

Dear Commissioners,

Thank you for the opportunity to contribute to the Productivity Commission Philanthropy Inquiry. I am a strong believer in the power of charitable giving and the potential for Australians to make a positive impact with their donations. Yet I have often been frustrated by Australia's charity laws, which have pushed me away from charities I believe to have the greatest impact per dollar. And as an economist, I am deeply invested in the principles of efficiency and equity. Therefore, I am passionately advocating for charity laws that focus on principles, and for the removal of arbitrary barriers that prevent tax-deductible status.

In my previous submission, I emphasised the importance of applying a more principled approach to Deductible Gift Recipient (DGR) status and broadening it to include more causes that have a significant impact. I am thrilled to find that the draft report aligns with my argument, proposing to extend DGR status to a wider range of charities working on animal welfare and catastrophic risks. I fully support the draft report's finding that the current DGR system requires reform and should be replaced by a simpler, fairer system (Draft recommendation 6.1).

I particularly welcome the proposal to extend DGR status to more animal welfare charities. Currently, many charities conducting crucial policy and advocacy work that significantly improves animal welfare are unable to attract substantial donations or apply for grants due to the lack of DGR status. By eliminating these obstacles, we can ensure that donors are supported in their charitable giving and that funds can be directed towards high-impact activities that could dramatically improve the lives of millions of underfunded animals, including farmed animals, aquatic animals, wild animals, and animals used in research.

However, I am also aware that well-established and well-funded organisations might resist such changes. I express my concerns that these organisations may attempt to influence the Productivity Commission to reconsider its approach or exploit any ambiguities in the draft report to hinder its practical implementation. It is crucial to anticipate potential resistance from incumbent for-profit organisations and prepare for arguments that opposing recognised industries is neither in the "public benefit" nor "public policy". A more detailed and pre-emptive discussion will be necessary to address these concerns.

Further, I suggest clarifying that the expansion of DGR should not be limited to advocacy activities but also include related work such as policy development and community engagement.

Regarding terms of reference 3.ii, I was surprised by the draft report's discussion on impact evaluation. I believe the Productivity Commission could recommend a practical goal for impact evaluation to align better with terms of reference 3.ii. The Australian Government could adopt the approach of overseas charity evaluators who use opt-in models to understand a charity's theory of change, relevant evidence, and optimal methods of collection and evaluation. For example, the largest 10-20 charities in Australia have capacity to participate in an evaluation process, which could reveal significant differences in cost-effectiveness between these charities.

The critical insight here is that highly impactful interventions can often do 10 or 100 times more good than average interventions, as noted in:

- "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?" by Benjamin Todd.

The draft report correctly identifies a type of market failure in charity, where the donor is disconnected from the beneficiary. It also acknowledges the government's interest in ensuring value for money for its subsidy and that charities deliver the greatest net benefit. Given that donors and charities often lack the interest, skills or incentives to prioritise impact, the government must step in to ensure it gets value for money. I understand the draft report's concerns about practicality, cost, and unintended consequences. However, overseas charity evaluators have successfully navigated these concerns, and Australia can follow suit with targeted evaluations focused just on the largest charities.

The draft report takes positive steps towards fairer charity laws. However, the report could have an even greater impact by re-affirming the importance of DGR status for animal welfare policy and policy development charities, and by setting a realistic goal for impact evaluation.

Thank you for considering my submission,  
Lucas Lewit-Mendes