

JULY 2020



**FROM 'DIRECTION
AND CONTROL' TO
'RESOURCE
ACCOUNTABILITY**

**TOWARDS A MORE
EFFECTIVE AND
ACCOUNTABLE
CHARITABLE SECTOR
IN CANADA**



CHARITABLE SECTOR

The Canadian charitable sector represents a **social and economic engine** crucial for the provision of essential services, community resiliency and social cohesion in Canada and abroad.

Canada's charities employ two million Canadians and account for \$135 billion (8.1% of GDP). Charitable investments are geared towards **solutions** to key global problems that directly impact Canada and Canadians: climate change, public health, education, sanitation and hygiene, economic development, good governance, and the protection of human rights.

At home and abroad, Canada's charities support the most marginalized: persons with disabilities, children, the elderly, the First Nations and Indigenous communities, LGBTQI+ individuals, racial and ethnic minorities, immigrants, women-led households and others who rely on their programs to help access vital services to meet their basic needs and ensure their **integration** in key social, political, and economic activities.

Abroad, international NGOs mitigate and **prevent conflicts** and **climate change** disasters, ensure **protection** of refugees, displaced persons and other vulnerable groups, work towards stronger, more **inclusive economies** and more equitable and just societies.

Charitable and international assistance work depends on **partnerships** with local organizations, who reach those furthest behind while ensuring the sustainability of Canadian investments. Larger organizations capitalize on their technical expertise, ability to mobilize funding, influence public opinion, and coordinate national and international action with local partners.

Canada's organizations face greater obstacles in forging accountable yet effective partnerships than those of partner countries. **Canada's outdated legislation regulating charities hinders local partnerships, effectiveness and accountability of charitable funds.**

'DIRECTION AND CONTROL' REGULATIONS

The current "direction and control" provisions of the Income Tax Act require Canadian charities to exercise **operational control** of their partners, placing additional **burden** on Canadian organizations and limiting the ability of their local partners to adapt to changing contexts.

Such restrictions are particularly harmful in **emergency contexts** (including the current pandemic of COVID-19) and hinder cross-cultural collaboration, including with Indigenous and First Nations communities. Overall, this approach is in contrast with those of peer countries and Canada's global commitments to a more inclusive and effective cooperation.

The Guidance CG-002 of the Canada Revenue Agency (CRA) requires charities to exercise "direction and control" over all the funds they collect and disburse, monitor partners' activities, provide detailed instructions, and duplicate institutional reporting and legal operations.

These restrictions decrease the level of funding that reaches beneficiaries, add unnecessary bureaucratic burdens, and limit the decision-making space of civil society partners, ultimately fostering unfair power dynamics.

They also position Canadian charities as global partners that do not comply with global standards for fair and sustainable partnerships to which Canada committed through the 2030 Agenda for Sustainable Development.

Canadian NGOs are also **less competitive** than their American, British, or EU counterparts because 'direction and control' rules require additional and outdated paperwork, slower disbursement of funding, and slower response to shifting contexts.

TOWARDS 'RESOURCE ACCOUNTABILITY'

Civil society and political experts are calling for updated regulations that would ensure **accountability for resources allocated to specific charitable purposes** while allowing for more **dynamic, effective and equal partnerships** between Canadian organizations and their partners and communities they serve.

The new framework would require charities to report on the impact achieved with the resources allocated to specific charitable objectives while allowing for agency of local actors in amending modalities of implementation. It also sets clear expectations on organizations to undergo due diligence checks when selecting the partners and to comply with national and international **anti-terrorist provisions for the accountability for charitable operations.**



By not being able to rely on local partners and digital technology, Canadian CSOs must deploy staff more often to monitor a range of activities. This means that resources are spent on flights, accomodation, and insuranance instead of charitable purposes and beneficiaries.



In humanitarian crises, Canadian CSOs cannot rely on pool funds where pre-vetted actors allocate funding for emergency relief to be delivered by the partners on the ground due to additional reporting burdens of 'direction and control'.



Being forced to exercise full direction and control over all partner activities, Canadian charities face significant obstacles in establishing equitable partnerships, particularly with marginalized groups, Indigenous and First Nations communities, and international partners that have for far too long been denied agency and the right to self-determination. In this way, direction and control erode the sector collaboration in a long-lasting manner.

'DIRECTION AND CONTROL' REGULATIONS REPRESENT OUTDATED AND INEFFECTIVE ACCOUNTABILITY MECHANISMS FOR THE CHARITABLE SECTOR. THE PROPOSED 'RESOURCE ACCOUNTABILITY' FRAMEWORK REFLECTS INTERNATIONAL STANDARDS ON THE MATTER WHILE STRENGTHENING ACCOUNTABILITY AND ENABLING CANADIAN CHARITIES TO BUILD A BETTER, MORE JUST WORLD FOR US ALL.