

COMMENTS ON THE PRODUCTIVITY COMMISSION'S DRAFT REPORT  
"Contribution of the Not-for-Profit Sector"

*By*

Andreas Ortmann, Ph.D., Professor of Experimental and Behavioural Economics, UNSW, Sydney, Australia

I applaud the PK for its investigation of the problems that afflict the Australian not-for-profit (NFP) sector. The draft makes clear that quality assurance in the Australian not-for-profit sector is poorly understood and the PK seems to agree with arguments that knowledgeable observers have made: current disclosure regimes are confusing and inappropriate (Lyons 2009) and – given the sector's tremendous importance in revenues, volunteered contributions, and employment, and in its impact on the social fabric of Australian society -- the lack of reasonable standards of accountability and transparency in the use of public and private funds is troubling and in dire need of fixing.

I agree that the streamlining the regulatory framework and developing better knowledge systems (including the establishment of a national registry for community and charitable purpose organizations, the establishment of an office for NFP Sector Engagement in the Prime Minister's portfolio, and an independent Centre for Community Service Effectiveness) are all things worth considering. Of course, the devil's in the organizational details that are left unspecified here (e.g., how to guarantee independence.)

What concerns me: The Productivity Commission seems to take many of its cues from Anglo-American models of regulatory oversight (IRS 990 forms and derivatives such as the GuideStar database in the US, or the Charity Commission forms and derivatives such as the GuideStar database in the UK).

The problem with this fixation on Anglo-American models of monitoring is manifold: for starters, the kind of databases and disclosure requirements that exist in the US and UK have yet to be implemented in Australia - a process that might take years. Even more troubling is that evidence of the efficacy and effectiveness of the disclosure systems in place in the US and the UK is scant and not necessarily in favor of these regulatory solutions (Brhlikova & Ortmann 2010; Myslivecek & Ortmann 2010; Ortmann & Svitkova 2007; Ortmann & Svitkova 2009; Wilke 2005)

It is the purpose of this comment to encourage the PK to look to (Western) Europe where the certification of nonprofits with a national scope has proven – in some cases for decades -- to be a viable and seemingly very promising solution, even though the regulatory environments in Europe tend to be equally dismal. Specifically, I propose that the certification models of the members of the ICFO (International Confederation of Fundraising Organizations; [www.icfo.de](http://www.icfo.de)) such as the CBF in the Netherlands ([www.cbf.nl](http://www.cbf.nl)), or the DZI in Germany ([www.dzi.de](http://www.dzi.de)), or ZEWO in Switzerland ([www.zewo.ch](http://www.zewo.ch)) are viable models for Australia's nonprofit sector.

I also propose to look into the emergence of recent developments such as New Philanthropic Capital (NPC; [www.philanthropycapital.org](http://www.philanthropycapital.org)) in the UK which is the nonprofit equivalent of traditional investment houses.

In light of the European experience I am confident that certification, possibly in conjunction with NPC-like rating entities, would relatively quickly, and through non-governmental activities, improve quality assurance in the nonprofit sector.

*References:*

M. Lyons (2009), Submission to Inquiry Into the Disclosure Regimes for Charities and Other Not-For-Profit Organisations by the Senate Standing Committee on Economics. (August)  
Retrieved from: [http://www.pc.gov.au/\\_\\_data/assets/pdf\\_file/0004/90418/sub169.pdf](http://www.pc.gov.au/__data/assets/pdf_file/0004/90418/sub169.pdf)

J. Myslivecek & A. Ortmann (2010), Certification and Self-Regulation of Non-Profits, and the Institutional Choice Between Them, in B. Seaman & D. Young (eds.), Handbook of Nonprofit Economics and Management, Edward Elgar Publishing Company.

A. Ortmann & P. Brhlikova (2010), Economic Theories of Nonprofit Organization, in H.K. Anheier & S. Toepler (eds.), International Encyclopedia of Civil Society, Springer.

A. Ortmann & K. Svitkova (2007), Certification As a Viable Quality Assurance Mechanism in Transition Economies: Evidence, Theory, and Open Questions, Prague Economic Papers, 16.2., 99 - 114.

A. Ortmann & K. Svitkova (2009), Do Self-Regulation Clubs Work? Some Evidence from Europe and Some Caveats From Economic Theory, in M.K. Gugerty & A. Prakash (eds.), Nonprofit Accountability Clubs: Voluntary Regulation of Nonprofit and Nongovernmental Organizations, Cambridge University Press, forthcoming.

B. Wilke (2005), Transparenz im Spendenwesen: Siegel, Selbstregulierung, Watchdogs. Ein Vergleich USA, Grossbritannien und Deutschland. In Walz, W.R., Koetz, H., Rawert, P., Schmidt, K. (eds), Non Profit Law Yearbook 2004, Carl Heymans Verlag, 181 – 206.