

# Productivity Commission: Philanthropy Inquiry

Submission from INVEST2DONATE 31 Jan 2024

## Introduction

My name is John Wakim. I am the Founder of Invest2Donate, a non-profit charity established for the sole purpose of making giving to charities easier for donors.

Our focus is the donor because:

1. we believe that charitable giving starts with donors, and without them charities would not exist; and
2. for donors, the existing system is broken, for reasons detailed below.

This submission is made on behalf of Invest2Donate.

At this stage Invest2Donate comprises myself and a small, part-time advisory board. We have developed a unique yet simple concept which we believe will create a new funding channel for the charitable sector and which can play a significant part in the Government's stated objective of doubling charitable giving by 2030. Due to capital restraints, we have been working in collaboration with established businesses with a plan to build the website and platform required. We have been investigating a number of options to raise pre-seed capital to get us underway.

## Scope of the inquiry/research study

Our submission is made specifically in response to points 3 and 6 in the Commission's Terms of Reference, namely:

3. Examine current barriers to philanthropic giving, including:
  - i. The burden imposed on donors ... by the current regulatory framework for giving and how this affects their philanthropic decisions.
  - ii. The ability of donors to assess and compare charities based on evidence of effectiveness, including through impact evaluations and making comparisons across charities. In doing so, the Commission should consider the work of overseas impact evaluation comparison sites.
6. Identify reforms to address barriers or harness opportunities to increase philanthropy, and assess benefits, costs, risks, practicalities and implementation considerations.

## Obstacles for Donors (Why Giving is Broken)

Giving is broken because donors find it too difficult to *initiate* giving.

The reasons for this are as follows (with supporting evidence footnoted below).

1. There are large numbers of charities from which to choose... over 55,000 registered charities in Australia, as provided by the ACNC;
2. There is very little help by way of independent charity research to guide donors' choice<sup>1</sup>;
3. The lack of standardised financial reporting guidelines for charities makes it difficult to compare "apples with apples", and this is a leading reason for the absence of quality independent charity research in Australia<sup>2</sup>;
4. The result is donor inertia<sup>3</sup>;
5. As a result, charities are left with no option but to embark on various asking campaigns;
6. Asking campaigns not only create donor inertia, but are expensive<sup>4</sup>;
7. Those that do donate in response to asking campaigns seem to be asked more frequently, and from other charities<sup>5</sup>.

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<sup>1</sup>*In many cases, the underlying concern people have is with the number of charities they feel are doing 'the same thing, duplicating efforts and competing for the same donations and funding.'* -ACNC information Sheet.

### **Background on the number of charities in Australia.**

*"Why don't people give? Over half of non-givers (55.7%) reported they cannot afford to give. The next three reasons, however, all related to a lack of trust in the charity: ■ I don't know where the money would be used (34.4%); ■ I think too much in every dollar is used in administration (32.8%) ■ I don't believe that the money would reach those in need (31.8%)."* -Giving Australia 2016. Individual Giving and Volunteering 2017.

<sup>2</sup> "Reports, even of very similar entities, can be prepared on very different bases making comparisons difficult. -AASB Discussion Paper: Improving Financial Reporting for Australian Charities. November 2017.

<sup>3</sup> *"There were just too many calls coming in, so we didn't even answer the landline any longer."* With over 60,000 charities in Australia vying for funds, some donors feel they're being harassed. -Choice Report 15 May 2023. Excessive contact from charities leading to donation fatigue.

<sup>4</sup> *"A charitable foundation that claims "100% of all donations" go towards supporting children with cancer...passed on just 23%... in contributions over the past nine years. Max Middison,SMH 27 Jan, 2024 . "...the effective proportion of donor funds that equates to the commission paid to fundraising agencies is approximately 20%."* -Report by Frost & Sullivan for the Australian Competition and Consumer Commission (ACCC). Nov 2017 - Research into the Commission-based Charity Fundraising Industry in Australia.

*"Who's making money from your donation? ... it's rarely the actual non-profit charity that's doing the calling, but rather a for-profit charity marketing firm whose revenue depends on getting people to donate. It's these for-profit firms, and these allegedly exploited workers, who are usually the ones calling to ask for money, not the charity itself. It makes deciding whether or not to give that much harder."* -Choice Report "How to give to charity so your donation really counts. Our expert guide to giving generously. 15 January 2020.

*"In 2022, the charity spent less than \$6.2 million directly funding breast care nurses, but more than \$9.5 million on fundraising and marketing."* Stephen Long, The New Daily, 4 Jan, 2024 Re McGrath Foundation Pink Test.

<sup>5</sup> *"...67% of people who made a donation as a result of an unsolicited call noticed that they received more calls from others asking for donations. -CHOICE Report into Nuisance Calls 2016, Sep 2016, N=1,616 Australians.*

## **Our Proposed Solution: Donor-Initiated Recurring Giving.**

We aim to build a donor-friendly website that:

- educates donors about the high costs of asking for donations;
- makes it easy for donors to initiate *recurring* donations, so that the donor is not contributing to those high costs of asking (*and re-asking*).

In collaboration with a leading Australian payment processing group, and an Australian-based research group built upon effective altruism (which itself is also a registered charity), we aim to provide charity research and to make use of the New Payment Platform (NPP) PayTo technology to facilitate donor-initiated recurring donations into well researched high impact charities. This will not only ensure real-time transfers, but at lower cost to credit card alternatives, and provides full control and record-keeping within donors' own on-line banking.

The NPP PayTo/ Account to Account capability is an all-Australian initiative to position Australia a leader in the global payments landscape, and unlike multi-national credit card and payment processing groups, all its profits are retained in Australia. Importantly, it allows a procurement fee to be easily debited and paid so as to fund on-going awareness campaigns which will drive donors towards the website and allow them to embrace this new concept of giving...“Donor-Initiated Recurring Giving” Eventually, this fee will lead to this non-profit website becoming self-funded.

In the future, we intend to provide donors with a broader range of charity research assistance to provide broader research across Australian charities for each of the major donation categories that extend beyond the high impact, effective altruism approach that we intend to start with.

We require DGR Item 1 status to enable us to source pre-seed capital funding from Private and Public Ancillary Funds, as well as Foundations that support our concept of Donor-Initiated Recurring Giving. However, they are limited to donating to DGR recipient charities. Currently, we do not have DGR status as we do not easily fall within a prescribed heading.

## **Policy Suggestion for Consideration**

- Consistent with the Commission's Draft Report observation, *“Reform is needed to simplify the DGR system and direct support to where there is likely to be the greatest net benefits to the community.”*, **we suggest increasing DGR Item 1 status charities to include charities that advocate for improved charitable giving efficiency, and act as a conduit for the benefit of other charities. This would help non-profit charities such as ours, to raise capital to build a new channel of giving... “Donor-Initiated Recurring Giving” ... that has the potential to save the charitable sector the high costs of asking and re-asking.**

The costs of sourcing donations from this new channel will eventually need to be borne by the recipient charities, but is likely to be much less than the costs that charities currently incur from asking campaigns. For example, Education and Awareness Campaigns are likely to be more effective with donors and more cost effective for charities, if undertaken by a neutral and independent charity acting as a conduit to the charitable sector, rather than each individual charity saying

the same thing and asking for donations just for their charity (which would likely be less effective due to perceptions of bias and self-interest). Such an approach is likely to save significant duplication of asking costs and reduce donor frustration and fatigue from too much asking.

However, we estimate it will take us 5-6 years before reaching self-sufficiency.

**We note in the Draft Report the Commission’s view that there is not enough evidence to suggest whether a Government funded public awareness campaign would increase giving. We believe we represent an ideal opportunity for the Government to build that evidence in this regard for a small outlay. We suggest the Government consider providing us with grants to be exclusively used for the purpose of funding awareness campaigns to drive donor traffic to our website. We would expect that \$1m/yr funded over 1-2 years would provide the Government with evidence that is currently lacking. And if successful, would be directly consistent with its stated goal of doubling charitable giving by 2030.**

- As pointed out in the AASB Discussion Paper 2017, Improving Financial Reporting Australian Charities, there are many inconsistencies in the way charities report finances. [https://www.aasb.gov.au/admin/file/content102/c3/ACCDP\\_IFRAC\\_11-17.pdf](https://www.aasb.gov.au/admin/file/content102/c3/ACCDP_IFRAC_11-17.pdf)

These inconsistencies make it difficult for “apples with apples” comparisons. This is likely to have been a major contributing factor as to why there has been so little involvement of groups in Australia to provide independent research and assessment of charities, which is a crucial component of making giving easier for donors.

**We suggest that if there were consistent reporting standards that allowed “apples with apples” comparisons (as identified in the AASB Discussion Paper Nov 2017: Improving Financial Reporting for Australian Charities) then this could be captured within the ACNC Charity Register and become available to donors, either directly, or via charity research groups that might wish to provide a service to donors in much the same way as investment research groups provide investors with research on investments. Any steps that will improve the ability to compare charities will increase the likelihood of quality independent charity research groups involving themselves in this space and assist donors to make good quality choices when it comes to allocating their limited donation budget.**

**Alternatively, it might be viewed as better for the ACNC and ATO powers to be extended so that they can replace the need for independent research groups, by using the relevant data that the ACNC/ATO hold and making it available to donors in ways that help them make good choices.**

- In order to implement Donor-Initiated Recurring Giving, PayTo technology is likely to be crucial to our business model because:
  - It is likely to provide the lowest cost transfer from donor account to charity account, in a way that accommodates recurring and one-off donations.

- Can be transacted through donor's existing online banking arrangements, with full control and recordkeeping available through the donor's existing secure and known online banking system, and **importantly, it may more easily enable the Australian Tax Office to pre-fill tax returns with deductible donations, thereby saving the Government large amounts of forgone tax revenue due to over-claimed tax deductions. This is because it will be much easier for the ATO to pre-fill deductible donations from the banks data (as it already does with interest income) than it would be to source data from each individual charity.**
- It can easily accommodate a business model that necessitates a payment to be deducted from the donation to fund ongoing awareness campaigns for Donor-Initiated Recurring Giving.
- **We suggest that the New Payments Platform Australia adds to its "Use-Cases" a new Use-Case, that highlights the efficiencies that PayTo can offer charities and donors, and we suggest the ACNC promotes it to all charities for consideration, so they all know about it.** If charities are encouraged to incorporate PayTo as an additional payment option within their systems, it becomes easier for us to build a sustainable platform to encourage Donor-Initiated Recurring Giving.

#### **How this Concept can Complement PAFs and Foundations:**

Having been involved in advising high net worth clients for 25 years, I have observed that, apart from ultra-high net worth clients, the reason many don't utilize PAFs or PuAFs is that it requires a permanent tying up of the settled capital.

For example, \$250,000, given to such a structure, is unable to be accessed in the event of a family emergency and this acts as a disincentive for many.

Policy changes as mentioned above, that pave the way for this new channel of giving, **Donor-Initiated Recurring Giving**, will appeal to those donors that are reluctant to or can't tie up capital.

Donor-Initiated Recurring Giving means donations are sourced from always accessible investment assets or income, and so can easily be diverted to family emergencies should they be required.

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