

What is the current Investment Paradigm and could we/should we adopt an Impact Investing Approach?

1. Current investment levels are set according to the Starvation Cycle

The [ACT Government Response to the Counting the Costs report](#) stated:

The Starvation Cycle is a recognised worldwide phenomenon of deeply ingrained behaviours based on three intertwined factors:

- A. Funders have an inaccurate understanding of true cost.
- B. NFPs feel pressure to conform – especially given a power imbalance between grantor and grantee.
- C. NFPs sacrificing funding for organisational infrastructure (e.g., staffing, information technology, finance, governance).

An ongoing practice of funding that does not cover full costs leads to reduced liquidity, capacity and infrastructure; failure to adapt and innovate; lack of resilience and inability to meet demand. Research shows that Australian businesses on average spend on indirect costs 1.8–3.6 times more per employee than NFP organisations. This leaves NFPs both less efficient and more vulnerable to external shocks.

2. The Starvation Cycle is entrenched because there are myths and biases that shape the perception of NGOs and guide funder decisions about investment.

These myths and biases were outlined in a paper published by Prof David Gilchrist in 2023: [231129 EP 5 Myths and Biases Covered Version.pdf \(uwa.edu.au\)](#)

This paper concluded:

“As profitability, commercial autonomy and recognition of wider economic and social value are denied organisations, it is reasonable to conclude that the nonprofit sector is becoming increasingly economically isolated from the broader economy. The sector is tasked with addressing complex social problems in an environment where they operate under a different, and often times conflicting set of expectations and rules.


Without the resources and financial stability necessary to dismantle these ideas, the sector finds itself trapped in a cycle of risk and under resourcing. The resultant impacts on service sustainability—that is, the timeliness, quantity and quality of services—will inevitably fall on those the sector is designed to help, the vulnerable and in most need of support.


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To overcome these obstacles, a shift in perception is needed, recognising the value of long-term, sustainable investments in the human services infrastructure, in addition to a more nuanced understanding of how nonprofit organisations operate and contribute to the betterment of society.”

A summary of myths and biases discussed in the report is provided below:

	<div>Myths</div> <hr/> <ul style="list-style-type: none">- Nonprofits should not make a profit- Nonprofits should not pay competitive salaries to executives/appropriately reward leaders- Nonprofits are inefficient and non-innovative as compared to the commercial sector- The government does not have enough money to resource the sector- It is not necessary for nonprofits to have a strong balance sheet- All funds can and must be spent directly on programs for short-term return- The nonprofit sector is a fiscal sink: we should be looking for ways to reduce expenditure into this sector in all instances- Sacrifice and selflessness are primary and necessary features in sector operation
	<div>Biases</div> <hr/> <ul style="list-style-type: none">- Quasi-markets will elicit efficient and high-quality service delivery- Competition is required to correct motivation and improve efficiency- It is not necessary for governments to pay a price for services and supports that represents a profitable financial outcome for a nonprofit- Consumer Price and Wage Price indices appropriately capture cost changes in services- Contracting duration and particulars should not contribute to capacity-building and reserves- Contracting partial funding amounts that do not reflect comprehensive cost of services- Raising capital and filling expenditure gaps are necessary responsibilities of the organisation- Government is benevolent and supports the sector rather than relying on service purchasing- Administration is automatically red tape and must be reduced; administration should not be funded- Misuse of metrics by government and philanthropic entities- Downplaying of the overall economic contribution of the sector- The third sector is considered both distinct and comparable to other sectors

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3. The ACT Government has articulated an outcomes focused social policy agenda in the [ACT Government Wellbeing Framework](#), commitments to implement the [Priority Reforms | Closing the Gap](#) and by setting out five overarching human services reform outcomes in the [2022-2024 Commissioning Roadmap - Introduction \(act.gov.au\)](#):

The 2030 Human Service System Outcomes

- Better respond to community need, both existing and emerging, through increased flexibility and opportunities for innovation.
- Improve integration across the service systems to support seamless and holistic care, and transitions between services.
- Reduce pressure on our hospitals and other crisis services, such as homelessness or statutory services for children, young people, and families, by prioritising prevention and early support.
- Improve equity in health and life outcomes for priority population groups, through commissioning decisions made about where and how to focus support.
- Improve sector sustainability through closer partnerships and better understanding the needs of our service delivery partners.

4. The current Investment approach is Program-based, but the policy agenda set out above seeks to drive system reform.

There is no map of how human services programs contribute individually, and intersect, to deliver Wellbeing Outcomes, Closing the Gap Priority Reforms or the 2030 Human Services System Outcomes.

The adoption of a Commissioning for Outcomes approach to designing, investing in, delivering and continuously improving human services has delivered some positive impacts, but has also been expensive, time-consuming, disruptive and confusing. System reform outcomes are limited because the funding levels in each Program do not reflect population growth, increased complexity of presentations and increased need.

5. The ACT is struggling to align funding and service delivery with social policy objectives within the current investment paradigm. Research and analysis from the USA and the UK provide guidance on an alternative approach to investment that could be useful to the ACT

[Impact Investing: Systemic Investing for Social Change \(ssir.org\)](#) – Main read

[Seven Steps for Funding Systems Change | Ashoka](#) – detailed background reading

[The role and power of re-patterning in systems change | by Griffith Centre for Systems Innovation | Good Shift | Medium](#) – detailed background reading

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Key messages from the [Impact Investing: Systemic Investing for Social Change \(ssir.org\)](https://ssir.org) document, aligning these with current ACT intent and infrastructure and identifying further work needed

Four Core Attributes and Components needed to Invest for Systems Change	Current ACT Attributes & Components	Further work to enable Impact Investing in ACT
1. Guiding Principles	Commissioning Principles	
i. Transformation focused = willing to listen and learn, empathy for others	Relationship focused Inclusive collaboration Communicative Deliberative	<p>Update Commissioning Principles to align more closely with Impact Investing Guiding Principles.</p> <p>We need an outcomes framework that supports delivery on guiding principles ii and iii. The 15 October Draft Funding Partnership P&P Manual.docx could be a home for documenting, sharing and promoting good practices. These docs capture some policy thinking that could support development of outcomes framework that reflects the complex web of relationships that generate human service outcomes: Investing in co-contribution of NGOs to Wellbeing.docx.</p> <p>To progress iv and v we need to engage effectively with Treasury and with the Budget process, and to increase resourcing of the consultative work needed to amplify the voice and influence of stakeholders who are not funders.</p> <p>A substantially funded Learning and Development program for all actors in the human services system from frontline to strategic governance roles could support shared understanding and adoption of the principles and related good practices of Impact Investing.</p>
ii. Respect complexity = avoid simple metrics to discern causality, be transparent about what is unknown and unknowable, recognise the web of relationships that contribute to outcomes, understand what generates co-operation, value learning and adapting	Purpose driven Contextual and Flexible	
iii. Deprivilege finance = recognise finance as only one component of the investment needed to change systems, listen to voice of people who bring other capitals to the discussion (social, political, cultural), share power when allocating resources	Recognise complexity	
iv. Focus on the “Real Economy” (the production of goods and services) = how are these producers influencing the system? How are funders engaging with these producers to strengthen legitimacy of funding decisions?	Value time and Resources Shared Commitment	
v. Multiple definitions of success = avoid fixed expectations of returns and outcomes, multiple actors can set change agenda, diverse definitions of good practice		

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2. Actors from Multiple Domains		
Need to find and engage with all the actors in the system	<p>Commissioning Cycle enables engagement with wide range of actors in the system</p> <p>Procurement Lifecycle incorporates opportunity for this in the “plan” phase</p> <p>Key issue is the focus for engagement is at service and program level not system level</p>	<p>15 October Draft Funding Partnership P&P Manual.docx being developed by SSP provides information on the scope and rules of engagement set out in procurement legislation and regulations, in portfolio policies and Commissioning for Outcomes materials and provides practice guidance to all actors</p> <p>Need to strengthen the authorising environment and the tools provided to support engagement on the System level.</p>
Expand the range of “capital” that can be invested to generate change – including social, political, cultural and human alongside financial	Wellbeing Framework provides the policy mandate to take a multi-capital approach	<p>Mapping of wellbeing capitals and human services to the need for, experience and complexity of human services delivery could assist with conceptualising this. This map could also support dialogue with Treasury re the alignment of human services funding allocations and evaluation of funding outcomes with the WBF.</p>

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3. Objects and Infrastructure		
Transformative Intent clearly articulated and shared by stakeholders	Wellbeing Indicators Human Services Reform Outcomes Closing The Gap Priority Reforms	Mapping of wellbeing capitals and human services to the need for, experience and complexity of human services delivery could assist with conceptualising this. This map could also support dialogue with Treasury re the alignment of human services funding allocations and evaluation of funding outcomes with the WBF. We could learn also from the JaCS work on mapping current Policies and Procedures to delivery of the CTG Priority Reforms
Systems mapping and analysis		We really do need to create a Program Logic for the ACT Human Services System that captures the 35 funding streams to NGOs across CSD, Health, JaCS and EPSDD. This will build shared understanding of policy objectives, identify any barriers to coherent implementation of these objectives and opportunities to better align investment approaches and phasing.
Theory of Change	We have a TOC in the SSP, see p4 Evaluation Framework SSP 2023-2024	There is no Theory of Change for Commissioning. It would be good to document a TOC and connect this the 2022-2024 RoadMap which says the 2030 Human Services Outcomes are the objectives. Current evaluation outcomes for Commissioning are available via annual surveys and other feedback is published here: Monitoring and Evaluation - Commissioning (act.gov.au)

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Objects and Infrastructure (continued)		
Frameworks that enable co-operation, co-ordination and coherence	Commissioning for Outcomes enables some co-operation and co-ordination CSOG shares governance across Directorates but not with other stakeholders SSP has an NGO led shared governance model between ACT Gov and NGOs No mechanism to enable coherence	Need a Shared Governance Model that engages the right decision-makers, sets protocols and controls on decision making and monitors implementation and outcomes from multiple perspectives – not only the Funder perspective
Fit for purpose funding “vehicles”	Program-based funding difficult to “bundle” to enable cross Program integration, alignment of service offerings and/or evaluation of performance/outcomes	How could we seek and secure Ministerial Mandate to enable Portfolio bundling of funding across Programs to address the issues and risks re coherence of objectives, investment and evaluations?
An “organising function”	No central organising framework or delegation	SSP proposed a “Stewardship model”. The creation of central policy area in ACT Government could enable stewardship but requires sufficient authorisation to make both policy and resourcing recommendations and enact both policy and resourcing decisions of Cabinet.

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4. Modes of Operation		
Realistic Investment of time to foster co-operation and partnerships	Timeframes reported on Commissioning webpage: Sectors in Progress - Commissioning (act.gov.au) Feedback on Commissioning is that the timeframes are mixed – some are too short, some are uncertain/extended multiple times	Using the Systems Map to determine what funding programs need to be bundled to enable co-ordinated and coherent investment phases would be useful. Stakeholders have identified the need to align timeframes for investment with budget cycles so that gaps in funding can be addressed before the investment/source phase of commissioning/procurement are commenced.
Multiple forms of capital are deployed - social, human, cultural, political, financial. Multiple ways of creating value (eg circular economy, preventing trauma) need to be recognised and enabled Adopt a blended value approach Better account for the impact of different capitals on system transformation outcomes	The Wellbeing Framework mandates recognising, valuing and growing multiple forms of capital; and indicator set provides guidance on priorities for action.	We need to strengthen understanding of how WBF, CTGPR and HSR Outcomes map to each-other. We also need to deliver on the long-stated priority of ACT Govt to develop a Monitoring and Evaluation framework that can be applied across human services.
Under the central organising function, set up strategic portfolios to harness relationships, harness combined effects of activities, capture spillover impacts between actions, actors and activities	Current structures do not enable a Stewardship role that could oversee these system transformation portfolios	A Stewardship Model could be useful. See a summary here from a presentation I gave to CSD Commissioning Hub in May 2024: SSP intent, insights and conceptualising human Services Stewardship A coherent Evaluation Framework would strengthen visibility and understanding of the actions, actors and activities that are contributing to achieving Human Services Outcomes

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Modes of Operation (continued)		
Monitor, measure and learn: What investments generate change?, How do investments align with Theory of Change? How are investments intersecting with each-other and influencing system transformation?	Commissioning Evaluation findings may answer some of these questions Commissioning Review could recommend including these questions in future evaluation framework for Commissioning 2025-2030	Need to articulate a Theory of Change that will guide Impact Investing Since 2016 when Community Services Industry Strategy 2016-2026 and Human Services Blueprint were developed, there has been an objective of developing a Monitoring and Evaluation Framework for funding human services, but it has never landed. We need to understand what is preventing this Framework from being created.
Adaptive to changing circumstances	Changing circumstances are one of the challenges in developing a coherent approach to Investment that delivers cumulative improvements over time.	The Wellbeing Framework and the Human Services Reform Outcomes are constants, so could provide a “North Star” for long term navigation as policy and funding settings change.

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