Submission to the Productivity Commission's study into the contribution of the Not-for-profit Sector

Prepared by Michael Brosowski, Director of Blue Dragon Children's Foundation

Contact details:

Website: www.streetkidsinvietnam.com

Email: bluedragon@bdcf.org

Post: PO Box 297, International Post Office, Hanoi, Vietnam

Phone: +84-4-3717-0544

I am the founder and director of Blue Dragon Children's Foundation, which is a registered association in NSW and operates programs for disadvantaged youth in Vietnam. I spend most of my time in Vietnam, and return to Australia once or twice each year for fundraising and administration.

I am pleased to see that the Federal Government is interested in reviewing the NFP sector with a view to enhancing its work. When I first became involved in this work, during 2002, all of my career experience to date had been as a teacher; the concept of establishing an NGO and developing programs was completely foreign, and so I entered the field as a total amateur, with no more than some good ideas and intentions. Seven years on, I believe that my experiences qualify me to contribute to this current study.

There are many good people and organizations who will make lengthier and more eloquent submissions than my own. I would merely like to point to the significant obstacle faced by organizations such as Blue Dragon: the gargantuan hurdle of being granted tax deductibility.

In Vietnam alone I know of several Australian organizations which do extraordinary work. Our work, while small in scale, is high impact and low cost. Organisations such as Blue Dragon are sometimes able to reach people in need which the larger organizations are unable to. For example, with a small grant through AusAid, Blue Dragon is currently running a project with a commune police station in Hanoi to improve the way they work with juveniles in detention. We have also established Vietnam's first social work program using individual case work; and we have pioneered the model of employing a Child Rights Advocate within our NGO. All of this is cutting edge work carried out on a very small budget and lead by Australians.

Despite our terrific work, we are much too small to qualify for tax deductibility in our own right. This has denied us access to substantial funding over the years, so we have been fortunate to form a Community Partnership with another great Australian organisation called AFAP: Australian Foundation for the Peoples of Asia and the

Pacific. Through this partnership, some donors to Blue Dragon are able to receive tax deductibility for their donations to our work. It is clear, though, that the burden of compliance is massive, and without AFAP's excellent administrative support we would never be eligible.

Even if we are eligible, though, there are some important parts of our work that would remain outside the bounds of what can receive tax deductibility. The conditions are highly stringent, and dependant on rather debatable definitions of the difference between *welfare* and *development*. At Blue Dragon, we do a lot of individual case work with children and youth. We have been the 'enabler' for hundreds of young people to break the poverty cycle and become independent young adults; at times we have saved lives and rescued teenage girls from international people-smuggling rings. However, according to the ATO and AusAid, much of this work is *welfare* and therefore ineligible for tax deductibility.

In contrast, if Blue Dragon were to be working in Australia, it is my understanding that all of our donations would be eligible for tax deductibility. This 'double standard' means that even the most ineffective NGO in Australia can attract donors with the offer of tax deductibility, while the very best grassroots NGO working outside Australia cannot.

I assume that the reason for this may be to encourage greater spending within Australia, which is a reasonable rationale. However, surely there are fairer ways that could enable the federal government to 'loosen up' the rules on tax deductibility for NGOs working overseas: for instance, it could count the 'lost income' to the ATO as part of its foreign aid budget, thereby enhancing the federal budget. I suspect, however, that a loosening of the rules to allow more and smaller NGOs to offer tax deductibility on donations, would not result in a very large cost to the budget.

Apart from issues of taxation, it concerns me that AusAid has such power over how donations for overseas NGOs are spent, while there appears to be absolutely no such oversight of charitable organizations within Australia. The requirements of compliance mean that for a group such as Blue Dragon to have tax deductibility in our own right, we would need a permanent office in Australia, along with paid staff. This puts it right out of reach; and I am certain that our donors also don't want us wasting so much money on compliance.

In summary, I have restricted my comments to the issue of tax deductibility for small Australian organizations working overseas. I am concerned by how difficult it is for us to offer tax deductibility because of cumbersome rules imposed by the ATO and AusAid. I am hoping that the Productivity Commission will make some recommendations for 'softening' the current regime of rules and restrictions so that Australian NGOs such as Blue Dragon can raise funds more effectively.