



Professor Ang Hak Seng

Restructuring Charities

Impact Investment For The People Sector



- The key changes required to build a new social compact for Singapore will inevitably affect the People sector, particularly in the areas of operations, organisations, and relationships with stakeholders.
- Impact investment could be a plausible approach to futureproof the People sector, by enhancing the capabilities and capacities of non-profit organisations.

IN THE RECENT SINGAPORE CONVERSATION ON BUILDING A NEW SOCIAL COMPACT, there was emphasis on the need for a mindset shift which extends beyond people, towards government and communities doing more to help. For this to take place, charities need to be a key pillar of support.

From the conversation, key changes, such as needing a new approach for social support, providing care for our seniors, and skills upgrading, were identified as critical themes. For the People sector, these changes will have significant impacts on our operations, organisations, and relationships with our stakeholders.

To futureproof the People sector, I have conducted some research through interviews with select charities and social service agencies (SSAs) to understand the current best practices of the People sector. Through this applied research process, I have condensed the current and future state of the People sector and proposed impact investment as the approach to enhance the capabilities and capacities of our non-profit organisations.

DRIVING FORCES

Due to external and internal circumstances, it is evident that the non-profit sector is changing. Based on my research, four main driving forces have emerged, namely changing expectations, resource scarcity, increasing demand for People sector services, and the digital awakening.

1. Changing expectations

Over the years, as our population demographics shift, the expectations of our citizens have also changed.

Compared to previous generations, the citizens of today are more educated and affluent. For instance, university graduates now make up a larger proportion of society, increasing from 23.7% in 2010 to 33% in 2020¹. This change in demographics has resulted in beneficiaries, volunteers, and donors who are more selective with their choice of SSA. Volunteers are looking for volunteering opportunities that allow them to create positive social impact, provide them learning experiences, and also enable personal growth and development. Beneficiaries are looking for SSAs that can deliver cheap, good, and fast services that are convenient. Donors, who are becoming more sophisticated, are looking to donate to charities that can provide the greatest social impact, which ensures that their money is well spent. Hence, the change in Singapore's demographics has resulted in a drastic shift in the expectations of stakeholders in the People sector.

2. Resource scarcity

Another key driving force in the People sector is resource scarcity caused by the high cost of living. A direct result of the volatile, uncertain, complex, and ambiguous (VUCA) world that we live in, as well as climate change, the high cost of living has affected the non-profit sector in terms of money and manpower.



PHOTOSHUTTERSTOCK



¹ <https://www.straitstimes.com/singapore/spore-population-better-educated-across-age-ethnicity-women-make-greater-strides>
² https://www.charities.gov.sg/PublishingImages/Resource-and-Training/Publications/COC-Annual-Reports/Documents/Commissioner_of_Charities_Annual_Report_2021.pdf
³ <https://cityofgood.sg/resources/nvpc-individual-giving-study-2021/>
⁴ <https://www.singstat.gov.sg/-/media/files/publications/society/ssn122-pg10-14.ashx>

In terms of money, the donations and grants that charities have been receiving have dropped. For instance, donations received in 2020 were reduced by 3.9% compared to 2019, according to the *Commissioner of Charities Annual Report 2021*², published by the Ministry of Community, Culture and Youth in 2022. A key reason for this financial prudence among the population is because of the recent financial constraints resulting from a higher cost of living. Since non-profit organisations rely heavily on donations and grants as their main source of funding, the drop in donations will affect an SSA's ability to generate social impact. Furthermore, the high cost of living also directly impacts on the operational costs of charities, making it more

expensive to run their programmes and services.

Resource scarcity is also reflected in the SSA's manpower. As the cost of living increases, the median volunteering hours have reduced by half, from 24 hours in 2018 to only 12 hours in 2021, according to *NVPC Individual Giving Study 2021*³, published by the National Volunteer & Philanthropy Centre in 2021. While COVID-19 was a contributing factor to the reduction in volunteering hours, the other cause for fewer volunteering hours is greater work or school commitments. As such, for People sector organisations that rely heavily on volunteers to execute programmes and engage beneficiaries, the reduction in volunteers would negatively affect the SSA's social impact to a large extent.

Impact investment, which is the cumulative efforts of all three social innovations, refers to investing with the intention to generate social impact and financial returns, and embodies the concept of doing good, doing right, and doing well.



3. Increasing demand for People sector services

The demand for People sector services has risen and will continue to rise as Singapore’s population continues to rapidly age. There are several characteristics that an aged population would have, including low fertility rates, low marriage rates, longer life spans, and people becoming more politically sensitive towards immigration.

A key problem that ageing populations experience is the high medical cost to society. As Singapore’s population ages, the rate of chronic diseases, such as diabetes, high blood pressure and high blood cholesterol, is likely to rise. For example, between 2009 and 2017, the proportion of older adults who had three or more chronic diseases had almost doubled, according to the National Population Health Survey 2020⁴. On top of the rise of chronic diseases, mental health issues, such as elderly loneliness and dementia cases, have also been increasing.

To address these societal issues, the nation relies heavily on the People sector to create the community support networks, provide financial assistance and other types of services to improve the lives of those who are less able, thereby increasing the demand for People sector services.

4. Digital awakening

Regardless of sector, it is safe to say that COVID-19 was a tumultuous time for all of us. However, there was a silver lining as it sparked a nation-wide digital awakening. For the longest time, charities and non-profits faced an uphill battle to change the negative mindset beneficiaries had regarding technology. However, during COVID-19, as businesses and government services started to migrate online, our population, specifically the elderly, underwent a digital awakening and

has since become much more digitally savvy. As a result, in today’s context, technology plays a more significant role in our citizens’ lives as people have become accustomed to the convenience of digital services. This trend has translated into the way people give back to society as there is a significant number of donors who donate exclusively through digital channels.

Hence, as our stakeholders become more digitally savvy, the operational process in the People sector organisations will also need to be updated accordingly. Furthermore, the People sector should leverage on the digital awakening to deliver more of our services via the digital channels, which can in turn improve the service delivery of our charities.

CURRENT STATE OF CHARITIES

To tackle the driving forces, the charity sector will need to examine our current state to establish a baseline.

In Singapore, there are over 2,360 registered charities serving our community, with the majority of them being religious or social and welfare organisations (Figure 1). The non-profit sector of today operates on a decentralised system, where the social sector ecosystem comprises many small SSAs serving a diverse range of beneficiaries. An advantage of this system is that it gives the stakeholders (beneficiaries, volunteers, and donors) the ability to choose the charity that best suits their needs. It also ensures that each service is highly tailored and personalised to each beneficiary, thereby promising to address the unique pain points of each beneficiary.

However, while this structure has brought great benefits to the sector, there are some limitations to the current model.

First, while the decentralised system encourages the formation of many SSAs, a large proportion of these SSAs are small (for example, some SSAs may have just five staff). This means that SSAs may lack the economy of scope, as their small size limits the scale and variety of programmes that they can simultaneously operate. Also, the small size also implies that they would not have the economy of scale to purchase goods and services in bulk. This would inevitably increase the operational costs of the individual SSA, thus reducing the amount of funds that can go directly to the beneficiaries.

Second, a diverse group of small charities also leads to a fragmented social service sector in terms of services and beneficiaries. In terms of services, as each charity becomes specialised, the scope of service it provides is also narrowed. This leads to fragmented service as there is no clear unifying focus that the entire sector is moving towards; over time, this could lead to more abandoned projects or discontinued services. The beneficiaries are also fragmented due to the limited number of beneficiaries each SSA can serve. Hence, to address their complex problems, beneficiaries are required to individually source for different SSAs to address their specific areas of concern. This creates additional unnecessary burden and confusion to the beneficiaries as each SSA may have different procedures. Moreover, there may be necessary services which the SSAs have yet to create due to the lack of awareness of these gaps in service.

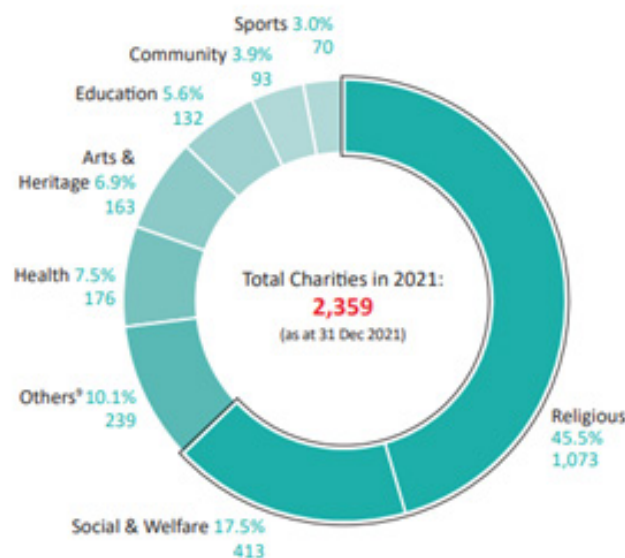
In both cases, the quality and quantity of service that beneficiaries receive would be less than what they expect, due to the large amount of administration or paperwork that beneficiaries would need to attend to. This runs contrary to the cheap, good, fast, and convenient service delivery that our stakeholders expect.

Third, many charities have overlapping problem statements and tend to focus on similar problem areas, thereby leading to underserved and overserved beneficiaries. For instance, for charities addressing the issue of senior isolation, many tend to focus only on the elderly who live in one-room, two-room or rental flats. However, senior isolation is not limited by an individual’s living arrangements. Regardless of one’s living arrangements, factors such as low levels of education and cognitive impairment are associated with social disconnection, which increases loneliness among the elderly. Hence, the elderly who live in three-room or four-room flats, or even private housing, will also be affected by this social issue. Hence, by focusing on the obvious and easily solved issues, charities may have inadvertently created the issue of overserved (that is, one-room or two-room rental flats) and underserved (that is, three-room or four-room flats) communities.

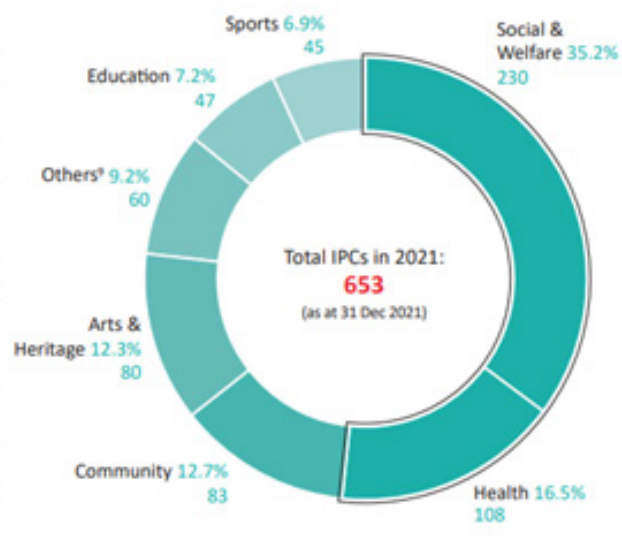
FIGURE 1

Distribution of Charities and IPCs by Sector

Registered Charities⁸ by Sector



IPCs¹⁰ by Sector



Source: Commissioner of Charities Annual Report 2021

Fourth, charities tend to have low productivity levels as they lack the economy of scale and scope. As all their processes are small-scale by nature, individual SSAs will likely have to pay more than larger organisations for similar products or services. Also, generally, the productivity of service delivery in the People sector is severely underdeveloped, especially when compared to the productivity in the Private sector.

Fifth, young talents entering the workforce are not starting their careers with the non-profit sector. Currently, a large proportion of those who join the social service sector as working professionals tend to come in at a later stage in life⁵, according to the *SWAAB Annual Report 2020*, published by the Social Work Accreditation and Advisory Board in 2020. When interviewed, SSAs responded that young talent makes up only about 35% of staff, while retirees and late mid-career switchers account for up to 60% of charities' CEOs; 70% of charities' chairpersons are retirees.

Having the more experienced professionals joining the charity sector has been beneficial,

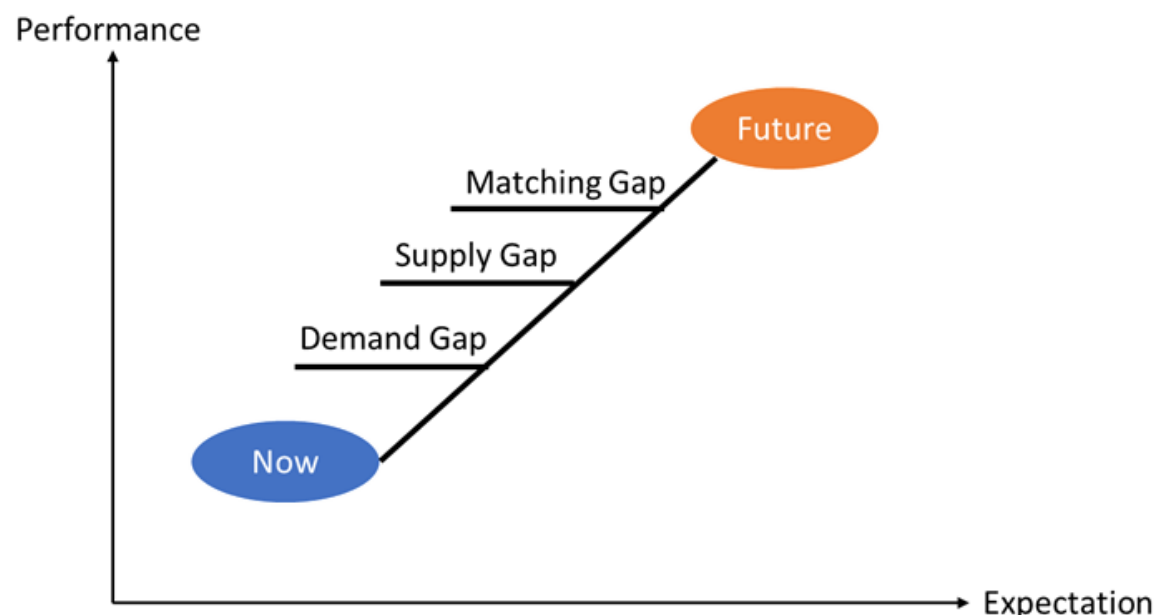
as these workers bring with them best practices and knowledge from the public or private sectors, thereby spurring development in the non-profit sector. Some of the identified key reasons for this trend (of later joiners) include the SSAs' inability to keep up with the rising salaries, and the lack of career development opportunities within the sector.

In summary, currently, Singapore has many small and diverse charities, and many of the SSAs serve overlapping groups of beneficiaries. The sector currently struggles with productivity issues, though there is governmental support to help mitigate this, and talent acquisition issues. With this understanding, where are the looming gaps that the People sector will experience?

GAPS AND SHIFTS IN THE PEOPLE SECTOR

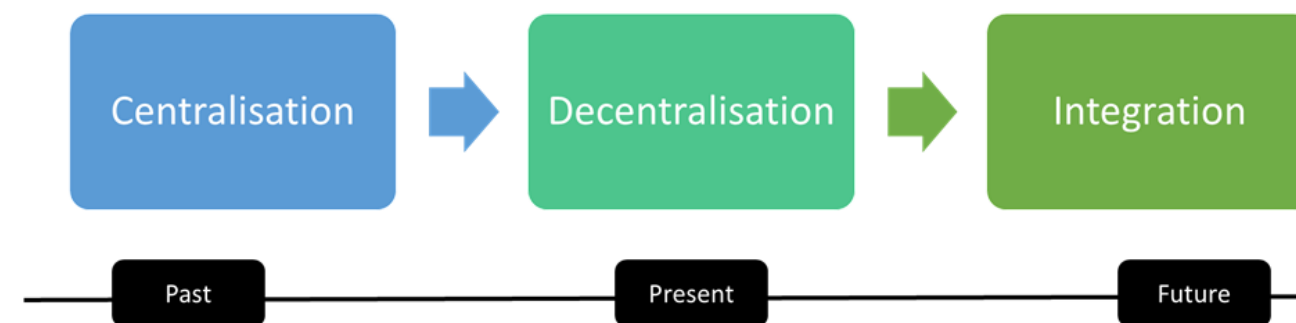
When one considers the drivers of the People sector and the current state of charities, it is clear that there are gaps in capabilities, such as in demand, supply, and matching (Figure 2). Furthermore, there are also shifts that we observe, such as investment over donations,

FIGURE 2 DIFFERENCE IN EXPECTATIONS AND PERFORMANCE BETWEEN SSAS AND THEIR STAKEHOLDERS



Another solution that would enable the vibrancy of the decentralised system, while enjoying the economy of scale from the centralised model, is to ensure that charities form alliances with each other via the integration solution.

FIGURE 3 CHANGES IN THE PEOPLE SECTOR ECOSYSTEM



collaboration over silos, and social impact over doing good, that the People sector will have to address before the sector is future-ready.

Gaps between current and future state of the People sector

Referring to the demand gap, the amount and type of help has simultaneously increased (Figure 2). However, does the sector possess the capacity and capabilities necessary to address this increase in demand? If not, what are the kinds of skills and systems that we will need to develop moving forward?

For the supply gap, we are not receiving the optimal number of resources (funding and volunteers) that the sector needs to thrive. How can we better manage with what we have, to continue to deliver quality services to our beneficiaries? Also, the sector is not as productive as it could be. Are there other ways to improve productivity?

Regarding the matching gap, it is evident that our stakeholders' (beneficiaries, donors, and volunteers) expectations and our expectations are misaligned. Also, there is an issue of underserved and overserved beneficiaries. How can we seek to ensure services are catered to all who need them equally? Some would argue that we are underperforming in this aspect, as we are

not quickly responding to the changes that our stakeholders are experiencing.

From centralisation to integration

Observers of this scenario (Figure 3) may suggest that the People sector move away from the current decentralised model and return to the old, centralised model to address the issue of economy of scale and scope. Centralisation would dramatically change the current social ecosystem, reducing the number of charities to a few large organisations. However, this process is undesirable as it reduces the number of choices people would have regarding their desired SSA. Reducing the options people have for SSAs would reduce the ownership they feel towards community and charities. Furthermore, returning to centralisation would mean that SSAs would be forced to undergo the merger and acquisition process, which would potentially dilute the vibrant social sector we currently have, as the unique identity and culture of individual SSAs become blended into a monotonous singular entity. As a highly emotive sector, many SSAs were created due to ground-up initiatives by those who care deeply about our community. Hence, forcing a variety of SSAs to merge and form several large charities would disengage the ground.



⁵ <https://sasw.org.sg/wp-content/uploads/2021/07/SWAAB-Annual-Report-2020-as-of-7-June-21-FINAL-for-Dissemination.pdf>

Fortunately, centralisation is not the only solution. Another solution that would enable the vibrancy of the decentralised system, while enjoying the economy of scale from the centralised model, is to ensure the charities form alliances with each other via integration.

Thus, what are the shifts that we will need to adopt quickly, to address the aforementioned changes?

Shifts required to deal with the future of the People sector

The first shift is from donation to investment. To address the financial aspect of the resource gap, it is advisable for charities to start exploring more sustainable income streams. As the sector is still highly reliant on donations and grants, research and development of new financing methods for the sector, such as social investment, would be required for the sustainability of charities.

The second shift is from working in silos to collaborating with others. To establish a win-win scenario, where we retain the decentralised structure of today's charities but also increase productivity, we will need to collaborate with others and form long-lasting alliances. For the People sector to be more efficient and productive, beyond streamlining our processes, we can also leverage on each other's strengths and work together.

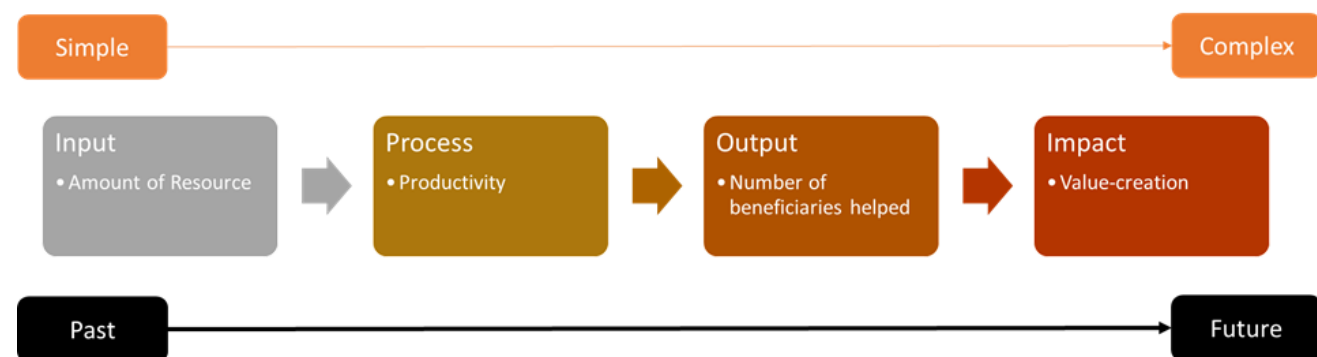
The last shift is from doing good to creating social impact. In the beginning, most SSAs

were measured and benchmarked based on the amount of resource used (Figure 4). The criteria have evolved to evaluation on the charity's productivity levels. Currently, most charities are being evaluated based on the number of beneficiaries that they have assisted. However, in the future, the evaluation criteria will shift again, towards a charity's ability to generate social impact, which is the most complex method of them all. Already, a few SSAs have adopted this criterion.

When we were measured based on our input, process, and structure, the focus was about the number of beneficiaries impacted. However, social impact looks beyond only the number of beneficiaries helped and includes the amount of value we bring to the lives of our stakeholders. This process is more complicated as it requires complex metrics and evaluation. Being able to develop these assessment methods requires a high level of sophistication and understanding of the sector. The most complicated and thus most difficult measurement system is collective social impact, which is the cumulative social impact of all SSAs within the same ecosystem. To calculate collective social impact, ecosystem-wide vision and goals need to be set, ensuring that the whole of the social sector operates and moves together as one unit.

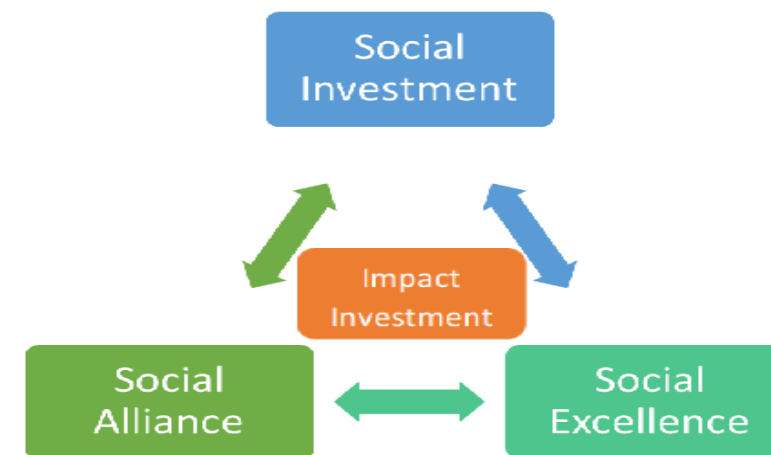
As such, due to the three different sector shifts that the social sector requires, it is evident that the current model for the People sector needs to be reframed and reengineered.

FIGURE 4 CHANGES TO THE MEASUREMENT SYSTEM OF SOCIAL IMPACT



... social impact looks beyond only the number of beneficiaries helped and includes the amount of value we bring to the lives of our stakeholders.

FIGURE 5 3 KEY SOCIAL INNOVATIONS IN POSITIVE FEEDBACK LOOP



SOCIAL INNOVATIONS

With the necessary mindset shifts, it is apparent that the People sector requires certain reframing. To do this, we need to challenge our current assumptions; therefore, social innovations such as social investment, social excellence, and social alliance are necessary (Figure 5). When all three innovations are done together, it would result in a fundamental shift towards impact investment, which is vital for the People sector to be future-ready.

Impact investment

Impact investment, which is the cumulative efforts of all three social innovations (Figure 5), refers to investing with the intention to generate social impact and financial returns, and embodies the concept of doing good, doing right, and doing well.

Social investment is a way of ensuring the sustainability of an organisation, and is to be used in conjunction with other methods of income generation for charities, such as donations and grants. There are two main elements that make up social investment, namely social capital, and social return-on-investment (ROI). Social capital includes social bonds, social equity, and social revenue. Social ROI refers to the outcome of the investment, which could be capital or other social impacts.

Social excellence refers to frameworks which would help the social sector achieve operational excellence with the purpose of improving sector productivity. Within the social excellence framework, there are three critical areas that need to be addressed, namely value creation, productivity, and technology.

Social alliance is a key social innovation that strengthens the sector's collaboration capabilities. By collaborating with one another, People sector organisations would be able to leverage on each other, thus improving the overall sector capability. There are three main types of alliances that the sector can forge with each other: resource alliance, process alliance and ecosystem alliance.

CALL TO ACTION

As our society continues to evolve, the People sector will need to keep up with the changes to ensure that we continue to provide the best service we possibly can for our beneficiaries. In my next article, we will go into detail about the toolkits and best practices to use in order to create and quantify social impact investments for the People sector. [ISCA](#)

Dr Ang Hak Seng, FCA (Singapore), is Professor of Social Entrepreneurship and Director of Centre of Excellence for Social Good, Singapore University of Social Sciences; and Adjunct Professor, Nanyang Technological University.

PHOTO: GETTY IMAGES