



GOVERNMENT
SPENDING, WE
CHARITY & THE
CANADA
STUDENT
SERVICE GRANT

Briefing to the House of Commons Finance
Committee

ABSTRACT

This Brief outlines seven suggestions that the Federal Government can consider in response to the WE Charity scandal.

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GOVERNMENT SPENDING, WE CHARITY AND THE CANADA STUDENT SERVICE GRANT

First let me say thank you for all your hard work in bringing to light critical issues facing Canada's charitable sector and holding WE Charity and our government to account.

As someone who has built her entire career on advising Canada's high-net-worth families on legacy, NextGen philanthropy, impact investing and strategic philanthropy there are many issues at play. Firstly, Canada's charitable sector is not just made up of charities. You need to include the roles that social enterprises, government, private philanthropy and corporate sponsorship play in the charitable sector make-up. By laying the blame at the feet of a charity without looking at all the players discounts the system at play and will prevent meaningful changes from occurring.

In advising clients, there are three topics that we cover off early in our conversations. All of which play into the WE Charity Scandal.

1. Structure of the charitable sector
2. How charities become charities and why the overhead question is the wrong question
3. Sustainability is not the same in the charitable sector as it is in the business world

It is my understanding in reading the CRA rules about speaker compensation, that a sitting politician cannot accept payment from a charity. In fact, in June 2013, Trudeau reimbursed the charities that paid him to speak stating, "political leadership is about raising the bar on openness and transparency." (June 16, 2013 – CBC News report). PM Trudeau has a history of not following the rules that our government has laid out. If the charity had been called out on this, it would have been the charity's fault for the payment not the speaker's fault for accepting the payment.

Looking beyond speaker compensation, which is but a distraction in the overall scheme of things, the three areas that need significant overhaul so as to ensure that this type of scandal does not occur again are:

1. Canada's Charitable Sector Structure

Canada's charitable sector is messy. We, as a society and through our tax legislation, take a bifurcated approach to addressing complex social issues. One way to tackle social ills is through a charitable/non-profit approach. The other way is through a for-profit model, called Social Enterprises/BCorps/Social Purpose Businesses.

As you know, on the charity side, a registered charity issues tax receipts; a non-profit cannot issue tax receipts but still has a social mandate and is accountable to society not individuals or a shareholder(s). In both of these cases, based on public perception and opaque financial rules, neither can earn more than reasonable profit and each have a fiduciary responsibility governed by an arm's length Board of Directors. Charities are regulated federally, non-profits provincially and businesses are both. Not all non-profits are charities, but all charities are non-profits.

In the for-profit world of social change, some businesses are social purpose businesses or social enterprises and some are purely profit driven. The governing body of social enterprises is BLabs based in the US. Not all social purpose businesses are B-CORPS (Beneficial Corporations) but all B-CORPS are social purpose businesses. Social enterprises use

profit motive to drive social agendas. Some are as simple as the Salvation Army thrift store that uses the profits from the store to support the programs offered by the Salvation Army, and some are more complex like fee-for service mental health supports offered on a sliding scale by a counselling centre based on reporting income.

Because the general public isn't entirely clear on the differences between charities, non-profits and social purpose businesses there is an overall perception that all these organizations are regulated in the same manner with the same standards. This is not the case. Unlike other industries, the charitable and non-profit voluntary sector does not have industry standards and the rules are open to interpretation. If the Federal and Provincial governments would coordinate the evaluation and standards between non-profits, charities and social purpose businesses we could, in part manage this issue.

What I just described is at the heart of the Government Spending, WE Charity and the Canada Student Service Grant issue.

In Canada (unlike other Western Countries) **we do not have a federal legal structure for social enterprises**. In the US there are entities called L3Cs, in the UK they have Social Purpose Businesses; in Canada the provinces regulate these types of organizations. For example, in BC they have Social Purpose Business investor and entrepreneur tax credits and in Alberta & Nova Scotia Co-Ops are considered non-profit social purposes businesses. This means that how money comes in, how money goes out, what is chosen to be reported on and how that is presented is left, in large part up to the operating entity. Adding to this is the BCORP standard which is similar to a "Good Housekeeping Seal of Approval" for social enterprises and comes with different investor incentives depending on the jurisdiction.

Which leads me to the next issue – how do we end up with the charities we have and how is overhead managed.

2. Establishment of Charities & the Overhead Question

What charities spend on overhead is irrelevant.

Anyone can start a charity provided they have three board members, a lawyer you who can draft up the bylaws and prove that what they want to do fits in with section 149 of Canada's tax code.

There are 90,000 charities in Canada. If you could non-profits we are up to 170,000. The CRA both regulates the application and the reporting. The **CRA DOES NOT VALIDATE THE MERIT OR THE NEED OF THE APPLICATION, NOR THE EFFECTIVENESS OF THE CHARITY OVER TIME**. Which is why there is so much duplication in the sector and very little digestible information on what is the most effective solutions out there.

We have, as a society, off-loaded our most complex social issues to charities. Issues that our government should be addressing. Because of our tax structures, the role of a career politician, and how the populace advocates for less taxes the result is a need for "operational funding" through private philanthropy to address these complex issues. In order to ensure that organizations can attract those necessary funds we incentivize donors to give by issuing tax credits at the ***point of the donation, not when the success is reached***. Unlike businesses, when dividends are issued (i.e. investor reward) when the business has done well, we reward the donor up front as if to say, "Congrats on being a good human now trust us to do the job..." And therein lies the messiness of the overhead question. Most donors don't know how to evaluate complex problems so they revert to the question – what are you spending on overhead and how much does it cost to raise a dollar as if to say they are directly correlated to success.

In Alberta, where I live, our government spends between \$8 and \$9 Billion (through taxes and gov't grants) every year to maintain poverty at 8-10%.¹ If money was the solution, we would have solved these problems a long time ago. The problem starts from how the system has been structured, how we have industrialized issues like poverty (foodbanks and homeless shelters are now a necessary service in poverty management) and how we finance organizations who are working on these systemic issues.

If we really wanted organizations to be transparent, as taxpayers and legislators, we would have taken responsibility for how organizations are approved, how money flows into the sector and consider that our "dividend" not be paid to us in the form of tax credits until the charities we support can prove that they are moving the dial on the issue that they are trying to solve.

Which leads me to my final point – Sustainability in the charitable sector is a paradox.

3. Sustainability

A successful charitable organization should be working itself out of business. By its very nature of moving towards solving a social problem it is not sustainable. Therefore, an organization should not be evaluated based solely on what it spends on its operations and charitable activities, but rather it should be measured by how long it takes for it to solve the issue AND/OR what it will cost our society (tax payers or gov't expenditures) to NOT solve the problem. All other financial metrics are irrelevant given the lack of market pressures that charities face (unlike traditional businesses).

We have created a system that requires organizations to NOT invest in operational effectiveness because they have to constantly be going out asking, "Please sir, can I have some more?" If we want organizations to solve these complex social problems, *we have to start financing solutions instead of funding problems.* There is an erroneous perception that organizations that have money on their books, investments (either in property or the stock market) means that they are not putting those funds to work. ***This is fundamentally not true.*** Paying salaries of highly educated individuals is putting that money to work. If we want to really solve complex social issues, we need to have people leading the organizations that have those skills, we have to have business models that allow for liquidity when needed and security when timed right. Having investments to ensure that should a rainy day happen they don't have to lay off staff (like what we are witnessing right now across all sectors) is a good thing. An therein lies the rub – organizations that are financially secure, fiscally prudent, with leadership at the helm that knows what and how to run the organization are demonized for being this way instead of running on the margins, scraping by and wasting valuable time and resources to raise a penny here and a penny there.

This is not to get WE off the hook. This is simply to show that if you want transparency in the sector please do not paint the whole sector with the WE brush. WE was one of the first organizations in Canada to use profit motive to finance their social objectives. If you want to solve global poverty you have to fund the solution and pure philanthropy won't get us there. Were they the right solution? I have counselled clients to consider the WE Charity lack of clear metrics and inconsistencies when compared with other international aid organizations. But that is my job, that is why there are charity watchdogs, it is so we can provide donors with suggestions around how to generate impact and raise the flags of ones that might be of concern.

¹ Three independent sources from 2017 to 2019: AB Gov't Poverty Study; Momentum Poverty Reduction Strategy; Vibrant Communities Calgary Poverty Reduction Strategy

The WE scandal has raised a number of issues in Canada's charitable sector, none of which can be solved overnight and none of which will be solved by the next government, because to do so would require Canadians looking at themselves and recognizing that we are as much to blame for how this happened as Prime Minister Trudeau and Minister Morneau are.

To summarize my recommendations:

1. Create a new category of organization that is federally regulated with different incentives for SOCIAL PURPOSE BUSINESSES OR SOCIAL ENTERPRISES. Thereby allowing profit motive to help move the dial on complex social issues and balancing out the accountability between the investor and the business.
2. Coordinate between the provincial and federal levels of government around social impact and evaluation standards of charities, non-profits and social purpose businesses to have a unified standard. Especially for projects that receive government funding.
3. Establish an independent bureau whose sole responsibility is to validate the market assumptions being made by people who apply to set up front-line charities. This will require the government to institute standards that are not driven by the cost of raising a dollar, but will force government to understand the costs associated with NOT solving some of the complex problems facing our communities and pave the way for alternative investment structures like Social Impact and Community Impact bonds. This will also remove the onus of approving charities with the tax bureau who audits them. Separation of church and state, if you will.
4. As part of the application process, this independent bureau mentioned above is also responsible for conducting market analysis when an application comes in. Connect the dots between the non-profits that are being regulated at the Provincial level with the charities at the Federal level. Ask questions about duplication in the sector and capacity. Is it really duplication if the homeless shelter is at capacity and other one opens up, or is there a bigger issue at play here? Is a waiting list for a child's mental health support group an indication of a capacity issue or a lack of market awareness that there are organizations that have room in their programs and a lack of financial capacity to market themselves (because funders don't want to pay for marketing and overhead)?
5. Coordinate funding tying grants FROM ALL MINISTRIES back to a specific funding framework. Whether it is using the SDGs (Sustainable Development Goals) or the World Economic Forum's Global Crisis Index or something specific to Canada's needs (like the Poverty Reduction Strategy). Whichever framework is adopted, it must be consistent and used for both funding decisions and policy support.
6. Change how tax receipting works. Encourage philanthropy by focusing on impact and not simply putting money into a charity. This will do three things: a) It will limit donors putting money into entities like DAFs and large charities simply because they have a tax problem that needs to be managed and b) it will force charities to consider the market demands of their services and what really needs to be fundraised for and c) it will force government departments to start measuring themselves on how effective they are managing those areas that government is mandated to take care of (healthcare, education, infrastructure and security).
7. Consider that WE Charity is the canary in the coal mine. With 90,000 charities funding problems and donors not properly financing solutions, the current model of how money flows into the sector needs to be overhauled if we really want to solve systemic issues like poverty.
8. Ask different questions, on the application and annual filing (T3010 form). Discourage equating low overhead with operational effectiveness and impact. I would sooner support an organization that has higher overhead but



lower recidivism than an organization that has low overhead but they are a revolving door of the same people trying to get clean and sober or stay out of jail.

9. Look at different funding models like Social and Community Impact Bonds, and incentivize strategic philanthropy through these types of financial mechanisms instead of cash/securities donation in exchange for tax credits. This will force the charities to perform to a pre-determined metric, provide government with the necessary information to evaluate the Social ROI on grants and shift the way that money flows into the sector to ensure that operational funding for organizations is more clearly reported.
10. Make breaking the rules not simply a slap on the wrist. An apology is not enough. A charity can lose its charitable status for lesser infractions. Sitting MPs should be held accountable as they should know better given it is their own policy that was put in place to ensure charities aren't able to curry favour in this way.

About Karma & Cents Inc. and Gena Rotstein:

Karma & Cents™ was founded by Gena Rotstein and Richard Ouellette. They each bring a unique perspective to the social enterprise philanthropy industry. Gena, the author of this brief, grew up in a family business and part of a larger enterprising family. She has over 20 years of philanthropy management experience with a Masters in Non-Profit Management and Jewish Communal Service from Brandeis University and as a certified Family Enterprise Advisor through the University of Alberta Faculty of Business. She also has received certification from 2164 in Next Gen philanthropy, is a member of the Purposeful Planning Institute and part of Canada's Pro-Bono Marketplace.

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