OF STAFF], if applicable—OR if there is no clear, up to date proposal on file list specifics of what the funding will be used for here

❺ Fill

[DATE]
[NAME]
[ORG]
[ADDRESS]
[CITY PROVINCE]
[POSTAL CODE]
[EMAIL ADDRESS]

Hello [NAME],

I am pleased to advise you that [FUNDER] has approved funding in the amount of [$XX,XXX] ❶ for your project: [PROJECT NAME]. We are pleased to partner with you in support of ❷.

[REQUIRED PARAGRAPH ❸]

It is important that the funds contributed to this work are used exclusively for charitable purposes, as outlined in your proposal and budget dated [DATE] ❹. Any substantial changes to the project or uses of these funds should be discussed with, and agreed to in advance, by [FUNDER]. Your staff contact for this funding is [NAME]. Feel free to reach out to [NAME] any time you have questions or updates at [EMAIL ADDRESS]

We know that reporting to funders can be burdensome, so we aim to be flexible. As you can see in the schedule below, we do require that you submit reports (narrative and financial) annually, and upon the project's completion. We can generally accommodate changes to reporting timelines, so please reach out to [NAME] if you wish to discuss shifting a report deadline.

In your narrative reporting, we are interested in your learnings about: ❺

In your **financial reporting**, you should indicate how FUNDER's funds have been spent (both for the reporting period and the term of this funding), and an overview of other financial contributions to the project.

Your initiative's **books and records** must be sufficiently detailed to provide a clear accounting to the **[FUNDER]**. Funds from **[FUNDER]** should be tracked separately from other funds in your records. **[FUNDER]** maintains the right to withdraw or withhold payment installments if the agreement's conditions are not met or if funds are not used exclusively for charitable purposes. Provided that the terms and conditions of this agreement are met, the balance will be paid in the installments shown below. Review of the report and processing of payment can take up to two months from the date of receipt of the report.

Date Due	Report Due	Payment Amount
[Payment date]	N/A	[$]
[Payment date]	Progress and Financial Report	[$]
[Payment date]	Progress and Financial Report	[$]
[Payment date]	Final and Financial Report	[$]
Total		**[$]**

A cheque is enclosed **[or An EFT payment will be issued in the coming days]**, in the amount of **[$XX,XXX]** in payment of this first installment. **❻.❼.❽**. Should you need to provide us with any documentation, please send it electronically.

We want to continue learning about your project. In between reporting dates, we encourage regular informal communications and updates. **[FUNDER]** staff may also contact you from time to time to discuss project developments. Please feel welcome to share any new materials (e.g., reports, videos) with us, as well as links to related media stories. We may feature newsworthy items on our social media outlets. On behalf of the **[FUNDER]** Board and Team, let me wish you every success with this project.

Yours sincerely,
SIGNED
[ATTACH ANY APPENDICES NECESSARY]

Books, records and tax reporting

Books and records

Charities must maintain adequate books and records, keeping detailed enough information to allow the CRA to determine whether it is operating in accordance with the Income Tax Act.[16] Records must allow the CRA to check whether:

- Grants meet the accountability requirements,
- The NQDs' use of resources can be verified, and that they are being used for the purposes outlined in the grant agreement's terms and conditions.

Any decision made about charitable purpose and accountability tools should be tracked. The rationale should be recorded if processes differ from the guidelines.

Reporting to the federal government

Form T3010, Registered Charity Information Return, requires public reporting on qualified and NQDs receiving qualifying disbursement totaling over $5,000 in a taxation year. This must include the following information:

- Name of each NQD,
- The purpose of each qualifying disbursement,
- The total amount disbursed to each NQD in a taxation year.

Charities supporting NQDs must also complete **form T1441, Qualifying Disbursements: Grants to Non-Qualified Donees (Grantees)**, which allows them to report detailed funding information, as required by the Income Tax Act.

16. Government of Canada, *Books and records* (2016).

Exceptional scenarios

Recommendations regarding the following exceptional scenarios are explained in the CRA guidelines:
- Qualifying disbursements to NQDs outside of Canada,
- Pooled funding to NQDs (please see the CRA website for information on the Anti-Avoidance Rule),
- Granting charitable goods to NQDs other than financial resources,
- Transferring real property to NQDs,
- Emergency or disaster relief to NQDs.

Please see **CRA guidelines** for more information on what is recommended in each scenario and considerations on how to ensure accountability. CRA guidelines also outline additional regulations around conduits and anti-terrorism.

FAQs on process

What if a NQD is not ready for qualified disbursement?

If a NQD is not ready for a qualified disbursement, a funder can still engage the NQD as an intermediary, carrying out the funder's own activities. The NQD can also establish a resource-sharing intermediary relationship with other funding partners, and receive the qualifying disbursement through those funders. For full guidance see **CRA CG-004**.

Is there any difference between private and public foundations?

"Charity" refers to charitable organizations, public foundations, and private foundations. The above regulations apply equally to all organizations that fall within the "charity" designation.[17] The Income Tax Act requires that a designated charitable organization pay no more than 50% of its income in gifts to qualified donees; otherwise, it could be designated as a public foundation.

Are there any disbursement limits for NQDs?

There are no limits to how much of its income a charitable organization can devote to making qualified disbursements to NQDs.

17. Government of Canada, *Types of registered charities (designations)* (2016).

Beyond funding: Other ways to support NQDs

There are many ways to work with NQDs beyond offering financial support. Philanthropic foundations have expertise, history, and networks that can help NQDs build capacity, fundraise, grow and reach their goals. This can include:

- **Network building:** Grantees can benefit from being introduced to relevant contacts in the sector or related fields.

- **Convening:** Bringing grantees together for learning opportunities, and/or advocacy.

- **Leadership development and capacity building:** Examples include Laidlaw Foundation's work with youth led-organizations and Innoweave (see below for more information).

- **Knowledge sharing**

- **Support and advice:** Providing financial advice, communications, mediation, etc.

- **Amplification:** Share the voices of those most affected by philanthropy.

Capacity building and leadership development

Charities can develop or share existing learning tools with NQDs or support their participation in learning opportunities. One example includes capacity building offered by the Laidlaw Foundation to support youth-led organizations to become ready to receive and manage funding, as well as Innoweave, founded by the McConnell Foundation in 2011, and now with the MakeWay Foundation since December 2023.

Youth-led organizations: The Laidlaw Foundation surveys grantees on an ongoing basis to determine the types of capacity building sessions in which they would like to participate. Additionally, grantees are provided with an upfront disbursement of funds, in addition to their total grant award. They are offered a curated list of potential professional development workshops to support their growth, however grantees are free to choose their own activities and are not restricted to this list. These funds encourage grantees to invest in their group's capacity. This may look like training, software, technology, and workshops covering topics like mental health, grief and loss, financial literacy, governance, leadership, evaluation, grant writing and Excel training, among others.

Innoweave: Innoweave provides social innovation coaching to established charities and non-profits across Canada to help sharpen their focus and improve performance. It partners with foundations and governments to strengthen collective capacity and offer funding to support participation in the program.

Other resources to support non-qualified donees

- Laidlaw Foundation creates lists of mentors as a resource.
  - Capacity-building resources
    - Capacity-Building Workshop List
    - Organizational Mentor Booklet
  - Tacit practices / internal goals for funding NQDs.

Governance: Bringing boards on board

Boards are legally responsible for the governance of organizations. Considering this, most boards will wisely aim to steer a funding organization away from possible risks. If a charity has little to no experience partnering with NQDs, it may be useful to engage the board to discuss the role, importance, and impact of NQDs and the opportunity that partnering with these organizations offer in fulfilling the mission and vision of the organization.

Education on updated guidelines for partnership with NQDs

While new CRA regulations simplify partnership with NQDs, there is not yet broad awareness of this change. Sharing information on these updates through a board workshop or funder affinity groups may be a useful step to move towards supporting NQDs or expanding on existing partnerships.