

Submission to the Productivity Commission

Removing Barriers in Philanthropy to Double Giving by 2023

At the Foundation for Young Australians one of our markers for success is focused on scaling resources for young people and youth-led movements and programs.

We believe that the philanthropic sector requires a number of barriers to be removed in order to make philanthropy more equitable and accessible to marginalised young people and grassroots youth-led movements.

This submission presents two recommendations:

1. Increase accessibility to funding grassroots charities
2. Increase accountability of Private Ancillary Funds (PAFs)

Increasing accessibility to funding grassroots charities.

The Challenge

There are barriers to investing philanthropic funding in grassroots work and organisations.

Response

Reduce structural barriers to receiving and spending funding, and bringing the philanthropic sector more in line with the work and causes they seek to fund through policy reform.

1. **DGR Status Reform**

a. DGR status is unavailable to many youth led charitable organisations whose work is providing positive public benefit. Many of the grassroots organisations are unable to apply for DGR status until they reach a certain level of size or maturity, as outlined by the ATO, in the Income Tax Assessment Act 1997 (ITAA 1997). This disproportionately affects youth-led organisations, who may be early in their development, hindering their ability to garner support earlier in their development and diminishing the longevity of their work.

We support a reform to DGR status which allows grassroots and youth-led organisations earlier access to tax-benefits that goes beyond the traditional auspicing arrangement, as outlined in the Community Council for Australia's (CCA) February 2023 submission to Treasury on DGR reform. In this submission, they assert that All DGRs should be charities and all charities should receive DGR status. Not only is this practice in place in the UK and Canada, it is supported by the Productivity Commission and the Not For Profit Tax Concessions Working Group. (CCA submission to Treasury on DGR reform 2023).

b. Youth-led organisations may work in intersecting fields, or in areas that don't necessarily fit within any of the DGR endorsement categories. To continue the process of reaching DGR status requires an involved and complex process to seek a 'specific listing' in the tax laws, requiring legislative amendment as outlined in section 30-105 of the ITAA 1997. Grassroots organisations do not often have the expertise, resources or ability to lobby government for the change, locking them out of the process.

The ATO should provide clearer and more equitable avenues for support to organisations seeking DGR status, and allow for flexibility within the DGR endorsement categories. This in turn will allow for an increase in giving as

the public will be able to receive the same benefits in giving to grassroots and younger organisations as their larger organisational counterparts.

c. Decision-making around how charities are approved for DGR endorsement categories requires greater transparency. There is currently no rationale for decision-making in this area, and arbitrary divisions as to why certain causes qualify for categories. This disproportionately affects grassroots charities, who are not given DGR status, failing to attract the many donors who rely on the tax break. These affected charities often have the agility to make greater impact in their work, with efficient resource management.

The creation of a clear rationale for decision making on the approval DGR endorsements needs to be created. This is supported by Philanthropy Australia's submission to the Productivity Commission, who also quote the Not-ForProfit Sector Tax Concession Working Group (2013): "The framework has developed in an ad hoc fashion over time. The policy rationale for why some entities have been provided DGR status and others have not is insufficiently clear. The apparently arbitrary nature of the categories leads to inequities and anomalies, with some entities being granted DGR status while similar entities or entities which provide significant public benefits have not."

2. **Grassroots organisations have greater access to spending funding.**

Many young changemakers and youth led movements do not have access to banking facilities, including bank accounts and credit cards, leaving them without the ability to access resources and expend funds in a simple, transparent, collaborative way without having to start their own organisation. Banking providers won't make their cards available to people doing this work. Commercial priorities and risk assessments by banking providers play a role in limiting access for these organisations.

FYA has mitigated this through our digital payments and resourcing platform, which allows young people and organisations to efficiently administer their projects. However, there continue to be barriers we cannot solve. We require broader sector support in creating accessible ways for grassroots organisations to spend funding, and have agency and autonomy over the donations they are given.

Case Study: Open Collective Platform

FYA has developed an innovative digital platform that simplifies the process of distributing funds to young changemakers. The new platform uses open-source software previously unavailable in Australia called 'Open Collective', with numerous benefits including:

- No need to establish a legal entity for smaller youth-led projects
- DGR (tax deductible) status enabling access to a broader range of grants
- A centralised pool of funds, managed online
- Uncomplicated tax implications for the young person/youth group - funds are directly spent on projects.
- Easy administration - upload an invoice to be paid from the platform, or submit a reimbursement request.
- Straightforward financial management - with all paperwork held online.

Whilst a number of organisations offer support with raising DGR funds (most using quite manual processes), this platform innovates by solving the issue of how to spend those funds. This enables young people to focus their time on what matters.

As an open source tool we are adapting for use in Australia, the key issues preventing immediate scale include managing risk, compliance with Australian tax and charity law and communicating how to use the platform to young people and donors.

Increasing Accountability of Private Ancillary Funds (PAFs)

Challenge

Australian PAF's have little public accountability. The Treasury's recommendation to make contact details of funds available to charities was not adopted in 2008 (Productivity Commission 2010, Contribution of the Not-for-Profit Sector, Research Report, Canberra) and decision making around where money is invested lacks expertise on the systems philanthropy is trying to shift.

Response

Lived experience incorporated in the funding decision-making process consulting on most effective use of funding, ensuring greater societal impact, and sustainable solutions to problems. Transparency around private fund operation, including contact and spending.

1. **Lived experience in decision-making roles.**
 - a. Research shows that incorporating lived experience into the funding decision making process allows for greater relevance and effectiveness in the focus areas a foundation is seeking to address. (Sandhu B. 2014, Shah S. 2020, Conrad N. Hilton Foundation 2023). Working in partnership with communities that are directly impacted by these issues allows foundations

to create solutions that are fit for purpose and sustainable. By listening to the experiences and perspectives of those who have been directly affected by social issues, philanthropic organisations can gain a deeper understanding of the complex social problems they are trying to address. Seema Shah's report, "Partnering with Community for Better Philanthropy," emphasises the importance of incorporating lived experience into philanthropic decision-making. Shah argues that "effective philanthropy is achieved when funders work in partnership with communities to identify and address the underlying causes of social problems" (Shah S, 2019).

We believe that there should be a requirement of Private Ancillary Funds to ensure money is being distributed in the most effective way, centring the expertise of not for profits and people with lived experience of structural injustice in decision making when dispersing funding. Consultation must occur with communities with lived experience, and individuals with lived experience must be involved in the decision-making around funding directed to causes that specifically impact them.

b. Without the lived experience incorporated into the funding process, philanthropic endeavours can lack legitimacy and continue to perpetuate a culture without accountability. The report "Co-Creation in Theory and Practice: Exploring Collaborative Relationships between Funders and Communities" emphasises that incorporating lived experience in decision-making can build trust and credibility between philanthropic organisations and communities (Horvath and Carpenter 2020).

Incorporating lived experience can help to build trust and credibility between philanthropic organisations and the communities they serve. By actively seeking out and valuing the perspectives of those with lived experience, philanthropic organisations can demonstrate that they are committed to working in partnership with communities to address social issues in a meaningful and impactful way, instead of misdirecting funding or enforcing donation spends that don't serve the communities they seek to help.

2. **Transparency around private fund contact and reporting.**

a. Australian Private Ancillary Funds (PAFs) have limited regulatory obligations and exemptions from public recording. They are established for public benefit purposes but remain largely under private control (Williamson, Luke, Furneaux. 2019) This leads to a lack of transparency, which creates a barrier to entry for those seeking to engage with PAFs. It creates a disconnect and distrust between PAFs and those making an impact on the causes that PAFs seek to address through their giving.

Private Ancillary Funds (PAFs) in Australia should be held to a higher standard of accountability, ensuring that they are effectively serving the

public interest. The Senate Standing Committee on Economics notes “It is in the public interest for [charitable] organisations to be more transparent and accountable, as they attract significant public funds through tax concessions” (Commonwealth of Australia 2008, 130). Public records of PAF funding would increase accountability and encourage PAFs to direct their resources towards charitable causes that are in the public interest. Public records of PAF funding can allow for more scrutiny and public engagement, which would increase public trust in philanthropy as a whole, encouraging giving, and positively tell the story of philanthropy in Australia.

b. Only about 56% of PAFs have information publicly available through ACNC (Kingman, L. 2022). This creates a barrier to collaboration with potential stakeholders and charities aligned with the work that PAFs are wanting to support.

Making it mandatory for PAFs to register their contact details with ACNC would increase the ease and accessibility would reduce barriers to potential grant seekers, creating a more level playing field for charities, leading to a more equitable distribution of funds. Transparency around PAFs can allow for better collaboration and coordination between philanthropic entities and other stakeholders, enhancing matched and collaborative giving. Publicly available information on PAF funding can facilitate greater collaboration between PAFs and other charitable organisations, as well as government agencies, leading to more effective use of resources and better outcomes for the community.

Case Study in working with lived experience: Seeding Strength Grants

At the Foundation for Young Australians (FYA), our First Nations Team is embarking on a journey to decolonise our grantmaking and embed lived experience in decision-making in our [Seeding Strength grants program](#).

FYA First Nation Team’s Seeding Strength program (run for First Nations young people, by First Nations young people) recognises that Aboriginal and/or Torres Strait Islander young people and their campaigns, movements and projects need financial backing to win campaigns, and achieve the self-determined, long term change they want to see.

Seeding Strength is designed to shift resources through grant-making, increasing philanthropic connections and supporting initiatives to secure ongoing sustainable funding for long term change.

The lived experience of the members of both the First Nations Team and the First Nations Governance Group¹ (whose members are all under 35, with a minimum of four under 25) are imperative to ensuring Seeding Strength’s success. The First

¹ See <https://www.fya.org.au/first-nations-governance-group/>.

Nations Team and First Nations Governance group's experience inform the design of the program and grantmaking process, a process which has historically excluded First Nations led organisations and young people from participating (both as decision makers and grantseekers) . We can observe this in two key ways:

1. Their lived experience is embedded from the design of the program, application process, communications and wrap-around support:

- The funding process was accessible, simplified, with fewer requirements as an entry point. Many grant applications are too overwhelming and formal, which provides a barrier for First Nations young people.
- The application process became a development opportunity for those applying, with simple templates on budgeting and creating a theory of change. The idea is that all applications come out of the process stronger.
- Applicants could opt to work with First Nations program staff on a more detailed application including participating in an interview, catering to the range of skills held by applicants.
- Reporting is simple, designed to reduce burden on applicants, managed by our First Nations Team, and tailored to successful applicants' needs.
- Successful applicants are mentored and supported through grant management to give their projects the best chance of success.
- Individuals and applicants could be directed to engage in other programs, which also offered wrap-around support,

2. Lived experience informed the decision making by a panel of the First Nations Governance Group for successful applications. This brought greater understanding of the context of the communities in which the projects would take place and the social injustices that the projects seek to address, and allows the decision for where funds are distributed to be self-determined by First Nations young people. This provides accountability and cultural governance for First Nations communities for funding decisions, which builds trust and reverses historic power imbalances in funding for First Nations people.

Resources

Not-For Profit Sector Tax Concession Working Group: Fairer, simpler and more effective tax concessions for the not-for-profit sector, The Australian Government the Treasury (2013).

Shah, S. (2020). Partnering with Community for Better Philanthropy. New York: COMM|VEDA Consulting.

Christina Horvath and Juliet Carpenter 2020, Co-Creation in Theory and Practice: Exploring Creativity in the Global North and South

Williamson, Alexandra, Luke, Belinda, & Furneaux, Craig (2018) Why be accountable? Exploring voluntary accountability of Australian private ancillary funds. Australian Journal of Public Administration, 77(3), pp. 375-391.

Williamson, Alexandra, Luke, Belinda, & Furneaux, Craig (2019) Privateness, accountability and philanthropic foundations. Third Sector Review, 25(2), pp. 147-176.

Kingman, L. (2022). The pace and vision of modern philanthropy. Governance Directions, 74(7), 619–623.

Commonwealth of Australia. 2008. The Senate Standing Committee on Economics: Disclosure regimes for charities and not-for-profit organisations. Canberra.

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http://www.aph.gov.au/~media/wopapub/senate/committee/economics_ctte/completed_inquiries/2008_10/charities_08/report/report_pdf.ashx