Social investment and social return on investment

What does this mean for philanthropy?

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Questions are rife regarding the Coalition Government's social investment approach and its potential implications for philanthropy. The concurrent elevation of a particular method for helping to determine value - social return on investment - is also a focus of conversation amongst funders and the community sector alike.

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Social investment

A mixed bag

Social investment is about using data and evidence to target government social spend to those most in need with effective interventions early, to break cycles of poverty and disadvantage. The use of the term 'investment' is deliberate and signals an expectation of a measurable return. The door is opened to harnessing private sector funding through social bonds[1] (see endnotes).

Social investment emerged from the 2011 Welfare Working Group and gathered steam from 2017 under the last National-led Government, spearheaded by then Finance Minister Bill English. The Coalition Government has resurrected social investment through its newly formed Social Investment Agency with a new champion in the form of Finance Minister and Minister of Social Investment Nicola Willis. See here for a November 2024 webinar hosted by Hui E!, of Minister Nicola Willis discussing social investment. A Social Investment Fund will 'commission services for vulnerable New Zealanders' from 2025.

Success under social investment includes reduced costs to the state – costs saved by moving people out of deprivation, including associated health costs, welfare and justice costs, and future savings if people's lives stay on track. Having better data means that more effective services and programmes can be grown, and less effective initiatives let go.

At the Aotearoa New Zealand Evaluation (ANZEA) Conference in November 2024, a representative from the Social Investment Agency described the purpose of social investment as being to drive better outcomes from government spending by using data and evidence to target funding to where it is most needed. It is also about setting and tracking measurable goals, being able to compare the effectiveness of services and better understand the value created by addressing issues earlier and better. Building the breadth and depth of our data infrastructure through the IDI (Integrated Data Infrastructure[2]) is a further goal.

A stated driver behind social investment is seeking to embed evaluative thinking and better use of data in public policy, government and community approaches. The need to lift evaluative capability and capacity in government and the community sector to do this is acknowledged. There is reported to be an openness in the Social Investment Agency to pluralism – applying multiple worldviews and knowledge systems.

Value and measurement guidelines are being developed by the Social Investment Agency, which set out what is expected from government agencies and contracted providers – principally a theory of change (clear goals and reasoning as to how intended outcomes will be achieved) and transparency about methods of data collection.

So far so good[3]. Yet social investment comes with limitations and concerns. An April 2024 Herald article by Derek Cheng highlighted some of these:

- Setting the wrong targets and inadvertently perpetuating the status quo, by helping individuals with poor outcomes rather than changing the conditions and systems that keep recycling those poor outcomes.
- Having the wrong priorities – numbers and finances over people and quality of life.
- The potential for perverse outcomes, such as taking people off welfare or out of emergency housing no matter what happens to them afterwards.

Social investment can lead to an unbalanced fixation on money, KPIs and numbers, and to losing sight of the real lives and diverse realities underpinning them. Numbers might be easy to grasp as a decision-maker but they can hide a multitude of biases and omissions. The values underpinning social investment continue to hero the self-interested individual and Western worldview, over Māori and Pasifika values of the collective good and service to others, for example. A key danger of social investment is not funding what can't be measured or counted.

The uneven quality of data available[4] and its typical deficit focus are ongoing issues. Some in our community are not well represented by the Census or other official data sources (think overstayers, rough sleepers and those with no phone or internet). It is important to understand where there may be bias in the data. The targeted nature of social investment can perpetuate institutional bias and stigmatisation. Some fear that social investment is a path to shrinking the size of government and privatising social services.

As Cheng notes, almost one in five Kiwis is stuck in a cycle of disadvantage. People's interactions with government when in these cycles (for example via state care, health services, welfare, housing, justice) mean that there are many points at which the state can intervene differently to change the trajectory. Yet systemic barriers remain and it is unclear how social investment will address them. These barriers include silos and lack of coordination across government; funding programmatic over systemic solutions; short-term funding cycles; institutional racism and other forms of discrimination.

Social return on investment

One method that is useful in some instances

Social return on investment (SROI) is an evaluation method to determine the social, economic and financial benefits of an initiative (less frequently its environmental benefits). Part of a suite of cost-benefit and value-for-investment approaches, SROI typically involves six stages that identify and measure outcomes and where possible, apply financial proxies to those outcomes. The overall financial value of the outcomes achieved is then calculated and compared with the cost to produce them, indicating its cost effectiveness or SROI.

SROI can be useful when the initiative in question is producing outcomes and benefits for which there is comparable data at a population level, such as educational achievement, driver licensing, housing, justice, employment or welfare system related benefits. To obtain a dollar return on investment outcomes need to be able to be monetised. SROI combines a range of evaluative methods to seek to determine the financial and non-financial value of an initiative.

Working out a financial value for benefits is subjective, time and resource intensive. This method can privilege outcomes that are easy to measure and count in dollar terms, yet the most valuable outcomes cannot be measured that way, such as enhanced mana and dignity, stronger community connections and a sense of identity. Experienced SROI practitioners are thin on the ground and SROI and value for investment assessments do not come cheaply. Some question how useful a dollar ratio of cost to benefits is for decision making and how to know whether an SROI assessment is done robustly or not.

What do social investment and SROI mean for philanthropy?

Some funders are wondering whether they need to adopt social investment and SROI type approaches. Some have funded SROI[5] and some are being asked to fund SROI assessments by community organisations - in some cases where these are neither appropriate, nor would they be that helpful for the organisation concerned. A community sector collaboration coordinated by Hui E! and funded by philanthropy has emerged to discuss this new landscape, raise issues and make recommendations[6] to government relating to its social investment approach.

For philanthropy, here are some things to keep in mind[7].

Philanthropy and government are fundamentally different. Philanthropy has different funding sources, different roles and relationships with its communities. Philanthropic funders are granting for public good outcomes that align with their strategic goals and community aspirations, rather than contracting organisations to deliver services on behalf of the population.

What value looks like should be what matters to the people and communities most concerned. The Coalition Government is stating what matters to themselves through social investment (targeting funding to need, effectiveness, measurable results, a return on investment), but what matters at the community level is the proper domain for philanthropy to focus on.

As well as centering community views of what value looks like, philanthropy can play a key role in supporting Te Ao Māori[8] and Pasifika[9] approaches to tracking and evidencing that value. A diversity of worldviews and approaches is vital.

If government is requiring new standards of evaluation and reporting it should fund community sector capacity to meet those standards. Growing evaluation capability may be an area where partnering between government and philanthropy might occur, to meet common aims. This is a good moment to grow understanding across the board of what value looks like and ways to evidence it. This can involve supporting peer learning and bringing the community sector, government and philanthropy together to talk and understand each other better.

SROI is one method among many and is only useful in some circumstances. It privileges financial benefit and the method to get to that financial return can lack transparency. Think carefully before funding an SROI to make sure it will be valuable and take the opportunity to learn about the method, to understand when it is useful and when it isn't. The key goal of evaluation is to combine forms of evidence to get a richer picture, underpinned by the values and what matters most to those affected by the policy, programme, service or initiative. As Julian King and Atawhai Tibble noted in a recent webinar[10].

> *"Monetising is narrow – you need to get voices in the room to identify value, and especially of those affected. The methods and tools and measures are not what matters it's the value – start by describing what the value looks like. Stand back from SROI and look at all the evidence that will speak to that value".*

There are some worthy intentions behind social investment and cautions. Philanthropy can play a useful partnering role at this time with the community sector and with government, to meet shared aims. Proceed with care alongside your trusted community partners and be guided by them.

Footnotes

1. Social bonds are an investment tool where private organisations, including private investors, partner to fund and deliver services to improve social outcomes.
2. The IDI is New Zealand's largest database holding de-identified and linked data about people and households across the life cycle, including data about income, education, employment, health, welfare, migration and justice.
3. See here for the Ākina Foundations 'White Paper' on supercharging successful social investment in New Zealand, which includes case studies of social investment initiatives and their outcomes.
4. For example, there is a nationwide gap in terms of quality disability data in the last ten years in Aotearoa New Zealand.
5. The October 2024 edition of Philanthropy New Zealand's (PNZ's) Magazine contains 16 articles on creating and measuring impact and examples of different approaches taken by funders, including SROI.
6. See p29 in the October 2024 PNZ Magazine for these recommendations.
7. See also Kate Frykberg's article on 'Uncomfortable truths about impact measurement for philanthropy', p51-52 of the October 2024 PNZ Magazine.
8. See for example Te Pae Roa's approach, p21-23 in the October 2024 PNZ Magazine.
9. See p33-35,October 2024 PNZ Magazine for a discussion on Pasifika approaches to impact measurement, by Hainoame Fulivae.
10. This October 2024 Practice Foundations webinar featuring Angie Tangaere, Dr Julian King and Atawahi Tibble is well worth a watch: Measuring what matters: exploring value in the context of social investment in Aotearoa. This November 2024 webinar with Donna Provoost and Barry Knight, supported by the Institute of Public Administration is also helpful: Measuring what matters: joining up data and lived experience. See here for a July 2024 IPANZ webinar on social investment.