

9th February 2024

Dear Productivity Commission,

I am writing to you as an employee of ANZ Bank, with a profound interest in philanthropy and the desire to make a real impact on the issues that society faces. After thoroughly reviewing your draft report on philanthropic giving in Australia, I would like to share my thoughts and recommendations.

The draft report piqued my interest due to its positive recommendations and the potential it holds for transforming the for-purpose sector in Australia. I was particularly drawn to the suggested changes to the Deductible Gift Recipient (DGR) status, especially widening its scope to include charities that prevent harm. These changes, in my view, could significantly improve the sector.

However, I was surprised by the discussion on impact evaluation in response to terms of reference 3.ii. I believe a more realistic aim should be set, one that is better suited to the requirements of the reference. The terms do not ask for a consideration of "universal, mandated standardised quantitative measures" but rather ask for an investigation into how overseas charity evaluators operate. These evaluators typically use opt-in models, where they work in cooperation to understand the theory of change, the relevance of evidence, and the best ways to collect and evaluate it.

The report rightly highlights the 'market failure' in charity, where the donor is disconnected from the beneficiary. It also acknowledges the government's role in ensuring value for money and the greatest net benefit from charities. Further, it reveals that many charities lack the skills required for impact evaluation, and many donors do not prioritise community benefit when making donations. This makes a strong case for government involvement in impact evaluation as many charities and donors lack the skills or incentives to focus on impact.

While the Commission's summary sets a high standard for impact evaluation, it is important to note that many viable options do not require "mandating standardised measures or metrics of charity effectiveness across all charities". The key insight is that impactful interventions can be vastly more effective than average ones. Some charitable interventions can even cause harm. This disparity in impact is far greater than in typical markets. For instance, it would be inconceivable for two different cars or computers to offer vastly different performance at the same price. Yet, this is normal in the for-purpose sector.

I would like to suggest that the Commission reviews the following:

- "Donors vastly underestimate differences in charities' effectiveness" by Caviola, L; Schubert, S; Teperman, E; et al.
- "Don't Feed the Zombies" by Kevin Star in the Stanford Social Innovation Review
- "How much do solutions to social problems differ in their effectiveness? A collection of all the studies we could find" by Benjamin Todd.

The arguments in these works can be applied to government subsidies. The government should aim to provide a subsidy that achieves significantly more net benefit.

Star's article outlines an impact-focused evaluation approach that could result in a "quantum leap toward a better world". Todd's article shows that the same effect occurs across various

causes. Given that donors aren't focused on impact, and charities often aren't skilled or incentivised to focus on impact, it is crucial for the government to fill this gap.

I understand the report's concerns about practicality, cost and unintended consequences. However, the methodologies of overseas charity evaluators, as referred to in the terms of reference, navigate these concerns. Australia can also navigate these concerns by using them as a model and setting more realistic targets than “universal, mandated standardised quantitative measures”.

To boost the net benefit of the sector without undue cost or risk, I propose the following:

1. Address the identified skills gap by providing charities with guidance and toolkits to improve their impact, including developing their theory of change, collecting evidence and conducting evaluations.
2. Implement “optional, opt-in measures that suit participating organisations” rather than “universal, mandated standardised quantitative measures”. This would involve the government in impact evaluation, with the goal being to encourage impact thinking across the sector.
3. Offer grants to organisations that can conduct impact assessments of services delivered in Australia. This would attract overseas charity evaluators to Australia, encourage non-charity evaluators to work in this space, or encourage Australian charity evaluators to work on domestic charities.

I welcome the draft report's recommendation to extend the DGR status to public interest journalism. However, I believe that the final report should provide a more detailed justification for this decision. Public interest journalism plays a vital role in democratic society, from providing accurate information and holding institutions accountable, to highlighting neglected issues and giving a voice to underrepresented groups. The draft report notes that only 40% of registered charitable news organisations currently have DGR status and proposes a new category of charity for public interest journalism.

Finally, I fully support the expansion of DGR status to charities working on advocacy. However, I am aware that this proposal may face opposition from for-profit industries. Therefore, I recommend that the Commission consider the range of issues that may arise from this proposal and include more pre-emptive discussion, including any consequential recommendations relating to disqualifying purposes, public benefit or other areas of law that may become more contested if the recommendations are adopted.

In conclusion, the government should pilot different approaches to encourage the for-purpose sector to focus on increasing its impact. Given the evidence shows significant room for improvement, it would be wrong to try nothing and say that we're all out of ideas. I look forward to seeing these considerations reflected in the final report.

Kind regards,

Stephane Mercier