
PHILANTHROPY INQUIRY

SUBMISSION

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PRODUCTIVITY COMMISSION

IWDA INTERNATIONAL
WOMEN'S
DEVELOPMENT
AGENCY

INTRODUCTION

The International Women's Development Agency (IWDA) welcomes the opportunity to provide this submission to the Productivity Commission's review of Philanthropy.

IWDA is an Australian-based organisation resourcing diverse women's rights organisations, primarily in Asia and the Pacific, and contributing to global feminist movements to advance gender equality for all. Our work is based on deep and long-lasting relationships with the networks of women's rights organisations we support.

In our approach we resource the work of diverse women's rights organisations, enabling them to be more effective by going beyond money, and we make our own contributions to feminist movements through advocacy, research and knowledge translation.

As a not-for-profit, we rely on both philanthropic and government funding to make our contribution to the global feminist movement. Grant income from the Department of Foreign Affairs and Trade (DFAT) and philanthropy (e.g. Foundation for a Just Society) represents the majority of IWDA's revenue. The rest is supplemented by individual donations and gifts.

This submission responds to Information Requests two (2), three (3) and seven (7) in the Call for Submissions for this inquiry. Specifically, it responds to the questions about the **vehicles, trends and motivations** for giving (information on the advantages and disadvantages of philanthropy as a source of revenue for NFPs compared with other funding streams), the **role of government in philanthropy** (the role of philanthropy, including where it can be a substitute for, or complement to, government funding or provision of services) and **consumer information on the effectiveness** of not-for-profit organisations (the role of government and the non-government sector in providing additional information to donors and information donors would value on the effectiveness of not-for-profit organisations, but cannot access and why).

1. PHILANTHROPY AS A VEHICLE FOR SYSTEMIC TRANSFORMATION

Philanthropy has the potential to be a transformational source of revenue for not-for-profits promoting systemic change, such as progress on gender equality.

Philanthropy Australia defines philanthropy as the "planned and structured giving of time, information, goods and services, voices and influences, as well as money, to improve the wellbeing of humanity and the community".¹ To achieve this goal of improving the wellbeing of the community and humanity, philanthropic funding is most effective when investing in systemic change.

Systemic change is interested in transforming the systems of power which underpin inequality and injustice at a global level – such as patriarchy, colonialism, and exploitative capitalism. Systemic change addresses the apparent paradox: that to create sustained change for individuals, we need to move beyond individual empowerment. Rather, a systemic approach situates the individual in a complex web of material reality; behaviours and attitudes; social norms, and; institutions, laws and policies. Improving the material reality for all individuals requires tackling changes in all of these areas. Core to this approach to change is the need to grapple with systems of power. In practice, this involves questioning where power is currently centred, the imbalances this creates and how it can be distributed more equally. Changing systems of power allows us to dismantle the root cause of injustice, rather than simply address its symptoms.

Progressing change towards gender equality requires transformation of the formal and informal structures that underpin inequality including resources, laws and policies, norms and exclusionary practices, and individual consciousness. For example, increasing the number of women elected to office requires a whole-of-system approach that includes the individual (e.g. training and empowering individuals to run for office), the discourse on women's leadership (changing societal perceptions around women in power) and any laws or policies that prevent women's participation in politics (e.g. insufficient parental leave).

1.1 The potential of philanthropic funding for systemic change

Research by Philanthropy Australia shows that charity revenue in Australia consists of mostly government funding (50%), goods and services (33%), other revenue (10%) and donations (7%).² Financial donations can be through individual donations to charities or structured giving. Structured giving is a form of philanthropy that is large-scale and planned, usually through private or public funds or trusts.³ Philanthropy Australia estimates there was \$2.4 billion of structured giving in Australia in 2017-18.

Although donations are a relatively smaller proportion of Australia’s charity revenue, philanthropic funding has the potential to fund high impact projects that lead to long-term systemic change. This nature of philanthropy lends itself to higher-risk and potentially more transformational change than government funding. This is partly because it exists somewhat outside of the political system - it does not need to adhere to the vagaries of political change and it is not tied to the timelines of political cycles.

Philanthropy also tends to be more values-aligned. Philanthropy Australia found that most individual giving is motivated by the desire to support a specific cause or charity.⁴ This values-led approach means philanthropic funding has the potential to be long-term, or ‘patient capital’, where the investor (giver) is willing to invest in an outcome that may be in the distant future and not see immediate returns.

Individual donations are most effective when given as untied funding, meaning they are not tied to a specific project or outcome. This means the revenue is more easily combined with other sources of revenue to create blended or stacked capital models for innovative or higher-risk investment.

Taken together, these factors mean that philanthropic funding has significant potential to support issue areas, and the individuals and organisations that pursue them, in **long-term and strategic ways**. This enables a level of innovation, risk and reward that cannot be achieved with most other types of funding. Untied, flexible funding enables investment in initiatives that are likely to lead to systemic transformation, such as towards advancing gender equality.

At IWDA, we know philanthropic funding is very effective at advancing gender equality when taking a long-term view. An example is provided in Box 1.

<p style="text-align: center;">Box 1: Good Practice Philanthropic Funding Foundation for a Just Society</p> <p>The Foundation for a Just Society (FJS) provides flexible, untied funding to IWDA that is essential for resourcing our transformative, decolonial and feminist work. Transformative and systemic change can be incremental, non-linear and the results hard to measure until long after the funding has ceased. For example, work to change societal norms around gender equality can take a generation to see results.⁵</p>
<p>IWDA and FJS are long-term, trusted allies, having partnered since 2015. Funding is available without the risk they will be affected by political cycles, which allows IWDA to offer longer-term sub-grants to organisations pursuing change towards gender equality. IWDA sub-grants most of the funding received from FJS to women’s rights and LGBTIQ+ organisations in Myanmar and Cambodia advancing long-term structural change towards gender equality, justice and participatory democracy.</p> <p>FJS funding is flexible and can be used for various purposes. Funding is allocated through an annual participatory budgeting process with all partners, allowing IWDA and partners to identify priorities and jointly agree on funding allocation. This flexibility has allowed the program to support the emergent and urgent needs of feminist activists. For example, when the military coup took place in Myanmar in 2021, IWDA was able to rapidly re-allocate funding to support activists fleeing the country.</p>
<p>The funding can cover core operating costs such as internal organisational strengthening for IWDA. This includes building internal capacity for decolonising our approaches, which is a vital part of running a feminist organisational in the development sector.</p>

1.2 The need to cover core operating costs

There is global evidence that shows the most transformative outcomes are achieved when organisations are provided with core, flexible, long-term funding. The Office of Development Effectiveness found that providing long-term core funding to civil society organisations – when they are funded *to be*, not merely *to do* - allows them to strengthen their organisational capacity and be “long-term agents of change”.⁶ Philanthropic funding can, and is currently more likely to, be used to cover core, operating costs essential to doing transformative work and contributing to the long-term financial sustainability the not-for-profit sector. This challenge is felt more strongly by small to medium sized not-for-profits, such as IWDA, with limited resources to invest in diversified income streams that can cover core costs.

In contrast, government funding faces many barriers to providing flexible, core grants to the not-for-profit sector. Taxpayer accountability and the many investments government make (including across a gamut of

development and other projects) reduce their ability to provide core, flexible funding. International standards of accounting (such as the OECD DAC criteria for gender equality) create much needed accountability mechanisms, but also perpetuate incentive towards project spend rather than core spend. While these funding challenges are not unique to government spending, they are felt more strongly at the bureaucratic levels of government. For these reasons, government is less likely than philanthropy to provide funding that covers core costs.

A series of research papers by the Centre for Social Impact and Social Ventures Australia found that charities in Australia are facing higher operating costs, falling incomes and low reserves.⁷ At the same time, not-for-profits face a misapprehension in the public perception that lower administrative costs (or 'overhead' or 'core costs') indicate they are operating more effectively.⁸ Despite lots of variation in the cost of administration depending on the type of programs and size of the not-for-profit, donors and the public continue to expect lower administrative fees. Although the sector needs to ensure money is spent on creating lasting change, the expectation of low core costs is a false measure of effectiveness.⁹ In fact, low overhead costs could indicate less robust governance or systems (such as data security) essential to safe and compliant operation of a not-for-profit or low staff costs.¹⁰

There is a growing movement in Australian philanthropy to 'pay what it takes'. This campaign suggests philanthropists can provide full cost funding that is fully unrestricted, takes into account indirect costs or provides support for all operations (including professional development of staff).¹¹ Ultimately, moves in this direction by all funders will be required if the goal is to enable charities to achieve impact sustainably with the communities they serve. For the reasons above, philanthropy is well-placed to lead the way in demonstrating the necessity and value of this approach. In this regard, the 'pay what it takes' campaign created by, and driven within, the philanthropic community signifies a very welcome direction in philanthropic giving.

1.3 Funding needs to cover regulatory and compliance activities

IWDA recognises the importance of thorough and strict compliance for the not-for-profit sector. Compliance is vital to ensure the safety of participants (e.g. protection from sexual exploitation and abuse and harassment), to adhere to legal obligations (e.g. fraud and corruption training) and to ensure money is well spent (e.g. reporting on outcomes, compliance with the ACNC charitable purpose).

However, the cost of compliance should be adequately factored into funding arrangements. Compliance requirements represent the processes by which the sector (for self-regulatory compliance, such as with the Australian Council For International Development Code of Conduct) and/or the Government (for compliance regimes governed by law or statutory requirements) understand the nature of what must be done for safe, inclusive, accountable and impactful work to be achieved. As the international development sector has professionalised over the last half-century, and matured in regards to the rigour and expectations for not just *what* we do to support development, but *how*, compliance regimes have become increasingly demanding. Resourcing this work properly and treating it as a legitimate, costed component of the work of international development organisations ensures that compliance is not only wielded as a stick for penalising its absence, but also as a carrot, for enabling its achievement to the highest standards. All donors should expect to pay some of the costs of enabling adherence with compliance.

Smaller not-for-profits feel the impact of regulatory and compliance activities more acutely on their staff time and funding. Larger not-for-profits benefit from economies of scale, especially in maintaining good practice partnership management and training. For example, all not-for-profits must run high quality fraud, PSEAH and other training for staff and partners but smaller not-for-profits use a higher proportion of their funding to do so. To cover the cost of regulatory and compliance activities more accurately, government and philanthropy should avoid a 'one-size fits all' approach and move towards a risk-based regulatory approach based on the size and risk profile of the not-for-profit.

Recommendation 1: Philanthropic funding should focus on long-term, flexible, trust-based funding that covers core operating costs in recognition that this is where it creates the most value-add vis-à-vis other funding sources.

Recommendation 2: Government and philanthropy should take a risk-based regulatory approach based on size and risk profile, avoiding a one-size fits all approach to compliance.

2. PHILANTHROPY AS COMPLEMENTARY TO GOVERNMENT FUNDING

There is a clear role for philanthropy to fund transformational, systemic change for the reasons outlined above. However, it should never be a substitute for government funding.

A primary risk of relying solely on philanthropic funding is that it may not be spent where it is most needed. Philanthropic funding is inherently undemocratic as the direction of giving is controlled by the interests and practices of the giver, regardless of whether those interests represent the needs or desires of those intended as beneficiaries. The funding has the potential to come with the desire for a particular outcome from donors especially if they are personally invested in the cause. Sometimes these expectations do not promote long-term and systemic change or build local knowledge. Philanthropic funding also comes with reputational risks for organisations when considering the ethics of different funding sources. Not-for-profits may need to be alert to the sources of philanthropic funding when they are associated with foundations backed by private sector companies whose sources of wealth generation are from industry creating social harm, such as climate change, weapons, gambling, pornography, tobacco, land-grabbing or breaches of human rights or other obligations.

Furthermore, in extreme cases, as can be gleaned from the US context where philanthropic funding is invested for the promotion of political ideology of the donor, it can actually - by design or default - act to undermine democracy more broadly.¹² Notwithstanding this extreme example, the undemocratic nature of philanthropic giving is cause to be alert, rather than alarmed. Because the flip-side is also true; while the Australian Government functions democratically, it also risks not addressing the most pressing challenges facing our nation as it may be influenced by election cycles, multiple and overlapping imperatives and changing priorities across successive governments. In turn this can lead to fractured funding, unrealised potential and abandonment of successful work that is no longer deemed a priority.¹³

Neither situation on its own is sufficient. A sustainable not-for-profit funding landscape should be made up of a mix of both. Creating this diversified funding environment is a risk absorber, in case either philanthropy or government does not invest in the most pressing issues. This investment also creates a diversified not-for-profit sector which is essential to continuing to address today's global challenges. While the larger players such as World Vision Australia and the Red Cross can, by virtue of scale, work across a larger number of programs and services, smaller organisations such as IWDA offer a unique and grass-roots led approach to gender equality. Both approaches are vital to a thriving not-for-profit sector.

Recommendation 3: Philanthropy should complement, not replace, government funding to ensure the not-for-profit sector can continue addressing the most pressing challenges of today, as identified by the people most intended to benefit.

3. CONSUMER INFORMATION ABOUT THE EFFECTIVENESS OF NOT-FOR-PROFIT ORGANISATIONS

3.1 The importance of effectiveness being determined by those closest to the issues

There are significant existing sources for donors to understand their options when donating to the not-for-profit sector. In the international development sector, this includes the ACNC, sector self-regulatory standards such as the ACFID Code of Conduct, and the annual reports, impact reports and financial statements made publicly available by organisations.

Government should not invest in additional sources that describe the effectiveness of not-for-profits because Governments are not best placed to determine what effectiveness is. It also pushes organisations into similar business models, a situation that is known to be risky for sectoral sustainability. For the not-for-profit sector to thrive we need diversity of actors, in what and how they fund and whom they work with and how. Sustaining a vibrant and resilient not for profit sector relies on diverse actors, working across a multiplicity of issues, partners, countries and stakeholder groups.

The not-profit sector in Australia has been grappling with the question of defining effectiveness for decades. There is no one-size fits all measure of effectiveness. The risk of standardising measures is that the focus naturally becomes about meeting donor requirements/interests instead of a focus on what effectiveness means for those intended to benefit. Research in the United Kingdom found that the primary purpose of measuring social impact was to appear rigorous and professional to impress funders¹⁴, implying that meaningfully understanding the impact on the ground was of lesser importance.

Any data on effectiveness should take into account what the people closest to the issues considered important measures of effectiveness. IWDA's research on *Creating Equitable South North Partnerships*¹⁵ highlights the

importance of understanding and acting on the priorities of Pacific feminist movement actors, particularly in terms of what they are looking for from Global North organisations. A top-down approach driven by governments runs the risk of focussing on things such as low overhead costs – which we know does not correlate with value for money in terms of systemic change for communities.

Recommendation 4: Donors should continue to draw from existing data sources about the effectiveness of not-for-profit organisations.

3.2 Gender - the glaring gap in existing data

While there is significant data available on the effectiveness of not-for-profits overall, there is a critical data gap in what informs the sector's and donors' understanding of the key problems to be solved.

An example of this is in our measurement of poverty. The way the world measures poverty has created significant data gaps for women, and gender diverse people. The most dominant approaches to global poverty measurement operate at the household level, which does not provide accurate and individual-level data about people's access to and control of resources.

This means data cannot be accurately disaggregated to show how poverty varies between women, men, people with a disability and other personal characteristics, despite evidence that issues such as gender, age and others influence access to, and control of, resources. For example, men and women within a household may have different levels of say over how income is spent. To understand who is experiencing poverty and inequality, and in what ways, an individual-level, multidimensional approach to poverty measurement is needed.

Since 2008, IWDA has been at the forefront of research to redefine how poverty is understood and measured. Across more than 14 years of research and testing, we have led the development of a world-first individual-level, gender-sensitive, quantitative measure of poverty and inequality.

IWDA's Equality Insights program collects inclusive and gender-sensitive data about poverty and inequality. This data is essential to providing solutions to addressing gender equality. Equality Insights allows us to see how various factors impact a person's experience of poverty and inequality. IWDA can provide additional information on Equality Insights as a solution to the existing gaps in global measurement of poverty and inequality.

Government and philanthropy have the resources to invest in the production of this essential data and create positive externalities (public good) for the rest of the system. Centralised, publicly available, gender-sensitive data on the impact of poverty on all people would reduce inefficiencies and duplications in the sector.

Recommendation 5: Government and philanthropy should invest in data to understand the underlying challenges to guide the sector to create systemic change, rather than re-duplicating existing systems to measure the effectiveness of not-for-profits.

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