ASIA PACIFIC PHILANTHROPY CONSORTIUM

STRENGTHENING PHILANTHROPY IN THE ASIA PACIFIC: AN AGENDA FOR ACTION

Background Paper: Australia

July 2001

INTRODUCTION

SCOPE AND TERMINOLOGY

"Philanthropy" is a widely and loosely used term. In some contexts it is used to refer to the whole of the non-profit sector; in other contexts it refers only to the giving of money (and, less often, time and other in-kind resources). This paper focuses on the giving or "supply-side" of philanthropy, although we recognise that developments in giving and grant-making have to be seen in the context of demand side factors.

In Australia, giving increasingly takes a range of forms, and is described by a growing plethora of terms. The term "philanthropy" encompasses a continuum from giving money for social good to business-like activities with a social purpose. As discussed below, this growing range of forms and terms is in itself an important trend in philanthropy in Australia.

CONTEXT OF PHILANTHROPY IN AUSTRALIA

Philanthropy in Australia takes place within a particular historical, cultural, political and institutional context, as follows:

(a) Philanthropy in Australia emerged from the English tradition of charity as alms-giving for the poor, and continues to operate within English charity law.
(b) Australia is made up of six states and two territories, bound together in a federation. Different levels of government (Commonwealth, State and local) have different responsibilities, and different tax-raising and regulatory powers. Although the broad framework of charity law is determined by the Commonwealth government, individual states differ in their fund-raising, and other, laws affecting giving. This means that generalisations about policies impacting philanthropy in Australia as a whole are sometimes difficult.
(c) Compared with other countries, Australia traditionally has "strong" government in social matters. This has not necessarily meant that government directly provided all services, but rather that government accepted a responsibility for ensuring the provision of these services.
(d) Australian culture has stressed "mateship" and equality. European notions of paternalism and "noblesse oblige" are not part of modern Australian culture.
(e) Many Australian philanthropic foundations are managed by profit-making trustee companies. Trustee companies are not under any obligation to disclose details of the foundations they manage. Of 11 statutory trustee companies and six public trust offices, two of the larger companies each manage about 300 trusts. The "housing" of foundations within trustee companies has two important effects: difficulty in obtaining data on philanthropic foundations and the low profile of such foundations in Australia.

CURRENT ISSUES

PATTERNS AND LEVELS OF PHILANTHROPIC GIVING

Fundraising (which includes all forms of giving other than from government) traditionally comprises only a very small proportion of the total income of nonprofit organisations in Australia. For example, out of a total income of almost $27.4 billion* in 1995- 96, only about $2 billion came from fundraising (Lyons and Hocking, 2000,61). Other sources of revenue included $8.3 billion from governments and $13.2 billion from fees for service and commercial sales. These figures relate only to organisations that employ staff. Small community organisations employing no staff are almost certainly much more heavily dependent upon donations, especially of time.

When we look at data on giving by source, what stands out is the high level of corporate support (from all levels of business). Giving by individuals in 1997 totalled a little over $3 billion. Most of this, $2.8 billion, went to nonprofits (the remainder to government organisations such as certain museums, hospitals and schools). Over 9 million Australians (69% of the adult population) made gifts (Lyons and Hocking, 2000). Data on corporate giving is more difficult to estimate, but the most comprehensive attempt to draw an estimate from disparate sources suggests that in 1997, corporate support for nonprofit organisations totalled $1.65 billion (Lyons, 1999). This estimate included sponsorship funding and so was not all a genuine gift. When sponsorship is eliminated, the estimate of corporate support reduces to $1.2 billion. It is impossible to estimate how much is given each year in the form of bequests. Giving by charitable trusts is also impossible to accurately measure, but possibly totalled $0.2 billion. When this figure is added to the expenditure on grants by the large number of fundraising foundations in Australia, giving by foundations has been estimated at around $0.7 billion (most of the additional $0.5 billion are funds given by individuals and companies to these foundations, and are included in estimates of giving from those sources). Government support for giving does not appear particularly important. In the 1997/98 taxation year, 3.2 million individual taxpayers claimed a tax deduction for gifts totalling only $0.58 billion (McGregor-Lowndes, Marsden and Flack, 2001). The number of companies claiming deductions for gifts is not reported. It would appear that many companies (especially small ones) treat their gifts as a form of sponsorship, writing them off as a business expense.

Gifts of time are more valuable than gifts of money. In 1994/95, 19% of Australians aged 15 and above volunteered for a total of 434 million hours. Eighty six percent of this, or 374 million hours, was for nonprofits. When these hours were converted to a monetary value, they totalled $7.5 billion (Lyons and Hocking, 2000, 93).

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* All figures are in Australian dollars with an exchange rate of $AU 1 = $US .52.

We have no reliable trend data on giving. A recent Australian Bureau of Statistics (ABS) report on volunteering in 2000, suggests very clearly that the percentage of people volunteering has increased considerably, to over 30% within the five-year period from 1994/95 (Australian Bureau of Statistics, 2001). The difference may in part be explained by the greater recognition that volunteering has achieved over those five years, particularly via the highly publicised drive to recruit volunteers for the Olympics. Monetary giving also seems to be increasing. That same ABS report also estimates that in 2000, that 74% of the population over 17 years of age made donations. This is a small increase on the 69% found by a similar type of ABS survey in 1997 (Lyons and Hocking, 2000). Data from the Australian Taxation Office on claimed tax deductions also suggests that giving by individuals is increasing. Data for 1998-99 suggest that 3.26 million individual taxpayers claimed tax deductions for donations totaling $632 million. This represents an increase of 8.8% from the previous year - the largest percentage increase so far this decade (McGregor-Lowndes, Marsden and Flack, 2001).

PURPOSES

Levels of giving and increases in levels need to be seen in the context of unequal distribution of donations between "causes" and areas of activity. In 1997, religious organisations received 37.2% of all donations, but from only 26% of givers, while community/welfare organisations received 17.3% of gifts but from 59.1% of givers. Environment organisations received 2.3% of all donations from 11% of givers (Lyons and Hocking, 2000). Large welfare-providing charities have traditionally received the majority of donations in numbers from the general public. Today these organisations may see their income rising not only because they are established and trusted, but also because they have the skills and resources to devote to fundraising.

There are no systematic data on the focus of foundation grant-making. It is known that the demand for grants from foundations is far higher than the resources available (although there are no overall data separating numbers of demands from the value of demands).

There are some signs of change in the focus of corporate giving. In Australia, sports and arts organisations have traditionally been favoured by business sponsorship. Now, however, surveys are suggesting that business stakeholders would prefer to support other areas of activity. Furthermore, there is some evidence that corporate givers are increasingly moving toward what is seen as a more efficient approach, such as giving a small number of large gifts and working in "partnership" with selected nonprofit organisations.

THE CURRENT LEGAL AND REGULATORY ENVIRONMENT

Australian charity and tax law is unusual and complex. Charity law is largely based on English law but tax incentives for giving have developed independently. Conditions for tax deductibility of donations are different from those for tax exemption of charitable organisations. Tax incentives are generous in some respects (e.g. there is no upper limit

on tax deductible giving) but restricted in ways that are a disadvantage to organisations engaged in prevention and advocacy). The regulatory framework is complex (partly because of the different levels of government involved) and, arguably, lax (Krever and Kewley, undated; McGregor-Lowndes, 1999 and 2000).

The introduction of a sales and services tax (GST) has further complicated matters. Although generally exempt from paying GST, grantmakers are liable for GST if the grant involves any arranged benefit to the grantmaker. Various changes in the tax and legal framework have recently been made (see below) but much remains to be done.

PUBLIC UNDERSTANDING AND AWARENESS

There are no data on public awareness of philanthropic giving. The general impression is that the public is generally unaware of the roles of foundations, are suspicious of large scale philanthropy as a means of tax avoidance, and cynical about corporate giving.

There is very little media coverage of philanthropic activities, which may account for public lack of awareness of philanthropy in Australia. Public attitudes may be further exacerbated by foundations' lack of a public profile and tendency to secretiveness (perhaps partly motivated by a Christian belief that "true" altruists do not seek recognition for their generosity). Suspicion may also be related to the low level of public accountability and lack of a code of conduct for foundations (unlike NGOs which do have such a code).

POLITICAL SUPPORT/AWARENESS

Philanthropic giving, especially from the corporate sector, is higher on the Commonwealth government agenda than it has been for decades. The Commonwealth Prime Minister recently created a Community Business Partnership Initiative as part of the government's wider policy of social coalition. One aim of the Partnership is to encourage community awareness and giving by businesses. The Partnership initially met with some resentment and skepticism from business, but has almost certainly promoted consideration of the proper role of business in the community.

Other tangible indicators of government support for philanthropic giving include a series of tax reforms designed to encourage giving and foundation creation, as well as an *Inquiry Into The Meaning of Charity* which will hopefully lead to removal of some of the anomalies and restrictions in charity and tax law in Australia. In addition, the Commonwealth government has given verbal and financial support and tax advantages to Foundation for Rural, Regional, Renewal (FRRR), a major new philanthropic initiative that is directed towards the regeneration of rural and regional Australia. FRRR comes at a time when issues of rural deprivation will likely be central to the forthcoming Commonwealth government election.

INTERSECTORAL RELATIONS

Intersectoral relations are in a state of flux. Governments are increasingly contracting with nonprofit organisations to provide services. Businesses are adopting more "caring" policies and larger nonprofit organisations are behaving increasingly like businesses.

The old consensus about the roles and responsibilities of government, business and the nonprofit sector has broken down, but there is no new sentiment in place. The Government policy of social coalition exhorts business, communities, nonprofit organisations, individuals and families to take responsibility for the public good, rather than relying on government alone. The word "partnership" litters policy statements and funding programmes, but it is far from clear what sort of relationship this implies.

CHALLENGES AND CONSTRAINTS TO SUSTAINABLE FUNDING

GOVERNMENT AND LEGAL

A challenge to sustainable funding in the current context is the lack of clarity in responsibilities, roles and relationships. There is a view that political awareness of philanthropy and the wider nonprofit sector is closely linked to an expectation by government that nonprofit organisations (including givers) can and will make good on deficiencies in public provision. At the same time, there is increasing competitiveness within and between sectors in fundraising. Nonprofits' traditional advocacy role, always discouraged within Australian tax law, is seen to be increasingly constrained by contracts between nonprofits and governments.

Other challenges and constraints to sustainable funding come from the Federal government's inaction in creating a legal and regulatory environment that is more conducive to philanthropy. While the regulatory environment for business has been reformed to ensure cheaper, better and faster requirements, the same approach has not been applied in relation to nonprofit organisations. Although there are hopes that the *Inquiry* noted above will lead to changes (beyond the *Inquiry's* brief), these come at a time of an impending Federal government election and against the backdrop of a previous inquiry from which the government took few recommendations.

CORPORATE ATTITUDES

Business in Australia is undoubtedly aware of the issue of relationships with nonprofit organisations. But the future form and direction of corporate philanthropy remains uncertain. Many corporations feel "dumped on" by government and, in any case, are uncertain of their legal mandate to allocate pre-tax profit outside the principal purpose of the company.

There are also issues of language and culture. Businesses use a wide range of terms to describe their roles: "corporate citizenship," "corporate responsibility," "social

investment," and so on. However, much of what business talks about and does in relation to the community is not seen as philanthropy, but rather, as corporate self-interest, i.e., "growing the business," "building reputation," and other goals. Although much of corporate talk in this area is aspirational, there is a lack of knowledge and skills to translate aspiration into reality. Furthermore, it appears that corporate "involvement" is still seen as a side-line or extra, rather than part of the core business.

INDIVIDUAL GIVING

Although individual giving appears to be rising, there is a general pattern of fluctuation over the last three-to-five year period. Individual giving tends to be unreliable in aggregate and there is no evidence of individuals becoming involved in longer-term sustainable funding rather than one-off short-term gifts. Payroll giving may encourage longer-term giving relationships, but this is most likely to benefit larger charities with more sophisticated fundraising programmes.

INSTITUTIONAL/ORGANISATIONAL DEVELOPMENT

Australian universities are beginning to develop dedicated centres of research and training in philanthropy and the nonprofit sector. This development is indicative of the new policy significance attached to philanthropy and the nonprofit sector and should produce greater knowledge of the sector, as well as better-trained philanthrocrats and NGO managers and more skilled trustees. Much remains to be done. Research is urgently needed to document the numbers, income, assets, grantmaking, foundation purposes, and numbers of employees, as well as explore fundraising organisations, their methods and their costs. Universities could play a larger part in raising awareness of and stimulating debate around philanthropy and the wider nonprofit sector. One issue of particular interest in the development of this research might be the effects of these trends, as well as the growing professionalisation and corporatisation of the sector, on smaller organisations, and to measure their roles in creating social capital and developing civil society.

RESPONSES AND NEW DEVELOPMENTS

GIVING BY THE PUBLIC

A much-discussed development is the coming inter-generational transfer of wealth. There are no data on the potential size of this wealth in Australia. Various factors lead to doubts that the transfer will be translated into philanthropy on any scale. First, greater longevity and the rising costs of aged care may eat into transfers. Second, in Australia it is possible that the major inter-generational transfers are made to fund children's and grand-children's education and/or to purchase a first home.

COMMUNITY FOUNDATIONS

Interest in community foundations is growing in Australia. Twenty new community foundations have been established in the last five years.

GROWTH OF CONSULTANTS

Larger charities are developing their own fundraising techniques and efforts. In addition, various for-profit and nonprofit fundraising consultants and advisors have entered the market in recent years. There are signs of growth in management and planning services for nonprofits, as well as in consultancies advising businesses on giving strategies and partnering with nonprofits. Consultancy to the nonprofit sector is a growth area and, as yet, there is little discussion regarding quality control and standards.

STRATEGIC GRANTMAKING

Although the majority of foundations almost certainly still give larger numbers of small, partial, one-off grants, there is growing discussion of other, more strategic, approaches to giving. Insofar as the move to strategic philanthropy (evident among some of the larger foundations in Australia) entails a smaller number of priority areas and a smaller number of larger grants, patterns of grantmaking are likely to change significantly. What effect this will have on smaller organisations is, as yet, unclear.

SOCIAL CAPITAL AND CIVIL SOCIETY

There is a rise in the use of such terms as "social capital" and "civil society" across sectors, but such terms tend to be loosely used and are primarily associated with the wider nonprofit sector, rather than philanthropic giving.

ETHICAL INVESTMENT

Ethical investment is emerging as an issue within the Australian philanthropic world and there has been growth in the number of ethical investment products on the market. Current practice is described in one recent report as "on the verge of transition from being a niche activity to having a place in the mainstream investment options" (The Allen Consulting Group, 2001).

VOLUNTEERING

Despite enthusiasm for volunteering at the Sydney Olympics and the belief that Australians have an ethos of volunteering, volunteer-based community organisations report declining memberships and volunteerism. It is unclear whether this indicates a decline in volunteering or a change of focus. Australians may be moving away from traditional sites of volunteering and toward organisations in which the emphasis is on belonging and more intense relationships.

USE OF TECHNOLOGY

Although Australians make extensive use of new technologies in everyday life and business (due in part to the size of the country), nonprofits do not appear to be using the World Wide Web as a fundraising medium. Cheque accounts are being replaced by credit card accounts for many donations, but there still appears to be considerable distrust of the use of credit cards on the Web. The use of dedicated "affinity" cards for donations, however, appears to be growing. There is indication that organisations working with young people are the greatest users of the Web.

PUBLICLY ENDOWED FOUNDATIONS

There has been a noticeable growth in the use of the foundation form as a means of dealing with some of the practical and political problems arising from privatisation of mutuals and the increasing revenue (and social problems) from gambling, beer, cigarettes etc.

NGO COMMERCIAL ACTIVITY

Almost half of all nonprofit income comes from the sale of goods and services, most related to an organisation's core business and some for purely fundraising purposes. This increasing commercial activity by nonprofits may increase in the near future, possibly leading to difficult relationships with small businesses.

There are also signs of a trend toward the conversion of nonprofits into for-profit businesses, with the assets transferred to create foundations. This trend could be the source of real growth in the foundation sector, running alongside a reduction in the number of large nonprofit organisations. Another commercial growth area for some nonprofits is franchising of programmes and systems (e.g., in domiciliary care, hospitals, education) within the region and beyond.

CONCLUSION

Several steps are presented as a means of strengthening philanthropy in Australia:

(a) Changes in charity and tax law towards greater clarity, coherence and consistency, thus facilitating and better regulating giving. This will require political will to view the legal and regulatory system for philanthropy as important.
(b) Development of accountability and suitable common accounting standards for nonprofits (Leo and Addison, 1999).
(c) Development of research into philanthropic giving and the wider nonprofit sector.
(d) Creation of a national peak body to push the sector up the list of political priorities.
(e) Development of frameworks and tools for corporate social reporting.
(f) Promotion of good corporate citizenship through such activities as the education of young business leaders.

(g) Shift from a domestic focus to expand horizons beyond Australia and the wider region, including Asia, the Pacific, New Zealand and Papua New Guinea. Two factors may encourage development of a wider regional focus. First, opportunities for joint ventures between service providers at a regional level may encourage regional giving. Second, a regional focus may develop in response to corporate givers looking for region-wide philanthropic organisations to assist in region-wide giving and market entry.

PARTICIPANTS OF THIS PAPER

This paper received the input of many individuals who came together on May 3, 2001 for a full-day meeting. The meeting was hosted by **Philanthropy Australia Inc**., in Melbourne. The participants were:

Sylvia Admans, Manager, Charitable Services ANZ Trustees - admanss@anz.com

Professor David Birch, Director, Corporate Citizenship Research Unit, Deakin University - birchd@deakin.edu.au

Catherine Brown, Consultant and Company Secretary, Foundation for Rural and Regional Renewal - catherinebrown@optusnet.com.au

Elizabeth Cham, Executive Director, Philanthropy Australia – e.cham@philanthropy.org.au

Carrillo Gantner, Vice President, The Myer Foundation - carrillo.gantner@mfo.com.au

Beris Gwynne, Executive Director, The Foundation for Development Cooperation - www.fdc.org.au

Charles Lane, Chief Executive Officer, The Myer Foundation - clane@myerfoundation.org.au

Andrew Lawson, Executive Director, Geelong Community Foundation - ajlawson@bigpond.com

Diana Leat Visiting Senior Research Fellow, Centre for Citizenship and Human Rights, Deakin University, and Philanthropy Australia (prepared paper) - d.leat@philanthropy.org.au

Michael Liffman, Director Asia-Pacific Centre for Philanthropy and Social Investment, Swinburne University of Technology - mliffman@swin.edu.au

Myles McGregor-Lowndes, Associate Professor School of Accountancy, Queensland University of Technology - m.mcgregor@qut.edu.au

Rhodri Wynn-Pope, Corporate Community Investments - rwynnpope@corporate-community.com.au

Comments received from Mark Lyons, APPC Executive Committee member - Mark.Lyons@uts.edu.au

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Useful Web Sites

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http://www.philanthropy.org.au
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