



TOP RISKS FACING THE CHARITY SECTOR IN 2023



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EXECUTIVE SUMMARY

The coming year introduces new challenges and risks for the Charitable and Foundation Sector. The negative economic fallout from the Global Health Pandemic, coupled with other global events such as the War in Ukraine, is now beginning to be felt. Supply chain issues for manufacturers, a tight labour market, the housing market collapse, and disruption in the global energy market has combined in a 'perfect storm' scenario to materially create higher inflationary pressures. Monetary policy authorities have responded with a determined strategy of interest rate increases that is negatively impacting investment returns for fixed income and equities.

Without a doubt, donor behaviour will be negatively affected because of these economic factors. At the same time, the demand for charitable products and services will increase, particularly among low-income individuals and families. The demand for social goods and services will increase.

In this Report we present the top six risks facing the Charitable and Foundation Sector for 2023. In priority, these are:

- The Economy
- Technology
- Talent
- Fundraising
- Reputation
- Pandemic Recovery

Principle conclusions of the Report

- Economic Risk is the top challenge to be faced by Charitable Organizations in 2023.
- The relationship between the economy and Charitable Organizations is dependent on the Category of Charity.
- Studies presented reveal the positive correlation between charitable giving and Personal Income. Charitable giving rates fell during the six recessions experienced in the study period of 1962 to 2002. and The Great Recession of 2008.
- Stock market and investment performance is positively correlated to the performance of the economy, so a decline in the stock market translates into fewer donations.
- It is forecasted that inflation experienced in the past year will continue into 2023, though at a slower rate of increase than in the past twelve months. We present five outcomes of higher inflation on the Charitable Sector.
- The Bank of Canada will need to keep interest rates at or above 4 per cent for most of 2023. We discuss how sustained higher interest rates will affect the Charitable Sector.
- The increasing use of technology in the Charitable Sector will be accompanied by an increasing risk of hacks and Cyber-Attacks on critical infrastructure. Increasing Cyber Security represents increasing costs for Charitable Organizations.
- The increasing use of technology will be accompanied by an increasing risk of fraud in the Charitable Sector.

- We explain why there will be considerable stress on management and employees in 2023.
- Similarly, employee turnover will be an increasing concern for Charitable Organizations.
- As the operations of a Charitable Organization become more sophisticated and challenging, there will be a potential skills gap between what is needed and existing operations.
- The demands on a Charitable Organization's Governance oversight will increase in 2023.
- We present thirteen strategies to assist in Talent management challenges in the coming year.
- A balanced mix of funding in times of economic uncertainty is critical to the survivability of a Charitable Organization. Working with Donor Advised Funds (DAFs) are an ideal way for Charities to accomplish this.
- Diversified funding sources will be needed to instill greater confidence in donors about the long-term viability of Charitable Organizations.
- We discuss the risk to reputation and trust in the Charitable Sector that can occur in 2023.
- There is the material risk of a return to an equal or more devastating stage of the global health crisis. Charitable Organizations must be prepared for this possibility through strategic planning.

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Our Vision

We will participate in a thriving Canadian philanthropic sector where the most impactful charities with the highest governance standards are celebrated and supported by donor capital.

Our Mission

The Veritas Foundation aims to be Canada's authoritative source for participating in the country's charitable sector and evaluating its effectiveness and impact.



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