

Productivity Commission - Philanthropy Inquiry

Kevin Rassool 4th of May 2023.

Introduction

My experience, working at a broad range of organisations, including those working in global health education culture, the environment and climate change, indigenous lead projects working in remote communities, and volunteer posts internationally with international based not for profits has given me exposure to many ways of acting to do social good, and insight in to the opportunities and pitfalls that exist in this space.

I write this submission representing my own views and not of any organisation that I currently or have previously volunteered or worked at. I also draw heavily on my own experience and acknowledge that others may have different points of views based on their own experiences.

At a high level I am pleased to see the productivity commission is looking at charity law. I feel like charity law has fallen out of step with what my peers and I care most about, and that my generation doesn't have the same kinds of philanthropic organisations supporting us and our values as older generations do.

To achieve goals like growing donations and increasing community engagement, charity laws should build incentive structures that foster organisations that work on the kinds of issues that younger generations of Australians care the most about.

In particular this submission will focus on: **“The benefits of rigorous charity evaluation (3.ii, 6.iii)”**

Motivation for charity evaluation

I not only work in the charity sector, but also pledge a percentage of my income to donate every year. My main motivation for donating to charity is that I want to do as much good as I can. Because of that motivation, I care about which charities have the most impact. When I know the charity I'm giving to is highly effective and endorsed by organisations I trust, it gives me the confidence to donate more.

I think government policies that focus on impact and increase confidence that impact is being achieved are the key to achieving the goals of this inquiry.

Charity Evaluation, and creating an effectiveness mindset to promote trust, transparency, and confidence

As a starting point, I would encourage the Productivity Commission to review:

- Donors vastly underestimate differences in charities' effectiveness by Caviola, L; Schubert, S; Teperman, E; et al. available online at <http://hdl.handle.net/10871/122268>, and
- Don't Feed the Zombies by Kevin Star in the Stanford Social Innovation Review, available online at https://ssir.org/articles/entry/dont_feed_the_zombies

I will focus this submission on some *potential avenues for implementation* of charity evaluation, rather than *the benefits* from it. A brief overview of the potential benefits follows.

Based on my experience, the benefits of evaluation to an organisation can be summarised as follows:

1. Improved performance and outcomes: Regular evaluation can help an organisation identify areas for improvement and optimise their operations to achieve better outcomes. It can also provide insights into what is and isn't working, and help guide strategic decision-making.
2. Enhanced credibility and donor trust: Evaluation can increase the credibility of an organisation and build trust with donors, who want to see evidence that their contributions are making a difference. When donors see that an organisation is regularly evaluating their programs and sharing the results, they are more likely to trust and support that organisation.
3. Increased funding opportunities: Evaluation can help organisations demonstrate their impact and effectiveness, which can lead to increased funding opportunities. Grantmakers and other funders often look for evidence of impact when deciding where to invest their resources, and organisations that can provide this evidence are more likely to be successful in securing funding.

It is well recognised that planning, monitoring and evaluation add great value to projects and organisations, evidenced by the widespread adoption of program logic frameworks as best practice in government grants and activities. It also goes without saying that high performing for-profit organisations are also learning from leaders and utilising evaluation strategies.

In terms of benefits of evaluation to the wider community and stakeholders, my experience as a donor and community member indicates benefits such as:

1. Better allocation of resources: Evaluation can help identify charities that are most effective in achieving their objectives, which can help donors and funders make better-informed decisions about where to allocate their resources. This can lead to more efficient and effective use of resources in the sector, ultimately resulting in greater social impact.

2. Improved transparency and accountability: When charities undergo rigorous evaluation, it creates a greater level of transparency and accountability to stakeholders, including donors and the wider community. This can increase trust in the sector and provide assurance that donations are being used effectively and for their intended purposes.
3. Charities not having to raise funds in a market that doesn't function well, allowing them to focus on delivering their mission and having a greater impact on their beneficiaries.

My experience working in not for profit organisations

The majority of my personal experience is from small not for profits, including some which have grown up to over \$1 million per year in revenue. My experience has shown me the difference in operational realities for organisations of different sizes.

My experience at a breadth of not for profits has also taught me that while no two organisations are the same, there are some classes of organisations that are very similar to each other and more easily compared. Conversely, there are some organisations which are more unique, by virtue of the work they do, the beneficiaries they work with and for, and/or the context in which they work. While at surface level, some organisations may not look unique as they undertake similar work, beneficiaries and context have a substantial impact on the operations of an organisation.

These differences in work domain and beneficiaries are already acknowledged and captured by the ACNC through charity subtypes and beneficiary records. I believe this existing infrastructure provides an excellent foundation for thinking about how impact evaluation might be implemented.

Given the operational differences in size and maturity of organisations, similar to the ACNC current reporting standards, I would envisage impact reporting should follow a similar route. One which small not for profits have a low burden, or are exempt from reporting, and some a scale exists which means that large not for profits must comply with standardised impact reporting as part of the normal reporting procedures (alongside their financial and annual statement).

A proposal for guiding principles to design a fair and effective charity evaluation program.

One potential avenue for implementing charity evaluation is to build on the existing infrastructure of the Australian Charities and Not-for-profits Commission (ACNC) through charity subtypes and beneficiary records. As different charities work with different domains and beneficiaries, the ACNC already acknowledges and captures these differences through the subtypes and beneficiary records.

All charities currently have to elect a charity sub-type, and with each subtype could come a set of possible quantitative or qualitative metric options that charities could use to report on their impact. These metrics should be co-designed and could be revised with diminishing frequency to ensure rapid iterations at the beginning as lessons are learnt before stabilising when the design seems to be more robust.

Under this proposal, annual information statements, annual reports, and financial reporting could follow a standard that requires charities to report on these metrics to the ACNC. The information would be collected as *structured data*, which could then be made available to a charity evaluator to conduct a rough cost-benefit analysis. This information could be communicated to the public in a way that acknowledges the inherent limitations of such rough evaluations, for instance by communicating results in discrete broad categories such as those adopted by the *Australian Children's Education and Care Quality Authority, National Quality Framework*, which places centres in to four discrete categories (rather than on a continuous scale).

It is important to note that best-practice evaluation is incredibly in-depth and time consuming, and it is not feasible that this could be done at large scale. That said, I believe there is a place for these analyses: a more in-depth analysis of charities that are particularly large or seem to be particularly effective, "deep dive" evaluations could be conducted. By comparing charities within their subtypes, it would be possible to roughly compare charities and identify which ones are having the greatest impact. While a third-party could use the available data to compare charities across different cause areas, this is likely best done at arms-length from any official ACNC or government agency.

This proposal would create a scalable and adaptable framework for evaluating charities that is sympathetic to the differences in the operational realities of charities of different sizes and maturity levels. It would encourage charities to focus on their impact and foster competition to be effective, rather than solely on branding and fundraising. Ultimately, this would improve the trust donors have in the community, and lead to improved outcomes due to the operation of charities being driven by their effectiveness rather than market forces.

In summary, this potential approach has the following steps:

1. Charities select a sub-type based on the work they do
2. With this sub-type comes a number of potential quantitative and qualitative metrics to choose from (which will be co-designed with the charities)
3. A staged reporting framework will exist, similar to what is existing, however using a structured data approach which will standardise reporting across similar charities.
4. This data will be made publicly available for third party individuals or organisations to use (similar to what already exists with ACNC public financials and annual reporting)
5. "Light-touch" analysis is done which broadly categorises charities, highlighting potentially impactful charities and those that may need improvement to reach appropriate levels of effectiveness.
6. "Deep dive" analysis is done on particularly large or effective charities.

The importance of co-design

Co-design is a critical component of creating metrics for charity subtypes. As the process involves developing metrics that are appropriate and useful for different types of charities, it is crucial to involve representatives from the different subtypes in the design process. By doing so, the metrics will be more relevant to the specific needs and contexts of each charity subtype. Co-design also promotes transparency and accountability, as stakeholders are directly involved in the development of the metrics that will be used to evaluate charities. It ensures that the metrics are fair and equitable. Moreover, co-design encourages collaboration and cooperation among charities. By involving them in the design process, charities will have a better understanding of how the metrics will be used, and why they are important. This understanding will promote trust between charities and evaluators, which will ultimately lead to better outcomes for the sector as a whole.

Capacity and Capability in Evaluation

The evaluation community in Australia is growing but still nascent. I would encourage the reader to review the 2023 report by the Australian Evaluation Society (https://www.aes.asn.au/images/Final_AES_state_of_evaluation_report_-_April_2023_final_updated.pdf) which discusses some key aspects of capability in Evaluation in Australia, and the 2017 ANZSOG study looked at pathways to evaluation professionalisation in Australia (<https://anzsog.edu.au/app/uploads/2022/06/Annual-Report-2017-18.pdf>).

Sending signals to the sector that evaluation is important can encourage more people to become involved in evaluation and contribute to its growth in Australia. Universities in Australia seem well placed to train a new generation of evaluators, as major universities have existing programs and capabilities to teach and build expertise.

Conclusion

Australia has the potential to create a world-leading philanthropic sector. We already know that the most effective charities can have a substantially greater impact than the average charity, but currently, there are no mechanisms in place to incentivise impact or empower donors to choose the best charities based on their impact.

By implementing the recommendations outlined in this submission, Australia can become a global leader in philanthropy. This could reverse the brain drain and attract more impact-focused charities to Australia, further enhancing the country's ability to make a positive impact on the world.