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| Submission to Productivity Commission Review of Philanthropy |
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| Social Ventures Australia |

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# Introduction

Social Ventures Australia (SVA) thanks the Productivity Commission for the opportunity to provide a submission to the Commission’s Review of Philanthropy.

In this submission we focus on some specific issues where SVA has particular interest and expertise. While we have structured the submission against the Terms of Reference, we have not sought to comment on every issue raised in the Terms, or in the Call for Submissions, or to duplicate material that others are better placed to provide, except where we are offering support for a shared view.

We would welcome the opportunity to discuss the issues raised in this submission further with the Commissioners and staff of the Inquiry.

# About SVA

Social Ventures Australia (SVA) is a not-for-profit (NFP) organisation with the mission to alleviate disadvantage, towards an Australia where all people and communities thrive. We influence systems to deliver better social outcomes for people by learning what works in communities, helping organisations be more effective, sharing our perspectives, and advocating for change.

This submission draws on our 20-year history as an intermediary in the social purpose sector, working with a wide range of NFPs and philanthropic funders through our Consulting, Impact Investing, and Programs arms. In this work, we have looked at the issue of philanthropy from multiple angles. We are a recipient of philanthropic funds ourselves, and have also been venture philanthropists supporting other organisations. We have worked with NFPs seeking funding, and with a range of philanthropic clients, corporate and private, big and small, to help them develop more effective granting strategies. We supported Philanthropy Australia to develop their [Blueprint to Grow Structured Giving](https://www.philanthropy.org.au/our-impact/a-blueprint-to-grow-structured-giving/), and have partnered with them on a range of other projects.

In particular, this submission draws on two projects related to the charity and NFP sector that SVA has recently undertaken:

* The [*Partners in Recovery*](https://www.socialventures.com.au/partners-in-recovery/) project, in partnership with the Centre for Social Impact. This project tracked the financial health of the charity sector through the COVID-19 pandemic, and investigated a range of issues related to charity capacity, capability and viability.
* The [*Paying What It Takes*](https://www.socialventures.com.au/work/paying-what-it-takes-report/)project, in partnership with the Centre for Social Impact and Philanthropy Australia. This project explored the issue of underinvestment in NFP capability by funders, with particular attention to understanding indirect costs of delivering their work.

SVA also has a long track record of supporting NFPs to [improve and measure their own effectiveness](https://www.socialventures.com.au/sva-quarterly/a-guide-to-social-impact-measurement/) – working with clients and partners, and developing tools for the sector. We are a leader in impact measurement in Australia, supporting hundreds of clients in their impact measurement work over the past 20 years, including Social Value and Social Return on Investment (SROI) analyses and reports. In addition, we run the internationally accredited [Social Value and SROI practitioner training](https://www.socialventures.com.au/consulting/sroi-training/), having trained 1000s of people across Australia, New Zealand and Singapore. We also developed [Fundamentals for Impact](https://www.socialventures.com.au/learning-insights/sva-fundamentals-impact/), a tool to help organisations answer critical questions about their own effectiveness.

Our work in Impact Investing, particularly on [social impact bonds and other forms of outcomes contracting](https://www.socialventures.com.au/sva-quarterly/a-guide-to-outcomes-contracting-and-social-impact-bonds/), has also contributed to our understanding of effective outcomes measurement.

# 1. Tendencies and motivations for Australians’ charitable giving

## Trends in Australian charitable giving

We share the Commission’s concern, noted in the Call for Submissions paper, that the proportion of Australians donating to charity is decreasing. Previous SVA analysis found that the proportion of Australians giving has been trending down for 15 years. If this trajectory continues, levels could drop to 21% by 2030. If action is taken to arrest the trend, Australia could avoid $4.2 billion in lost donations in 2030, with total value of $16 billion in saved donations between 2023 and 2030*.*[[1]](#footnote-1)

## Role of government and philanthropy

SVA believes that it is primarily government’s role to provide a social safety net, and that government should not expect philanthropy to replace government service provision or support. We also believe that philanthropy can play an important role in civic society. Philanthropy may be better placed to, for example, take on higher risk by piloting innovative approaches, or directly meet the needs of local communities. Government can learn from these activities to improve its own policies and programs (see Box 1: Philanthropy as a test bed for innovation).

We are strongly in favour of government supporting philanthropic activity in Australia, including through the use of tax concessions and related measures. However, government should retain a focus on the outcomes it wishes to achieve. In some cases, the value generated from philanthropy that is incentive by such concessions may be lower than the value that government could achieve by receiving and using that revenue itself. Furthermore, if government wants to incentivise philanthropy it should do so in ways that are fair and equitable to all charities. As discussed further below, the current Deductible Gift Recipient framework is not fair or equitable, and arbitrarily privileges some types of charities over others.

Box 1: Philanthropy as a test bed for innovation: Evidence for Learning

Established in 2015, [Evidence for Learning](https://evidenceforlearning.org.au/) (E4L) is an independent, not-for-profit organisation committed to ensuring all children and young people throughout Australia, regardless of background, make the best possible learning progress. It does this by improving the quality, availability and use of evidence in education and collaborating with education researchers, policy makers, systems leaders, educators, professional learning providers, philanthropists and the wider community.

SVA incubated E4L because it saw that there was a gap in the Australian education system in supporting system-wide adoption of evidence-based practice. It partnered with philanthropy, including the Commonwealth Bank, the Bryan Family Foundation, BHP Foundation, the Eureka Benevolent Foundation, the Ian Potter Foundation, a family foundation, and the William Buckland Foundation to establish and operate E4L as a pilot project to demonstrate the value of an Australian education evidence institution.

With philanthropic support, SVA worked to advocate for the establishment of a national, government-funded, education evidence broker. This included making [submissions](https://www.pc.gov.au/__data/assets/pdf_file/0004/199714/sub059-education-evidence.pdf) to the Productivity Commission [Inquiry into the Education Evidence Base](https://www.pc.gov.au/inquiries/completed/education-evidence). The inquiry adopted many of SVA’s recommendations, including the call to establish a national education evidence institute. After further advocacy, the Commonwealth Government agreed to establish the [Australian Education Research Organisation (AERO)](https://www.edresearch.edu.au/) as a part of the national education architecture.

This advocacy was possible because philanthropy was willing to support an innovative approach to improving education outcomes in Australia. Without E4L as a demonstration project, it would have been much riskier for government to embark on creating an education evidence institute, and they may not have pursued it.

## First Nations people and communities

SVA has worked with many First Nations organisations that are creating change in out of home care, education, employment, and justice as well as those creating connections to country and culture. We are proud of the work we’ve done, and we’ve learnt a great deal working with leaders in organisations who have generously shared their wisdom and experience. As a non-First Nations organisation, we aim to share our perspective as a contribution to thinking and debate. This perspective is informed by the recommendations and voices of Aboriginal and Torres Strait Islander peoples and organisations with whom we have worked. However, we believe that, consistent with the principles of self-determination, the views and perspectives of Aboriginal and Torres Strait Islander peoples and organisations must be prioritised throughout this inquiry process to drive future outcomes.

It is clear to SVA from our own professional experiences that embedding the voices of First Nations peoples in decision making is a precondition to improving health and wellbeing of those peoples. First Nations peoples know what works in their communities, and they are the experts in their own lives.

We are pleased to see that the Call for Submissions acknowledges the importance of ‘*recognising different definitions, perspectives and norms relating to philanthropy among different cultures and communities, including but not limited to: – Aboriginal and Torres Strait Islander people – culturally and linguistically diverse communities – faith-based groups – younger and older Australians*.’ While we do not have specific expertise related to this issue, we have worked closely with First Nations people and communities in particular and developed an understanding of the importance of centring First Nations voices. We discuss this further in Box 4 below.

Similarly, we are pleased to see that the unique position of Aboriginal Community Controlled Organisations is noted in the Call for Submissions. We encourage the Commissioners to consider the particular needs and interests of this important part of the not-for-profit sector, and to prioritise the views of First Nations people and communities in developing recommendations relevant to this sector.

We also encourage the Commission to consider the unique power relationships involved in philanthropic engagements between non-First Nations funders and First Nations recipient organisations, and how this may perpetuate problematic dynamics if not appropriately addressed.

# 2. Opportunities to increase philanthropic giving

## Effective and efficient use of donations

It is reasonable to assume that philanthropists – from large foundations to individual small donors - want to see their donations used efficiently and effectively. Growing giving will require donors to maintain or increase their confidence that their donations are being used appropriately – to generate improved economic, social or environmental outcomes.

Unfortunately, the narrative around NFP effectiveness too often defaults to an emphasis on using funds for direct service delivery, not ‘overhead’ or indirect costs. This is sometimes phrased as wanting their money to go to ‘people in need’ or ‘frontline services’. This attitude towards indirect costs is common despite significant evidence showing that indirect costs do not indicate the efficiency or effectiveness of an NFP.[[2]](#footnote-2) In fact, the opposite is often true. Spending insufficient resources on indirect costs has been shown to reduce overall NFP effectiveness.[[3]](#footnote-3) This is intuitive – an organisation that can invest in training its staff, building good financial systems, and measuring its impact is much better placed to be effective than one that cannot.

Recent research from SVA, the Centre for Social Impact (CSI) and Philanthropy Australia on ‘Paying What It Takes’ has shown that NFPs in Australia are, in general, not funded for the actual cost of what they do (see Box 2). We found that indirect costs account for an average of 33 per cent of expenditure across a range of Australian NFPs, but that funding agreements tend to only provide between 0 and 20% for such purposes. This leaves NFPs with little choice but to underinvest in critical capabilities.

This challenge is compounded by the fact that NFPs often run on thin margins, with limited reserves and little ability to raise capital to invest in their own future capability.[[4]](#footnote-4) US research has shown that one of the key drivers of this financial vulnerability is insufficient funding of not-for-profit indirect costs.[[5]](#footnote-5) This is called the ‘non-profit starvation cycle’, in which funders having inaccurate expectations of how much overhead is needed to run a NFP means these organisations underrepresent their costs. This leads to a sector starved of the necessary core funding required to create resilient NFPs delivering long-term impact on complex social issues. Our research indicates that similar dynamics are operating in Australia.

For charities to run efficiently and effectively – and to make the best use of donations to improve outcomes - investment in indirect costs is critical. They include vital functions such as IT, finance, human resources, measurement and evaluation. Without these functions, the organisation operates less effectively and its impact is reduced. By one measure, Australian businesses spend twice the amount that NFPs do per employee on key capabilities such as training, IT, quality, and marketing.[[6]](#footnote-6) This leaves NFPs both less efficient and more vulnerable to external shocks.

Technology provides an illustrative example here. Few would argue with the proposition that having effective technology systems and equipment is important for an organisation of any scale to run efficiently. However, many NFPs have difficulty in accessing the resources needed to establish and maintain such systems. Prior to the pandemic, only 43% of non-profits surveyed were using cloud-based systems.[[7]](#footnote-7) This lagging investment in technology made the shift to remote work more challenging for many organisations. At the same time, 55% of NFPs reported that funding and costs was the major barrier to making better use of technology.[[8]](#footnote-8) With growing concerns about cybersecurity, donors may reasonably expect that NFPs will have appropriate systems in place to protect critical data. However, this will be extremely difficult to achieve if donors are not prepared to fund the appropriate infrastructure and skills within the organisation. In 2022, only 47% of organisations indicated that they provide cyber-security awareness training to their staff, and 45% do not have a data breach response plan. Budget and funding constraints, along with access to affordable, skilled, technical resources, remain the biggest barriers to change.[[9]](#footnote-9)

Box 2: Paying what it takes – the Australian landscape[[10]](#footnote-10)

Research shows the extent to which NFPs are underpaid for their indirect costs in Australia. Nine Australian NFPs, which ranged in size from $100m to $100k in annual revenue and worked across the arts, disability, and family services sectors, agreed to open their books for analysis. These NFPs had average indirect costs of 33% of their total expenses, with a range from 26% to 47% (see Figure 1). This far exceeded what is normally included in funding agreements (which generally range between 0% and 20%). This figure is also higher than what NFPs regarded as the maximum that philanthropy is willing to pay.

Figure 1. Surveyed NFPs had average indirect costs of 33%



The research also found that:

* Indirect costs do not indicate the efficiency or effectiveness of a not-for-profit
* Caps on indirect costs leads to lower capability and effectiveness
* The drivers of indirect cost underfunding are complex and interrelated

Increased demand for outcomes measurement, which is typically an indirect cost for NFPs, and trends towards greater regulation means pressure on indirect costs is rising. Currently, NFPs spend significant time searching for untied funding to shore up existing programs and introduce work-arounds to mask indirect costs. This underinvestment increases risk for beneficiaries as well as risk of non-compliance with regulations or funder requirements.

There are multiple actions that governments could take to increase the efficient and effective use of donations by addressing the issue of paying for the full costs of services. These include:

* Adequately funding indirect costs in its contracts with NFPs. This would model best practice, and reduce the need for NFPs to cross-subsidise government programs with philanthropic funding – in turn increasing the good they can do with philanthropic funds.
* Ensure that public communications about the importance of NFPs and giving do not include false dichotomies about direct and indirect costs.
* Avoid creating ‘unfunded mandates’ where NFPs are required to bear the cost of decisions made by government. Governments already do this for some direct costs – for example, in providing additional funding to service providers whose employees are granted significant wage rises by the Fair Work Commission.[[11]](#footnote-11) If government introduces requirements that impose additional indirect costs on NFPs, such as new regulatory requirements that may necessitate additional back-office capacity, then it should also fund those mandates.

## Supporting NFPs to raise capital

NFPs have particular challenges in raising capital.[[12]](#footnote-12) Unlike businesses, NFPs can’t raise equity from shareholders. Most aren’t in a position to take on debt to help them smooth their income, adapt their business model or invest in rebuilding. Although on paper some large charities appear to have a large asset base, many of their assets are necessary for them to pursue their purpose, such as a hospital for a health charity, or a campus for an educational institution and cannot be used as a source of funds. Moreover, charities cannot easily take out loans against these assets, because their constrained and inflexible revenue streams can be unattractive propositions for lenders. Charity boards may also be understandably reluctant to take on the risk of debt due to the uncertainty of future revenue sources to repay these debts and the organisational risks and personal liabilities they may face.

Without access to capital, it is difficult for NFPs to invest in their own future capability and growth, as noted above.

We encourage the Commission to consider options for donors to support NFPs to raise and harness capital, including:

* Options for donors to transfer assets to NFPs via advance bequest arrangements. In these models, a donor places an asset in trust for the benefit of the NFP upon the donor’s passing. The NFP can use the asset as a capital base, while the donor still receives an income stream from the asset while they are alive.
* Options to encourage donors, particularly large foundations, to use their corpus to invest in charities as a means of providing patient low-cost capital via impact investing approaches.
* Options for blended funding models that combine returnable and non-returnable capital, as recommended by the government’s Social Impact Investing Taskforce.

# 3. Current barriers to philanthropic giving

## Measuring and comparing NFP effectiveness

SVA strongly supports efforts to better understand NFP effectiveness, and as noted above we have done extensive work in this area. We understand that donors are interested in having their money go to where it can do most good, and that NFPs are interested in generating better outcomes for the cause they are working towards.

However, based on this experience, we strongly believe that there is no single set of measures that can comprehensively assess the effectiveness of charities in a comparative way. Measuring effectiveness well requires a focus on outcomes relevant to the purpose of the organisation, not a generic set of criteria. We also know that rigorously measuring effectiveness can require a significant investment of time and resources which, as noted in the previous section, are not easy for NFPs to access.

For these reasons we are concerned that, if not well-designed, an Australian charity comparison site could introduce perverse incentives for charities that may *decrease* the effectiveness of philanthropic giving. This may occur because:

* Not all charities undertake activities that are well-suited to straightforward impact measurements. By the nature of their work and charitable purpose, some NFPs will have a much harder time defining and measuring their outputs and outcomes – for example, those working on complex issues with long time horizons for change. Comparison sites could result in lower donations to such activities, even when they are performing a critical role in society. It may also encourage charities to move their activities towards those which are easier to measure, rather than those that are most effective.
* Some comparison sites use measures that disincentivise charities from investing in their own capability and future effectiveness. While measures such as ‘percentage of expenditure on overhead’ may appeal because they can be applied to charities regardless of their type of activity, they end up, at best, with charities spending effort on reclassifying expenditure to meet benchmarks. At worst, they make charities reluctant to spend on functions classified as indirect costs despite, as noted above, these functions being critical for the effectiveness of the organisation.

To the extent that government is interested in removing barriers to giving, we suggest that ‘comparing charity effectiveness’ is not the solution. Instead, government should focus on supporting charities to assess their impact (through dollars, access to data and capability), and highlight examples of good practice. Donors can then make choices about which organisations they support.

If government wants to support donors to assess and compare charities based on evidence and effectiveness, it should:

* Support charities to conduct rigorous evaluation of their own impact. This could include funding evaluation as part of service delivery contracts; supporting the development of shared impact measurement methodologies, tools and frameworks (see Box 3); and sharing available information on effectiveness by publishing government-commissioned evaluations.
* Avoid using comparison metrics that create perverse incentives for charities, such as measures of indirect costs that incentivise charities to underinvest in their own capacity
* Demonstrate the importance of evaluating effectiveness by evaluating its own activity for effectiveness, and sharing those results.

There are some metrics used by international comparison sites that could be considered for adoption in Australia – for example, asking charities to report the number of independent board members, and the existence of a conflict of interest policy, in their Annual Information Statements to the ACNC. However, these are better thought of as measures of ‘accountability’ rather than ‘effectiveness’.

Box 3: Shared outcomes frameworks

One way to improve the ability of NFPs to measure effectiveness is the use of shared evaluation and measurement framework. If government, communities and NFPs have an agreed set of outcomes they are pursuing, and therefore a common understanding of what success looks like, this can reduce fragmentation and lay the foundation for greater collaboration, as well as saving time and effort by reducing duplication.

SVA has been involved in the development of several of these frameworks and related tools, including:

* a Disability Housing Outcomes Framework, developed in partnership with the disability housing sector.[[13]](#footnote-13) This work includes a tool that service providers can use to measure their performance against the framework.
* a shared outcomes framework for the South Australian homelessness sector [[14]](#footnote-14)
* Review for Outcomes, an online hub for youth employment program providers that provides free access to tools and resources to enable good practice in program measurement.[[15]](#footnote-15) It includes an outcomes framework, outcomes template, and surveys

We encourage the Commission to consider how shared outcomes frameworks could be more widely used as a means of assessing effectiveness.

We would encourage government and philanthropists to be particularly aware of the challenges of effective evaluation of programs involving First Nations people and communities. Data sovereignty and self-determination must be central to the design and delivery of programs and services in these communities.

SVA has worked with many First Nations organisations to evaluate the impact of their programs and policies, some commissioned by the organisations themselves and some by external bodies such as governments (Box 4). Based on that experience, and the many conversations with First Nations leaders, evaluators and civil servants that we have had as part of the work, we have identified five areas for improving evaluation practice to recognise and support the right of First Nations self-determination. They are:

* Evaluation commissioners should invest in more and better evaluations to build a stronger evidence base
* Evaluation commissioners and evaluators should ensure Aboriginal and Torres Strait Islander people take the lead in defining what ‘successful’ policies and programs look like
* Evaluators should use genuinely participatory and culturally appropriate methods for gathering data and consulting community (and evaluation commissioners need to pay for these methods)
* Evaluation commissioners should invest in building the capacity of Aboriginal and Torres Strait Islander organisations in evaluation, learning and improvement – not just funding external evaluations for compliance and funding acquittals
* Evaluation commissioners and evaluators should ensure evaluations collect information about strengths, opportunities and existing resources[[16]](#footnote-16)

Any comparison site that includes organisations working with First Nations people and communities, including First Nations-controlled organisations, will need to be mindful of these dynamics.

Box 4: A case study of evaluating the work of a First Nations organisation[[17]](#footnote-17)

Kanyirninpa Jukurrpa (KJ) is a Martu organisation – Martu are the traditional custodians of a vast area in the Western Desert of the Pilbara. In 2020, KJ engaged Social Ventures Australia Consulting to evaluate their impact on Martu communities between 2010 and 2020. The evaluation had to reflect Martu’s experiences and feelings about KJ’s impact on their communities over the past 10 years. It was therefore important that the methodology was pegged by outcomes that Martu value, was adaptive to Martu communities and captured the Martu voice. Further, it was critical that the evaluation did not impose conventional evaluative methods to quantify impact at the expense of authentic Martu assessments of KJ. This approach of centring the methodology around Martu (as opposed to imposing conventional methods) is in line with the Productivity Commission Indigenous Evaluation Strategy.[[18]](#footnote-18)

To ensure this intention carried through the project, a number of guiding principles were set and embedded into the evaluation’s design:

**Who:** This is a Martu story, by Martu, for Martu and ‘whitefellas’ – This project was a chance for Martu to describe what outcomes are important to them and for all programs impacting Martu to be measured against those outcomes. The project was a chance for Martu to consider what has been successful (or not) from KJ’s work over the past 10 years, using a Martu frame of reference.

**How:** Martu voices are central to the evaluation – The evaluation needed to tell the story of Martu experiences as a result of KJ’s contribution. Martu informed the design of the evaluation criteria and method for consultation. The consultation approach in Martu communities also needed to be led by Martu wherever possible and appropriate.

**What:** The output of the evaluation will be shared with different audiences and complement other Martu and KJ research and stories – For Martu communities, this evaluation needed to support the evolution of how KJ and other organisations work with Martu. For funding bodies, this evaluation demonstrates the impact KJ has made on Martu communities through their support and investment over the past 10 years.

To ensure these principles were embedded from the outset, there were two key design elements that ensured Martu voices were central to the evaluation:

Firstly, two discovery workshops were held at the beginning of the evaluation with Martu Leadership Program (MLP) members to develop a list of Martu outcomes. These outcomes formed the foundation of the project and were used as indicators to assess KJ’s contribution. The outcomes were also reviewed at each Martu community consultation to ensure there was confirmation by the broader community. The 11 outcomes are split by traditional (outcomes relating to the traditional Martu identity) and modern outcomes (outcomes relating to how Martu live in the modern world). The first five are traditional outcomes with the remaining six being modern outcomes.

Secondly, three to five MLP members were involved as co-facilitators in subsequent community consultation sessions. MLP members led workshops and acted as translators.

## Regulatory burden

As we noted in our *Partners In Recovery* work, and as many other organisations have raised, current regulations on fundraising activity are burdensome for charities to navigate, particularly for organisations that operate across more than one jurisdiction. We are pleased to see that the Commonwealth Government has committed to working with the States and Territories to modernise the regime, and hope to see improvement in this long-standing issue soon.

# 4. Appropriateness of current sources of data related to philanthropic giving

When considering data related to philanthropic giving, we identify two categories:

* Data about givers and giving – who gives, how much, to whom, when, how and why.
* Data about recipients that could inform giving – data which helps to understand the effectiveness of philanthropic giving, including the impact created by the recipient organisation.

The second category was discussed in the previous section. Here we focus on the first category.

Data about giving in Australia is fragmented across a wide range of sources, and some is not publicly available at all. For example, we have found in previous research that publicly available datasets make it very difficult to ascertain giving levels of wealthy Australians. Income tax data (and therefore data about tax-deductible donations) cannot be meaningfully linked with wealth data. Given the importance of high-net-worth individuals and families to philanthropy in Australia, it would be helpful to better understand giving levels from this group.

Many data sources also have a significant lag time – for example, at the time of writing in May 2023, the latest available Australian Charities Report covers the 2020 reporting period, which for some charities means it relates to the 2019-20 financial year – in other words, it includes several months of pre-pandemic data. While we recognise the challenges in gathering and compiling the large amount of data required for this report, it is a significant impediment to understanding what is happening to charity finances in a timeframe that is useful for policy development. While some data is provided in a more timely manner via data.gov.au, it is challenging to analyse and interpret. We would like to see the ACNC resourced to more effectively share data with the sector so it can better understand contemporary trends.

During the Covid-19 pandemic, government made significant advances in providing timely information on economic and social trends, such as the ABS providing frequent updates on employment rates based on data collected by the ATO’ single-touch payroll system. We encourage government to continue to seek opportunities to do more of this.

We note that Philanthropy Australia has prepared a proposal for a National Giving and Community Participation Dataset, which would, amongst other things, support researchers and government to better ascertain the effectiveness of current policies and suggest improvements. While we support this proposal in principle, we ask the Commission to seek to minimise the administrative burden created for not-for-profit organisations in the creation of such a dataset. This might involve better linking of existing datasets and other forms of data matching, rather than mandating the collection of new data.

There is a particular challenge regarding accessing data on First Nations organisations. Because not all First Nations charities report to the ACNC, there is no single source of data available on this important part of the sector. This makes it challenging to analyse and target support. We reiterate that consideration of data-related issues relevant to First Nations people, communities and organisations should centre data sovereignty and self-determination, and not increase the regulatory burden on these organisations.

# 5. The tax expenditure framework that applies to charities, and the effectiveness and fairness of the deductible gift recipient framework

We support the widespread view across the not-for-profit sector that the current Deductible Gift Recipient (DGR) framework is not effective or fair – as noted by the Community Council for Australia (CCA) and the Stronger Charities Alliance (SCA) in their submissions to this inquiry. As the Call for Submissions notes, there have been many inquiries into the DGR framework, including by the Productivity Commission itself[[19]](#footnote-19) - none have found the current system fit for purpose.

Obtaining DGR status can be challenging for many organisations. As SCA’s submission notes, current DGR arrangements are ‘*outdated as they do not capture the diversity and current realities of the Australian charity sector. While charities have to demonstrate partial or complete compliance with a DGR category, many charities do not always neatly fit into one of the fifty-plus categories. Some important purposes, such as democracy, are not represented in the existing categories at all.*’

Even if eligible, the process of obtaining DGR status can be lengthy and expensive. The current system is unfair to smaller charities, to charities pursuing what many consider important charitable purposes that happen to fall outside DGR categories, to charities that work across multiple categories (such as many First Nations-led charities), and those that do not have access to the political and legal support required to obtain a listing.

Furthermore, many philanthropic giving vehicles, including private ancillary funds, public ancillary funds, and community foundations, can only give to organisations with ‘Item 1’ DGR status. This means that organisations who are not able to access this status are ineligible to access a significant potential source of philanthropic support *at all*, in addition to their inability to access the incentive of tax deductibility for general donations.

# 6. Reforms to address barriers or harness opportunities to increase philanthropy

Too often in public debate, the role of not-for-profits is reduced to the provision of services for those most in need. This is a critical role for NFPs, and in many cases government relies on them to do this work. However, NFPs also generate significant intangible value for the community – even (perhaps especially) those who are not funded by government. This may include:

* Building community connectedness and support, which may reduce the reliance of individuals on government services. For example, local sporting clubs serve as informal hubs of community connectedness in regional towns, which can contribute to improved social and health outcomes.[[20]](#footnote-20)
* Supporting community resilience, which can help communities recover more effectively from natural disasters.
* Filling gaps in the provision of government services – for example, the significant role that ACCOs and other NFPs played during the peak of the Covid-19 pandemic in translating and disseminating critical health information to their communities.
* Providing expert advice and advocacy to government based on their experience working closely with communities.

To the extent that government operates in ways that hamper charity effectiveness, it is losing out on this potential value created via government and philanthropic funding.

If government wants to leverage maximum value from philanthropic giving, it should consider ways in which it can support charities to be more effective. This may include:

* Funding the full cost of services it purchases (see Section 2)
* Minimising the use of problematic funding structures, such as short-term contracts which reduce flexibility and stability of NFPs, and competitive tendering models that encourage cost minimisation at the expense of quality services.
* Valuing the expertise that charities bring to discussions about government policies and programs. In some cases, government actively discourages charity advocacy via ‘gag clauses’ in contracts and other legal restrictions on advocacy.[[21]](#footnote-21) More broadly, charities are not always given a seat at the table in major economic and social discussions. For example, charities employ 1 in 10 of the Australian workforce, but do not have the same access to relevant decision-makers as business lobbies that represent a much smaller group of employees.

We refer the Commission to our *Partners in Recovery* series of research reports, which consider in greater depth how governments can support not-for-profits to operate to their full potential, thus improving the value generated by both government and philanthropic spending.

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21. This issue is discussed in more depth in submissions to this inquiry from the Community Council for Australia and the Stronger Charities Alliance. [↑](#footnote-ref-21)