Pay What It Takes

New perspectives on applying PWIT principles in Australia

Compiled by Jo Taylor and Courtney Collins

PWIT

Acknowledgements

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Authors

This research was undertaken by PRISM. PRISM helps purpose driven organisations accelerate and deepen their impact, through research, learning and strategic support.

Courtney Collins is a writer and independent producer. Formerly, she was Learning Manager at the School for Social Entrepreneurs. The methodology of Action Learning is key to her practice. She is the presenter and co-producer of @areyoustillworkingpodcast

Jo Taylor's career spans more than 25 years in the For Purpose Sector including successfully raising over $65 million and distributing in excess of $500 million by spearheading family, corporate, public, and government philanthropic institutions.

Contact details

Jo Taylor
Executive Chair of Pay What It Takes (PWIT) Committee
Email: jo@pwit.org
Co Founder of PRISM
Email: jo@prismco.au

Contents

Jo Taylor

EXECUTIVE CHAIR, PWIT STEERING COMMITTEE

When I was growing up, one of my favourite Mancunian bands was New Order.

In 1983 the band released a 12-inch single called Blue Monday. The cover art was intricate and amazing – cut to look like a floppy disk, featuring a brightly coloured strip encoded with a secret message. The song and the cover were hailed as innovative, and it rose up the charts, holding its place there for years. By all these measures, Blue Monday sounds like a phenomenal success. But the story goes that the vinyl cost more to manufacture than it could be sold for. So, when I bought my copy it cost the record company money.

When I accepted my first CEO job back in the early 2000s, I did not expect to be facing a Blue Monday situation. By so many measures this not-for-profit organisation was performing exceptionally well. An independent evaluation confirmed that the work we were doing (focusing predominantly on Aboriginal communities) was having a positive impact and doing what people wanted it to do. But as I got busy with the board and team to bring in more funding and deliver more projects, I realised that the more we delivered on the more the organisation was losing money.

I made a rookie CEO mistake of not interrogating the finances before I accepted the job. When I did look closely, we discovered that projects were not costed properly. The price did not include overheads. Recognising this we sought to address it immediately with funders. But at the time it wasn't a conversation anyone wanted to have. No one was willing to pay indirect costs. So, for the organisation that meant that for each dollar we brought in, we had to find a way to fill the gap between that dollar and what it actually cost.

The organisation worked at the pointy end of change on politically sensitive issues. Communities trusted the brand grown over 25 years. The work was demonstrably effective, which meant we were always attracting new projects and new funders. For some time I was able to operate under the misapprehension that we were doing well. One year we'd even made a small surplus. But when I really examined it, I found that over ten years the organisation's reserves had been slowly but surely eked away.

With the support of the board, I began to look at three key things that could help: raising income, the operational model, and the revenue model.

Raising income

Through project funding, we had increased the organisation's income by 100 per cent. But we still needed to broaden its income streams. Even though our work was deemed to be charitable, and we were a not-for-profit, the DGR status of the organisation meant that a lot of charitable giving was not open to us. A simple technical fix would have been to change the status. But, to cut a long story short, we pursued this until the point we received legal guidance that we would not be successful in our bid, and we would have to be active in parliament to apply for special dispensation for 'DGL 1'. At the time, with a Liberal government in place, it was made clear that wouldn't be happening.

Operational model

We could see the social enterprise model was taking off in the UK and Europe. Although the concept was relatively new in Australia, we recognised that we were essentially a social enterprise. If we could grow a proportion of our work to be commercial that would help fund our charitable work. It could be a way to bring in income that was not wholly reliant on winning funding or government contracts, or tied. To do that we would need to really understand our indirect costs, reprice everything and test them in the market.

Revenue model

All of our funding was tied to projects. Many times we applied for funding to cover the cost of our overheads, but we were never successful in that. In the end, we focused on the social enterprise model - applying commercial rates and looking at what investment would be required to support the charitable work, and how long it would take us to turn a profit. Once we'd done the modelling, we determined it would take two and a half years. The problem was there wasn't two and a half years left in reserves. So, we went to all our existing funders and allies and said we need this amount of money over two years to get us over the line.

We also looked at getting a loan but, as the social enterprise model was not really understood, people were not interested in loaning either at a commercial or concessionary rate.

Finally, the board made the decision that the best thing for the organisation was to go into hibernation and release its assets into the community. Over 18 months, with my 2IC, we finished the projects we were funded to do and worked to make sure staff were supported as best as possible. We tried to raise awareness in the sector about what was happening, being really honest and open about the challenges we faced.

I'm still thinking about this experience but from the other side of the fence now. One of the hats I wear in this sector is CEO of the Siddle Family Foundation, a new family foundation in Australia. I'm keenly aware of the challenges for-purpose organisations face every day. Letting go of some of the heavy feeling of responsibility that the great work of the first organisation I led could not continue, I understand there are systems issues at play. The work I do under the PWIT banner ignites conversations about how to ensure that the organisations we fund really do have a solid base from which they can contribute to change, and how can we can plug some of those gaps that exist because of the way that funding is distributed, and the way organisations are reviewed and judged.

Overwhelmingly, the work that for-purpose organisations do in this country is intricate & amazing. It is innovative and it is hard to do.

As Executive Chair of the Pay What It Takes Coalition here in Australia, I can report that we are in agreement that if, as funders, they do not cover indirect costs, they are perpetuating a starvation cycle. And it isn't good for them as funders, because it increases the risk that their funding will not have the impact they want it to have.

In this report we have gathered a group of people who were willing to be open and honest about the challenges of applying 'Pay What It Takes' principles. It may not be the kind of report you are used to reading. (There is swearing!)

The people you will hear from are passionate about making a positive impact. They describe some technical fixes, but mostly they describe what is an adaptive challenge – making the shift to trust and transparency. If both funders and organisations can work to do this together, we have the best chance of avoiding more Blue Monday situations.

Background

This report aims to grow the philanthropic sector's understanding of the Pay What It Takes (PWIT) initiative, PWIT principles as they are evolving, and how they are being practically applied in an Australian context.

PWIT

Why this report

This report aims to grow the philanthropic sector's understanding of the Pay What It Takes (PWIT) initiative, PWIT principles as they are evolving, and how they are being practically applied in an Australian context. Through candid interviews, the paper presents some of the implementation challenges faced by local funders and for-purpose organisations (FPOs) who are at various stages of applying PWIT principles as part of their efforts to break what has been named the 'starvation cycle'.

In documenting these local voices and perspectives, this report points to the complexity and potential of applying PWIT principles. Drawing on these experiences provides us with a starting platform for the co-creation of guiding principles and solutions that will better reflect the diverse needs of our sector. Many leaders in this report are participating in the PWIT Guidelines and Principles for Implementation co-design initiative that is overseen by the PWIT Coalition; led by The Australian Centre for Social Innovation and funded by the Paul Ramsay Foundation.

Some funders in Australia have already begun to move towards flexible and unrestricted funding to build mutual trust with grantees, with the eventual aim of moving towards true-cost investment. But as Sam Thorp from Social Ventures Australia has written, really 'paying what it takes' requires funders to *'fund the full cost of running a project including a share of the indirect costs that are needed to support it. Indeed, the entire idea of direct and indirect costs is a false dichotomy – every project requires both types of costs to be covered to succeed.'*[1]

The report also aims to challenge old narratives that are used reflexively within our sector. When we commend an organisation for 'running on the smell of an oily rag' or use any metric that rewards 'how much you can do with how little', we are taking advantage of people's passion and commitment to social change. If you are an investor, you would not invest in a business operating so close to the wire, so why would we push our FPOs towards such a precarious position?

The PWIT principles outlined in this resource, and our interviewees reflections on them, are a starting point. They invite a shift in mindset. You may be already thinking 'all this is easy to say but not easy to do' - which is why this report exists. So we can create a community of practice, share our experience, learning and tools, all with the goal of creating sustainable FPOs that are consistently benefiting communities across the country, and not inadvertently creating harm as they do it.

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[1] Thorp, S. *Paying what it takes to create impact* (March 24, 2022). *https://www.socialventures.com.au/sva-quarterly/paying-what-it-takes-to-create-impact/*

The Starvation Cycle

The term 'starvation cycle' refers to a situation where FPOs are forced to underinvest in their core operational and infrastructure needs, such as administrative expenses, staff salaries, technology, and marketing, to keep their overheads as low as possible. This underinvestment can lead to a self-perpetuating cycle of financial vulnerability and limited impact.

The concept was first popularised by the Bridgespan Group in a 2009 article titled 'The Nonprofit Starvation Cycle,' based on a five-year research project conducted by the Urban Institute's National Centre for Charitable Statistics and the Centre on Philanthropy at Indiana University. Researchers conducted 1,500 surveys of non-profit organisations. They found several factors drive the starvation cycle, but they propose the first action to stop the cycle is to challenge funders' unrealistic expectations. Other drivers to address are the 'do more with less' culture; misleading and underreporting of non-profit costs; and the challenge of frank conversations between for-purpose organisation's leadership and their boards. [2]

Local reports

Overheads play a crucial role in good governance and organisational efficiency, enabling FPOs to achieve their impact. Global and Australian benchmarks suggest FPO overhead percentages range between 26-33%. However, funding agreements in Australia often allocate only 10-20% for indirect costs, despite research indicating that FPOs typically require around 33%.

In March 2022, Social Ventures Australia and the Centre for Social Impact launched the report 'Paying what it takes: funding indirect costs to create long-term impact'. Four key messages emerged from the report:

1. Indirect costs should not be used to assess organisational efficiency, effectiveness, or fundability.
2. NFPs '*true indirect costs often far exceed the amount they are funded*'.
3. Underfunding of indirect costs leads to lower capability and effectiveness.
4. The drivers of indirect cost underfunding are complex and deep-rooted.

The report presents the dire situation not-for-profits are facing. Capturing the findings from the 'Partners in Recovery' series of reports - which included an analysis of the financial

[2] Googins Gregory, A. & Howard, D. August 24, 2009.
https://www.bridgespan.org/insights/the-nonprofit-starvation-cycle

health of over 16,000 charities using Australian Charities and Not- for-Profits Commission (ACNC) data - they show that:

- 'Many charities operate with a thin or no margin: in the last financial year before the COVID crisis, 25% of charities operated in deficit and an additional 35% operated with a profit margin of less than 5%.
- Many charities operate with limited reserves: modelling found that a 20% decline in revenue due to the COVID crisis would result in 17% of charities being at high-risk of closing their doors in six months due to depleting their reserves.
- Many charities feel vulnerable: our late 2020 survey of over 200 charities found that 77% reported that recent events had put strain on their financial operations and 52% were worried they would not be able to provide their services in the current economic climate.'[3]

The 'Pay What It Takes' literature review: developing insights on the nonprofit starvation cycle in Australia (2021) also described a situation where over the past decade the starvation cycle has emerged as a driver of not-for-profit financial vulnerability.

Recent world events have only increased this vulnerability, contributing to a reduction in revenue, delayed funding contracts, and cancellations contracts. Their 'Pulse of the For-Purpose Sector Survey' found that in the wake of COVID- 19 '*86% of charities experienced a little or a lot of a reduction in revenue, almost 60% had planned funding contracts delayed, and just over a third experienced cancellations of funding contracts*.'[4]

For more detailed definitions of the starvation cycle, indirect costs and direct costs, see reports named above.

The Pay What It Takes Initiative

The Pay What It Takes (PWIT) initiative in Australia is a growing response to the Social Ventures Australia and the Centre for Social Impact report 'Paying what it takes: funding indirect costs to create long-term impact'. The PWIT initiative comprises individuals, philanthropic funders and for-purpose organisations committed to understanding what it actually takes to create impact and paying for it. It aims to ensure that for-purpose partners have access to the resources, connections and support required to create impact now, and over the long term. This initiative exemplifies distributed leadership, recognising that addressing such a complex and systemic issue requires a collaborative and multifaceted approach.

[3] Social Ventures Australia and the Centre for Social Impact (2022) *Paying what it takes: funding indirect costs to create long-term impact.*
[4] Brown, J.T., Malbon, J., & Ramia, I., (2021), 'Pay What It Takes' Literature Review: Developing insights on the Nonprofit Starvation Cycle in Australia, *Centre for Social Impact UNSW: Sydney*

A brief timeline of key milestones of the PWIT movement in Australia

2021: Pay What it Takes (PWIT) Coalition formed

JULY 2021
'Pay What It Takes' literature review: Developing insights on the nonprofit starvation cycle in Australia – prepared by the Centre for Social Impact NSW

DECEMBER 2021
Counting the Costs: Sustainable funding for the ACT community services sector – commissioned by ACTCOSS on behalf of the ACT's Community Services Industry Strategy Steering Group (ISSG) and the ACT Government and prepared by Social Policy Research Centre, UNSW

MARCH 2022
Paying what it takes: funding indirect costs to create long-term impact – Social Ventures Australia and the Centre for Social Impact

MARCH 2022
Report launch: *'Paying What It Takes' approach to grant-making workshop 1* (online) – Social Ventures Australia and the Centre for Social Impact, in conjunction with Philanthropy Australia, supported by the Paul Ramsay Foundation and the Origin Foundation

JUNE 2022
Paying What It Takes workshop 2: Practical full cost funding for NFPs and funders (online) – Philanthropy Australia, Social Ventures Australia and Centre for Social Impact

JULY 2022
'Paying What It Takes' workshop 3: Reframing indirect costs – values-based communications (online) – Philanthropy Australia, Social Ventures Australia and Centre for Social Impact

JULY-DECEMBER 2022
Action Learning
Sets of 8 participants exploring PWIT challenges and opportunities – supported by Philanthropy Australia

DECEMBER 2022
Case Studies by Philanthropy Australia – representatives from six organisations who took part in these workshops reflect on what they've learned

A brief timeline of key milestones of the PWIT movement in Australia

FEBRUARY 2023
ACT Government Response to the Counting the Costs: Sustainable funding for the ACT community services sector Report February 2023

MAY 2023
The Uncharitable Australia and New Zealand Impact Campaign Launched by The Social Impact Hub. Private pre-screenings of *the Uncharitable film* in Australia and New Zealand for the critical change needed in the charitable centre.

JULY 2023
Sector Sustainability Project commences in ACT co-led by Gov & NGOs

SEPTEMBER 2023
Summary Report informing development of tools and resources to support fully costing partnership between ACT Government and NGOs.

FEBRUARY 2024
PWIT Coalition starts working with *The Australian Centre for Social Innovation* to co-design PWIT Implementation Guidelines and Principles

FEBRUARY 2024
The Pay What It Takes Charity Consortium Australia (PWIT Charity Consortium): is leading a transformative campaign working with Australian Not-For-Profits (NFP) to address the critical challenge of the crucial but often underfunded area of overhead costs.

Launch of reframeoverhead.org

'Pay What it Takes Charity Campaign Report' – This report, prepared by ntegrity on behalf of the PWIT Charity Consortium Australia, synthesises extensive research including a literature review, analysis of charity communications, and surveys of fundraisers and donors. It provides a comprehensive overview of the current landscape and actionable insights for the charity sector.

'We Need to Talk Differently about Overheads NFP Guide' is a practical guide for not-for-profit organisations to communicate better with their boards and funders about overheads. The guide is based on rigorous research and insights of the "Pay What It Takes Charity Campaign Research Report" above.

SEPTEMBER 2024
Report launch:
New Perspectives on applying PWIT principles in Australia

A growing understanding for implementing PWIT

With the aim of capturing diverse perspectives and the real challenges of implementation of PWIT principles, we conducted nine interviews with leaders and emerging leaders in the for-purpose and funding sectors.

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1. **Lisa Allan:** Head of Fundraising, The Smith Family
2. **Leah Armstrong:** Regional Manager, Australia, International Funders for Indigenous Peoples
3. **Ella Colley:** CEO, Gum Tree Foundation
4. **Craig Connelly:** Partner, Perpetual Private
5. **Sarah Davies:** Chair, Australian Charities and Not-for-profits Commission (ACNC)
6. **Rona Glynn McDonald:** Director, First Nations Futures
7. **Peta MacGillivray:** Senior research fellow in the Yuwaya Ngarra-li UNSW partnership with the Dharriwaa Elders Group in Walgett, NSW
8. **Jen Riley:** Chief Impact Officer, SmartyGrants
9. **Cynthia Scherer:** General Manager, Anthony Costa Foundation

We are grateful for their candid responses which add richly to our understanding of the current landscape.

About the interviews

Interviewees were presented with emerging PWIT principles from global philanthropic *The Bridgespan Group* and were asked to comment on their relevance in a local setting - considering the distinct challenges and opportunities of both their organisations and the communities they serve. Their edited transcripts form the body of this report.

The Bridgespan Group launched the 'Pay What It Takes India Initiative' in 2020 to understand the extent of the starvation cycle in for-purpose organisations in India. In working with local partners, Bridgespan developed a set of PWIT principles for funders to adopt to support sustainable and resilient non-profit organisations.

The Bridgespan principles are:

- Develop multi-year funded-non-profit partnerships.
- Pay a fair share of core costs.
- Invest in organisational development.

- Build financial resilience.
- Embed diversity, equity, and inclusion (DEI) in grant making[5]

The Bridgespan Group also put forward the following main obstacles in applying PWIT principles:

- Mindset and culture
- Trust
- Fear of economic downturn
- Speaking truth to power

According to our interviewees, not all the principles and challenges hold up in Australia, and some are considered to be missing. Instead, the themes and actions that came out of our conversations can be found below. All the detail and nuance can be found in the edited transcripts which follow.

Summarising what we found

Our investigation encompassed nine interviews with diverse leaders from Australia's for-purpose and funding sectors. From these we've unearthed crucial themes, observations, and practices aimed at empowering Australian for-purpose organisations to confront the myriad of complex challenges we face. This summary synthesises their experiences, outlining strategies for catalysing change within the philanthropic and for-purpose realms, particularly regarding PWIT principles.

Challenges and Collective Experiences

Idiosyncratic nature of philanthropy
The multifaceted interests and motivations driving philanthropy pose challenges in standardising grant-making practices.

Regulations and standards
Striking a balance between regulatory frameworks and respecting individual philanthropists' autonomy is imperative.

[5] Venkatachalam, P., Rastogi, S., Sharma, A., Mehrotra, R., Shekar, L. & Thompson, R. (2023), *Funder practices that strengthen nonprofits' resilience: lessons from India*

Lack of common definitions and coding
Absence of standardised definitions complicates financial reporting, hindering expense comparison across organisations.

Understanding how change happens
Whilst FPOs have embraced program logic and theory of change models to underpin their vision and mission statements, it is much less common for funders to explicitly share the theories that underpin their grant making and funding strategies. Increasing clarity, as well as encouraging experimentation and curious exploration among funders and for-purpose organisations about diverse impact models is essential.

Effective communication
Establishing common language, measures, and lexicon in the philanthropic sector to facilitate better communication, collaboration, and understanding between funders and FPOs.

Importance of reciprocal trust and relationships
Trust emerges as a critical factor in donor relations and fundraising, where transparent reporting and tangible outcomes play a key role in maintaining stakeholder trust. It is also a critical factor in discussions about funding overheads and the willingness of funders to support them.

Shifting mindsets and reframing overheads
Overcoming entrenched perceptions about administrative costs is crucial. The sector must re-evaluate the assumption that low overhead ratios indicate efficiency, and instead emphasise that sufficiently covered overheads allows organisations to learn, innovate and deliver on impact in ways they cannot when trapped in the starvation cycle. Global and Australian benchmarks suggest FPOs typically require around 33% for indirect costs.

Actionable Steps Recommended for Funders and FPOs

Build trust through transparency
Trust emerges as a critical factor in donor relations and fundraising, and transparent reporting and tangible outcomes play a key role in maintaining stakeholder trust.

Build trust through relationships
Highlighting the necessity of building strong relationships and trust between funders and applicants through understanding needs and challenges, fostering open dialogue, and collaboration.

Promoting good and promising funder practice
Funder practice encompasses various approaches to achieving the goal of paying what it takes to create impact. In Australia, emerging philanthropic practices integrate PWIT principles, often combining multiple strategies to promote effective funding.

Continuing to advocate for education and resources to promote PWIT principles
Publications such as white papers and guidelines are crucial for reshaping the funding landscape. With a clear understanding of the power imbalance between funders and applicants, funders have an important advocacy role in reframing overheads and supporting FPOs effectively.

Encouraging FPOs to advocate for their needs
Funders can encourage FPOs to transparently advocate for their needs and priorities to funders and stakeholders, overcoming fear and building trust in the funding process. This happens most effectively when some element of trust has already been established and the funder invites the dialogue.

Challenge the notion of minimising overheads
Instead, emphasise the importance of investing in organisational capacity and sustainability. Additionally, there's a need to educate funders and stakeholders about the benefits of funding overhead costs and shifting towards core funding models.

Support cultures of learning
There's a clear need to not only provide funding but also support learning cultures and evaluation practices that foster continual learning and development within organisations.

Key Practices for Funders

Grantmaking practice
Developing clear funding priorities and strategies aligned with funder values and goals aids funding applicants to understand what and how philanthropists fund and whether their theories of change align.

Flexible funding
Providing multi-year grants and unrestricted funding helps build the capacity of purpose-driven organisations, offering stability and resources for long-term planning and growth.

Funding project grants
Project and program grants can be useful as part of the diversification of funding within revenue streams. Funders can ensure that such grants pay their fair share of overhead costs by:

- Funding the actual indirect cost rates of grantees as calculated according to an agreed-upon methodology;
- Establishing a fixed or sliding scale indirect cost rate on project grants that is sufficient to cover most grantees' indirect costs and in line with global and local benchmarks (26-33%);
- Issuing flexible project grants that allow for surpluses and do not require budgets delineating direct and indirect costs; and
- Supplementing project grants with general operating support.

Community engagement
Involving community members in the grantmaking process ensures that funding decisions reflect local knowledge and priorities, promoting more responsive and equitable philanthropy.

Organisational learning and growth
Prioritising support for organisations' learning, growth, and evolution recognises that meaningful change takes time and requires ongoing improvement efforts.

Building financial resilience
Supporting FPOs in building financial resilience involves retaining working capital and adequately funding operating costs to withstand economic shocks and uncertainties.

Impact investment and social finance
Exploring opportunities in impact investment and social finance offers alternative funding mechanisms to traditional grantmaking, emphasising diversity of funding and financial resilience.

Principles for Funders

Respect for for-purpose organisations' expertise
Philanthropists and funders are urged to respect and celebrate the expertise of FPOs, acknowledging their unique understanding of operational contexts and challenges. This involves actively listening to grantees/applicants, comprehending their vision and obstacles, and adopting flexible funding approaches to support their work effectively.

Building long-term relationships
Establishing and nurturing long-term relationships with funded organisations is crucial for gaining a deep understanding of their work and providing meaningful support that drives impact.

Transparency and open communication
Trust is cultivated through transparent and open communication between funders and recipients. This entails engaging in honest discussions about challenges, mistakes, and lessons learned, fostering a culture of mutual understanding and trust.

Equity and inclusion
Recognising the importance of diversity, equity, and inclusion in funding decisions and organisational practices is vital for ensuring fair and equitable access to resources and opportunities for all.

Flexible and long-term funding models
Acknowledging the need for flexible and long-term funding models that empower grantees to effectively address complex social issues. This involves advocating for unrestricted funding and providing resources for comprehensive learning and evaluation practices.

Data-driven decision making
Highlighting the critical role of data and evidence in making informed funding decisions, ensuring alignment with strategic goals and desired impact outcomes.

Government Funding

Finally, it's important to address Government policies and practice. The conversations highlight the necessity for policy reforms at the governmental level to bolster support for the for-purpose sector. This includes initiatives such as regulatory harmonisation, tax structure improvements, and the promotion of workplace giving programs.

Furthermore, government engagement is crucial: continued advocacy efforts should be directed towards advocating for changes in government funding guidelines and practice to acknowledge the significance of adequately funding operational costs and to endorse innovative funding models like the Capital Impact Loan.

Moreover, while the focus of the PWIT initiative and this report is primarily on philanthropic funding, it's essential to recognise the role of government funding and regulations in shaping funding practices. Government agencies are encouraged to embrace more flexible and trust-based approaches to grantmaking to better support the for-purpose sector.

Overall

This report underscores the imperative for collaborative action to address challenges and foster a conducive environment for impactful philanthropy.

While diverse, the interviewees' perspectives reiterated that the misleading and misguided metric of percentage of overheads is not the best metric to indicate an FPO’s impact. There remains a need to shift the mindset of boards, government and the general public around overheads, and the importance of all stakeholders understanding how change happens and the unique requirements of each community.

By embracing trust, reframing overheads, adhering to sound funding practices, and focusing on understanding how to measure outcomes and impact appropriately we can pave the way for transformative change in Australia's for-purpose landscape, to tackle society's most pressing challenges

A growing understanding for implementing PWIT:

Perspectives from leaders

Lisa Allan

PWIT WORKING GROUP
HEAD OF FUNDRAISING, THE SMITH FAMILY

Can you start by telling me about the role you're in?

I am the Head of Fundraising at The Smith Family, we're a 100-year-old Australian charity focused on helping young Australians to overcome the educational inequality caused by poverty. I've been here for 17 years, and have been on the executive for nearly seven. I'm responsible for the team that delivers the majority of revenue (77%) that comes into The Smith Family from generous sponsors, donors, partners and foundations. So, we are very much a fundraising-led organisation as opposed to a government funded organisation, which I know a lot of other not-for-profits are – as the Australian Charities and Not-for-profits Commission (ACNC) cites on average 50% of revenue in a not-for-profit is from government but our funding stream is different.

Where does the other funding come from?

The remaining 23% is from government, income from our VIEW Clubs (like a Country Women's Association, but they are a Smith Family organisation that started back in the sixties and raise over five million dollars year on year), as well as interest and income from our endowment fund.

Let's talk about changing the narrative around the for-purpose sector. The 'make do' language…

Well, I've kicked off an industry charity consortium. There's 15 of us, all working within charities or who are supporting the charity space, to develop a theory of change and think about the challenges we have with that narrative and how we can begin to tackle the issues presented. This all rode on the back of the good work done by the PWIT Consortium, including releasing the 'Pay What It Takes' report in March 2022 that highlighted the not-for-profit starvation cycle and the negative impacts it has on the effectiveness of our sector here in Australia.

But to think about it in terms of The Smith Family, my CEO, Doug Taylor, was involved in the launch of the report. So, there wasn't that need to convince on changing the narrative at higher levels internally. Through the consortium, I am hearing there is a need in other organisations for that decision to go up to board level.

So, it is interesting to think about where one starts with each organisation and this conversation. There will be a range of different audiences to engage and get permission to be involved internally just to progress with some of this thinking. At some level, it will have to go all the way up to the top, others would sit at a lower level.

From your perspective, what are the challenges of applying PWIT principles?

Aside from securing organisational support, I think part of the challenge is this feeling you need to start by having done full cost accounting in your organisation. Many of us haven't gone there yet as it involves remits and skills beyond our control and often structures that are probably commercial structures that have been adopted. It can seem scary and daunting, and can feel like a bit of a catch-22. You can't do it without that detailed transparency of your funding requirements, and without that, what do you reference to ensure you're asking for appropriate funding? Internally, I've started with reframing the language we use to support it, and am looking to lean into the full financial aspects following that.

The other big hurdle is how do we create change consistently across the industry? This is the larger nut to crack, as with 60,000 charities in Australia there will be a lot of different funding models, representations and organisational maturities to consider – they will all have different needs in applying the principles.

What does that (reframing) look like?

This financial year, renaming our annual report an 'Impact Report' - because that's what we know people are really looking for - the outcomes of an organisation to get behind. We've also reframed our overhead projects and needs in our Annual Report to ensure we are being financial stewards, engaged with partners and funders regularly to understand and support our business models, detailed our investments and linked them to our impacts and outcomes, as well as dialled down the minimising administration or overheads language.

The question of 'paying what it takes' are often closely associated with the question about 'where are my dollars going'? goes back to trust in an organisation. We know with higher levels of trust, there are lower the levels of scrutiny. Related to that lower level of scrutiny is the fact an organisation has answered those questions already by providing a good sense of what is being done and how it was delivered, demonstrating the outputs and the outcomes. You're regularly reporting on those. This isn't about hiding information – it's about spending wisely, and being transparent and accountable.

The whole sector has defaulted to an admin ratio as an indicator of 'good' or 'bad' performance, but the research shows that it is a poor indicator of performance and spending insufficient resources on overheads can negatively impact the effectiveness of a not for profit. In addition, the ratio isn't consistently applied or calculated charity to charity, no one regulates it, nor is it a measure that is fair or consistent across so many different organisations using different models of practice and at different levels of maturity. That's a problem.

In our latest Impact Report, we've removed items that had heavy emphasis on the overhead ratio and tried to create a different story using our outcomes, principles and practices.

Is that about adapting to the needs of who is funding each stream?

It is one of the drivers. We need to adjust the conversation based on our audience to provide the information that they are seeking in a way that makes sense to them but also meets your organisation's needs. For example, when we go out with appeals, we're not breaking down exactly where a dollar goes, but instead what it will do and how it will help the children and young people we support. People can find those breakdowns on our website and in our financials if they want them. When you think about philanthropy, we find there are generally three types of funders: those that are quite modern in their approach, those that are quite traditional, and those somewhere in between.

As an example, we secured a six-figure donation from a traditional funder for an agile project. Because it was an agile project, it would evolve and optimise as it went along, so milestones weren't always concrete despite the end goal being a common target. The funder wasn't as comfortable without clearly planned steps and planned progress. We'd agreed some upfront deliverables that changed as we adapted our approach, and essentially they paused their funding and asked us to resubmit when we were clearer on our plans and trajectory. It was a learning for us both. As an organisation, we need to understand and package the right pieces of our organisation and match them to our funders' needs.

So, we start to think about how organisations work and where we need to go in the future and what that might look like, and what supports and education our stakeholder groups need to come along the journey with us.

PWIT is a bit the same, as investing in overheads is not a luxury—it's essential for nonprofits to thrive and fulfill their mission. We need our people and our systems, we need to invest in fundraising as well as perform program measurement and evaluation to do our best work. The goals of this initiative is to create positive industry change together by challenging outdated views on overhead costs, whilst continuing to provide the transparency and accountability a donor wants, and promoting a more sustainable nonprofit sector.

Do you benefit from unrestricted funding?

A large chunk of The Smith Family's funding is unrestricted. We've diversified our fundraising channels and streams to have a mix of funding coming in, that reduces our risk overall and enables us to spend where the investment is required to maximise our impact.

In terms of the education piece and bringing your funders along, what is the main thing you need to communicate or speak directly to?

It goes back to building trust. We've done a bit of research on it, asking 'When you're thinking about making a donation, what are you thinking about first, and what does that look like?'

And when we think about our supporters, the public, the first thing they talk about when thinking about a donation is the right cause. Not a big surprise there. Their second criteria is they want to make sure their investment is being used wisely.

That quickly breaks down into this, how are you spending the money? If I'm going to give you $1, where does it go? When we ask them to pick which is more important, making the biggest difference or spending the least on administration or overhead, twice as many people pick making the biggest difference over spending the least amount on administration.

Thinking about those drivers of trust overall, again, we need to show transparency, demonstrate the effectiveness and impact a donation has made for a beneficiary, and be accountable. Continue to prove we are financial stewards and respect a donor's contribution, time and choices.

When a new funder comes along are there different things you would be doing to cultivate that trust?

We often start by listening or responding to a prospective funder's needs. We want partnerships where there is a mutual sense of purpose and value – both actively invested and contributing in the communities we serve and are committed to driving positive and sustainable change over the long term. This means communicating openly and building the trust and credibility from the start.

One of the reasons I've been here at The Smith Family for the length of time I've been here is I love the fact this organisation is data informed and can stand behind our work and outcomes.

When I go to a funder I can talk about delivering X, Y, and Z program, and I can talk about how at the end of each of those programs, we're going to evaluate that program. I can tell them how many students found it beneficial. I can tell them what teachers thought of that student's engagement after the program. We can also talk about the outcomes for that cohort of 62, 000 students that we have on sponsorship, and about their trends in attendance at school, their advancement through school and their engagement in further education, employment or training.

We can answer so many questions. Are our programs helping, contributing to those students attending more often than students who aren't supported? Yes. Are those students going on to higher levels of education through year 10, through year 12, than students who aren't supported? Yes. And are our students actually engaged in further education, jobs or other training in higher numbers? Yes.

So, we can talk activity reporting (of our programs, their participation and success), as well as about societal outcomes. I think the fact we can go high level and we can go micro, we can tell you whatever you want to know, does provide a big advantage when it comes to seeking funding and finding partners to support our work.

In terms of PWIT, are there any stakeholders that require a whole lot more work to bring along?

It's the more modern trusts and foundations are often opening the PWIT conversations with us first. They've been the one to kick this stuff off. They've been quite innovative and representative.

For some corporate partners they take much more of a cost return lens on the donation they are making. How is their organisation benefiting? How is their brand association being leveraged or lifted, and things like that. We also need to fulfil those needs for them. There's also more traditional trust and foundations. We might need to carve off a different way of doing things for them that has clarity on delivery and outcomes.

There's an opportunity that exists with the philanthropy review that's going on at the moment, for us to influence at a government level and have PWIT become second nature. Traditionally, governments will give you approximately 15 percent for admin, and that's it. If they are funding upwards of 50% of the sector they have a lot of sway. So, if we can get them to re-evaluate this approach and think differently about what's required, that could unlock for so many not for profits with a large reliance on government funding, all in one swoop. And then why would a corporate not follow suit? We're trying to change industry 'norms' here.

What else needs to change at a government level?

Streamline, harmonise and make it easy to give. We're national and we've been national for probably 80 years of the hundred, so that's always built into our plans. But there are others that can't expand into different territories or states because the cost and burden of regulation. So, I think there is a regulation harmonization piece, and tax structures too.

I know there were a number of others in the sector looking at how to unlock the fundraising opportunities that exist from changing the structures behind bequests and superannuation.

The other one that I'm always really interested in, being American, is workplace giving. In America, Switzerland and the Netherlands giving is expected. It's part of being a good citizen. When you get your first job, part of that paperwork is to fill out the workplace giving form. You think about who and what matters to you or your family and who are you going to start giving to.

In terms of the larger systems that exist, our industry doesn't have a large lobby group. So, it's up to respective consortiums coming together to do work that is quite fundamental and could be transformative in adoption. We're a hugely important sector, employing ten per cent of Australia's workforce delivering vital and life changing services to our community and economy. Yet charities can't be run on charity and be expected to survive. We must solve the vulnerability loop and ensure NPFs continue to contribute to the future productivity and wellbeing of Australia.

The Pay What It Takes report included analysis of ACNC data from 16,000 Australian charities confirming that the starvation cycle occurs in Australia and found:

- Imposing caps on overheads leads to lower organizational capability and effectiveness. It stressed the fact overheads alone are not a good measure of a successful nonprofit
- Nonprofits' actual overhead costs often exceed the funding they receive. On average, overhead accounts for 33% of total costs
- And there were complex underfunding drivers: The reasons are multifaceted and interconnected, making standard solutions ineffective

The PWIT Charity Consortium then began its own research to validate donors' perspectives and published a Research Report which showed:

- 4 out 5 (80%) of donors reported they do not search for overhead costs when donating to a new Charity, and only 2% of donors know the percentage of administration costs for their chosen/favourite charity!
- Most charities were advocating and using limited and limiting language in how they portray overhead.
- Donors want NFPs to spend their 'investments' wisely, and to do what we say we will do with the money.
- They also want more reporting on the effectiveness and outcomes of their donations – how we're improving the lives of our beneficiaries
- Donors even have a positive perception of the role fundraising plays in creating impact, especially when framed as a 'multiplier' (eg for every $1 invested, it returns $3+ to invest in our programs)

We took these findings and created a simple 4 step guide for not-for-profits, offering practical steps to reframe overheads backed by Australian data:

1. Reframe Language:
    a. Use descriptive and informative language, emphasizing terms like "governance," "fundraising," and "sustainability."
    b. Avoid vague phrases like "capacity building" or "organizational development."
2. Reframe Visuals:
    a. Move beyond simple pie charts showing what goes to programs vs doesn't
    b. Break down investment details to demonstrate the complexity and necessity of overheads.
    c. Visualize the impact of fundraising—show how every $1 invested returns to support programs (industry averages range from $2 to $4+).
3. Link Overhead to Impact:
    a. Include details about the outcomes and impacts of your organisation
4. Leverage our Annual Reports (AR):
    a. Use ARs as inspiring impact reports, going beyond mandatory reporting documents.
    b. Showcase the organization's achievements, emphasizing the role of overhead in achieving those outcomes

This is then complimented with the good work going on within the Coalition focused on the funders side to reset their beliefs and practices.

Leah Armstrong

REGIONAL MANAGER, AUSTRALIA, INTERNATIONAL FUNDERS FOR INDIGENOUS PEOPLE

Can you tell me about your new role?

As Regional Manager in Australia for the International Funders for Indigenous Peoples (IFIP) it's an exciting time to be talking to philanthropy in Australia and engaging more with philanthropy on the way we think about funding, Indigenous-led and Indigenous-controlled organisations in Australia.

IFIP has a 25-year history globally in working with major philanthropic foundations who are committed to providing direct funding to Indigenous-led organisations. This is something that has been a passion for the work that I've done prior to this – supporting Indigenous-led, controlled, and governed organisations and building them to achieve self-determination.

What other roles do you hold in the sector?

I've been the chairperson for First Australians Capital for the last four years. I was previously Managing Director, but I stood down from that. I hold other advisory roles. I'm the chair of the First Nations Advisory Group for the Reserve Bank of Australia, a representative on the

Indigenous Peoples Economic Cooperation Trade Agreement, which is a partnership with DFAT. And I'm on the advisory group for the Nature Conservancy in Australia.

With all the roles you hold and the insights those roles give you, are the emerging principles of Pay What it Takes part of the conversation in those spaces?

I'm also on the Philanthropy Australia's First Nations Governance Committee and chairing their First Nations Funders Network. So, definitely, in those realms with Philanthropy Australia. In that context, there's the understanding that Pay What it Takes for Indigenous organisations is critical.

So, there's a question around the quantum of philanthropy money that is earmarked for First Nations organisations, and how much of that is actually going to First Nations-controlled organisations.

And then, with what is going there, how much of that is 'paying what it takes' to really achieve the outcomes and the impact that Indigenous organisations are making. So, there's two parts to that conversation, I guess.

How do the emergent principles of PWIT stack up for you? What is glaringly missing?

In the context of giving overall, I think those principles are definitely important and significant for First Nations organisations. And I think, again, without trying to labour on, it comes from the perspective also of saying, 'Okay, how much funding or giving is actually going into First Nations-led organisations? How much of that funding is multi-year?' Whether or not that is enough to cover their operational costs and take into their remoteness and support the skill set. Maybe from a Western perspective, the skill set is not there, but from a cultural perspective, it is there. So, acknowledging that as well. And is there enough to actually bring in technical skill sets the organisation may need, for example around IT development or marketing and strategy development.

The cultural context must be considered as well, in terms of responsibilities as it is the relationship building that is important.

In terms of the principle on diversity, there is a need to build diversity into philanthropic organisations so there's an understanding of how to build relationships, and how to engage with First Nations groups, but also bringing their lived experiences and mindsets to change philanthropy. It's looking at more multiyear funding going into its Indigenous organisations. First Nations or Indigenous organisations have the solutions on the ground. If you look at the work that the Aboriginal community-controlled sector is doing, it is far better than what government agencies or other not for profits doing.

They're achieving the outcomes in a cultural context, and they're doing it in their own way. So, there needs to be a recognition of that. There's more in that in terms of relationships and cultural governance and I don't know how you would even put a value on that. If Pay What it Takes is 30% does it go to 33%? There needs to be a recognition of that specific cultural governance piece, which is critical.

In terms of cultural governance, what resourcing does that require?

We have a responsibility to our communities, and that does require us to engage more and have more responsibilities and to inform more, and we also must operate in two worlds. So having the skill sets to operate both in the Western environment with funders, government, other service providers, as well as our own communities. It is a requirement. It is a kind of expertise, knowledge base and skill set that we bring to achieving that outcome. But we never get recognised for that and we're never funded effectively to do that. We do it anyway because we have to, but it's never recognised in the funding that's going into communities.

Have you seen that being recognised and supported in other countries or other cultural contexts that could be a helpful model for Australia?

There's been a lot of work and research done that has been long-term research and, and with a nation-building approach. Reconciliation Australia and the Centre for Aboriginal Economic Policy Research looked at what was happening in the US through the Harvard Project on Native American Economic Development.

The Harvard Project has been a guiding light on both economic self-determination and governance for many other groups. The work that Reconciliation Australia and CAEPR did over a number of years around community governance in Australia piggybacked on that work. Recognizing nation building and cultural governance in those communities you get greater self-determination, and greater outcomes for our communities.

Looking at the principles of the International Funders for Indigenous People's, the five 'Rs' – respect, relationships, responsibility, reciprocity, and redistribution – what are your thoughts on these as guiding principles in an Australian context?

I am absolutely in support. Those guiding principles for us are mandatory in the work that we do. There's been a lot of movement around relationship building in Australia and respect through the Reconciliation Movement in Australia. Respect and relationships are key to working and developing, whether it's through philanthropy or organisational relationships. I think what's probably more specific around IFIP's work is ensuring that funders or philanthropic investors understand what the UN Declaration of the Rights of Indigenous Peoples (UNDRIP) means and certainly centering self-determination as part of that.

Not many philanthropists or investors quite understand the importance of self-determination, or UNDRIP itself. Although I will say there is a growing awareness around UNRIP and the principle of free prior informed consent.

This is something to consider in terms of relationship building, where there might be access issues – access to data, access to sites or development opportunities. So free prior informed consent is mandatory, in terms of working. And it's not just at the beginning of the relationship or a project. It's an ongoing conversation. There's growing awareness and willingness across Australia, and there's a lot of goodwill to build respectful relationships with First Nations groups.

But for Indigenous people it's understanding that that relationship is not just the relationship between us and funders. It's our relationship with our communities. It's our relationship to our land and country. It's that holistic relationship that we respond to.

In terms of responsibilities, we have responsibilities to be transparent and accountable to our communities. So again, that responsibility from funders is to ensure that they're being transparent. In terms of reciprocity, it's Indigenous giving and ways of living. I think there's a lot more discussion and understanding that needs to grow in the Australian context around that reciprocity and ensuring this mutual benefit and solidarity with First Nations groups.

Redistribution comes back to this conversation about Pay What it Takes. It's also about redistribution of power, not just the redistribution of funds. Recognising that to build trust is also to release and relinquish some power. And redistributing that. You have to recognise where your limitations are in letting go of certain perspectives, certain power positions, trust someone else who's with you to achieve the outcome.

I've circled back to this concept of self-determination, which is central to the work I've been involved with for the last 30 years. Funding in a way directly to Indigenous-led organisations is an act of self-determination because it is an act of trust and relinquishing power.

Do you think non-Indigenous people get tripped up by the word 'self-determination'?

They may not have been conscious of or used the language of self-determination. But it's a way to consider that we all want to be self-determining in our lives. Some have had greater privilege, greater resources, and been given lots of more opportunities than others. If you think about your own personal perspective, you want to be self-determining about, to the extent that you can, where you live, what school you go to, what political engagement you have. We all want to have and make choices for our own lives. For Aboriginal and Torres Strait Islander communities, that's what self-determination is. We want to have the rights to determine our own cultural, economic, and social life.

With your new role, what are the changes you want to see?

Again, I'd like to see a significant shift in the way philanthropic funds are vested and directed to Indigenous-led and controlled organisations in a way that builds self-determination. And it's done in line with the five principles, the five 'Rs' that we've just discussed.

How will you know you've been successful in that?

We need to understand the quantum amount that is actually going into Indigenous led and controlled organisations. Currently, there's no clear data around that. So, we need to do that research to get that data. Right. Also, to kind of see a lot more Indigenous voices in philanthropy. There's definitely a growing cohort. But we have to be mindful that we need to not overburden our leaders in all these sectors. How do we bring through younger voices as well to help fill that gap?

We're trying to create networks of Indigenous organisations to speak into philanthropy, to funders.

In terms of the Indigenous organisations that you work with and have, relationships with, is there anything that you, would like to see them doing differently in terms of their engagement with the philanthropic sector?

I don't think it's so much about doing differently. I think it's been a matter of access and, opportunities to have these conversations with philanthropy. I think this is where we can play a role of bringing them together so that they're not in isolation.

I believe it should also be part of the responsibility of philanthropy themselves to reach out, to share their networks, and to bring Indigenous funds into those conversations, rather than Indigenous funds going around trying to knock on individual doors.

If the philanthropic sector did centre and, and value Indigenous knowledge and, and Indigenous, systems and principle, what do you think needs to change immediately?

There needs to be a shift in the power dynamics and recognition of Indigenous knowledge in an appropriate way, as opposed to Western knowledge or science. And knowing that if you really are about addressing the issues of Indigenous disadvantage, then it requires Indigenous led organisations to do that. The Indigenous Governance Awards are a good thing for funders to look at because they really highlight what it is.

Funders need to consult with whoever they're funding, and if it's appropriate, go out and have those conversations on the ground to really understand if that partnership is going to be a respectful relationship, centred in reciprocity and redistribution. Take the time to go out and sit with people. Allocate time and resources to do it.

Ella Colley

PWIT COLLLABORATION GROUP
CEO, GUM TREE FOUNDATION

Can you start by telling me about your current role and your relationship to pay what it takes?

I started at Gum Tree Foundation in February 2023, and I am the first employee. So, there's a huge amount that I've inherited from the people behind the foundation. I've never heard any of them use the words 'pay what it takes' but it is what they've been doing for a lot of the organisations we partner with. I can't think of a single example of current funding that we're giving that isn't untied.

The board know that's what organisations need. It's a function of their approach being very trust-based and also, quite frankly, to do with time. Until I started, the founders were managing the foundation themselves, in addition to a whole range of other responsibilities. For them, they simply didn't have the time to nit-pick specific projects.

They found organisations they connected with, and that they trusted, and they started funding them. A lot of those relationships tend to be ongoing, involving core funding over many years. But rarely did they put a multi-year commitment in place. In fact, I think we've only got one currently, which is quite a large commitment over five years.

For us, we realise this is a missing link. Having worked in not-for-profits my whole career, I know that it's really hard to plan without multiyear funding. While I think it's amazing that a lot of the funding that we have given over the years is untied and ongoing, there is an opportunity for greater impact by communicating those commitments.

What's the mix of nurturing long-term relationships with organisations and starting new relationships?

It's both. But in the short to medium term, our focus is definitely on building stronger relationships with our existing partners and gaining a deeper understanding of what they are doing.

Up until this point, the foundation has funded broadly across three main areas - supporting environment, humanitarian, and First Nations organisations. We've been working together to try to refine those areas and get clearer about what we believe makes change in these spaces. Asking 'what kinds of organisations do we want to be funding?' And 'what do we look for?' Previously funding decisions were always very intuitive, very heart-led. And while we are mindful of not swinging too far into rigid strategic frameworks, we do want to be clear about what we're trying to achieve, the kinds of organisations that we really want to support and how we support them more actively.

Do you think the board you're working with now have their heads around how change happens?

Yes, and I think their ideas around it have evolved too. In the past much of the funding was to organisations with very tangible outcomes. For example private land conservation, or medical relief. Our funding is now more diverse in terms of its theory of change.

The board understands that real and deep change takes time - especially when it comes to working with nature - and they're interested in the kind of change that comes about in 50 or 100 years, not one or two. So that's exciting. And I think that has flowed down into the expectations we have of grant partners. We don't expect any specific grant applications or grant acquittal documentation or anything along those lines. It's very relationship-led. What our directors do want to see is that those organisations are learning and growing and making mistakes and evolving through that process. And where appropriate and possible, actual change on the ground as well.

It helps that the founders of Gum Tree Foundation have personal experience managing conservation projects, including a regenerative/permaculture farm. They're on the ground doing some of this work themselves, and so they understand how hard it is.

How does the board get line of sight to the organisations they fund?

With the organisations we are most committed to, we make an effort to meet and, where appropriate, visit the work that they're doing. But there are some organisations that we haven't been as active with. In the past, most organisations receiving Gum Tree donations were told 'here is a donation, take it and use it for whatever you want but please don't acknowledge us or contact us'. Some of those organisations wanted to make a connection, because it helps to know who you're working with and what they care about. But in the past there just wasn't the capacity for the foundation to build and maintain those relationships with all of the funding partners. Now I'm here, I'm trying to change that.

Aside from communicating the values and focus of the foundation, what are other ways to build trust with your recipients?

It's a two-way thing. It's not just about us trusting them, but them trusting us. It's time, preferably face to face, preferably where you can see or experience the work of the organisation in some way, shape or form. On top of that, for us, it's also about getting a sense of the gritty side of the work and not just the shiny stuff that gets presented in an impact report.

Like I say, what's important for our board is having organisations we're funding be real with us about their challenges and the mistakes they've made and the things that they've learned along the way. For our board, that sense of growth and development as an organisation is really important and ultimately one of the main things that they really want to be funding. It does take trust and time for organisations to feel comfortable sharing that with the board and with myself.

What is the change you want to see within the Foundation in terms of pay what it takes?

I'm really grateful that I've come into a space where, without setting out to intentionally do so, the board have been embracing many of the principles of trust-based philanthropy and funding organisations to do their core work.

I would love to see us providing more multi-year commitments to organisations that we have a strong relationship with. It just requires us to think ahead a little more - and time to have these conversations.

The foundation is currently going through quite a significant shift already. Since I started in the role, we've been working to get a clearer funding framework in place. Once that's done, then we can move on to having conversations about if we are open to offering multi-year agreements, who should we offer that to and when, and at what level. Having said that, the one multi-year agreement we do have in place was a decision that was made very quickly by our directors in a catch up with the organisation, on the basis of trust and the great work they are doing.

Is there an acknowledgement within the board that a certain percentage of funding goes to overhead costs?

If an organisation wants to allocate 100 percent of our funding to overhead costs, then they can do that.

We're on a journey, just like everyone else, and that takes time. There are some things I think we're doing really well and there are other areas that over time we will learn and grow in. Hopefully we'll do that with the feedback of our partner organisations, which they will feel comfortable giving because we will have worked hard to build that trust.

What is one thing you would love to plant in the heads of board members and funders?

For me, it comes back to really respecting and celebrating the expertise that exists in the not-for-profit sector and never thinking or assuming that we as funders somehow know better or can fully understand the actual context of changemaking on the ground. So just a deep, deep, respect for the people doing the work.

Craig Connelly

PWIT WORKING GROUP
PARTNER, PERPETUAL PRIVATE

What is your current work context?

I'm currently a partner at Perpetual Private in the Community, Social and ESG investment area. Primarily I'm responsible for starting to deploy philanthropic consulting services to not for profits built around this new product called the Capital Impact Loan, which is very relevant to today's conversation. Because it is about deploying Private Ancillary Funds (PAF) and Public Ancillary Funds (PuAF) balance sheet capacity as a loan to generate untied core funding for between 10 and 25 years in support of not for profits, which means 'pay what it takes' is irrelevant because all spending is prioritized by the organisation. I'm working at Perpetual four days a week, and one day a week I'm pro bono on two boards and also consulting to a university and an international funding network.

In these various roles and contexts is the 'pay what it takes' conversation live?

Oh, most definitely, and not necessarily using that term. But the concept that pay what it takes reflects, which is, you know, funding charitable organisations so that they can thrive and to not question the allocation of grant funds to organisations based on a simple financial metric that ignores the impact and outcome – then yes, that conversation is live.

What part are you playing to invigorate it?

According to Philanthropy Australia, my article on Capital Income Loans is the most visited page on their website, aside from their homepage, this year. The whole concept of the Capital Impact Loan takes pay what it takes a little bit further. Because if you think about pay what it takes, that's about the deployment of grant funds by funders more effectively to empower organisations by covering all relevant costs that organisations need to cover and treating those organisations with the respect they deserve, as opposed to having this ridiculous power imbalance that we know occurs.

So, the Capital Impact Loan is about shifting balance sheet capacity into an income producing environment and all income is available for the not for profit to then deploy, consistent to a strategic plan and all operating expenses they fund are prioritized by them.

How far along is that?

I've got seven not for profit advisory clients now at Perpetual. The first ever Capital Impact Loan has been approved by a Go8 University Council. I've literally just finalized the review of the marketing document that will go out to prospects. That'll be publicly launched probably in February 2024, but private marketing has already started, and that'll be a 200 million Capital Impact Loan. It will allow the market to really interrogate and understand what this concept looks like, as a product opportunity. So, it's progressing very well.

What I'm suggesting to all my not-for-profit advisory clients is you're far better to be second or third and not first considering a Capital Impact Loan. And that was very intentional on my part. I've been assisting the university since March 2023, mainly in a pro bono capacity, but currently in a paid capacity. And I'm very hopeful that we'll really start to shift the dial.

There was a round table in Canberra early this week on social impact investing, and that's wonderful. Paul Ramsay Foundation came out and said they're going to allocate 60 million as recyclable capital seeking social impact investing opportunities. If you just shifted five percent of the asset base of private ancillary funds and public ancillary funds into Capital Impact Loans, that's 800 million of capital, yielding 40 million of income every year in the form of high-capacity core funding grants supporting our best changemakers. It's a no brainer because of the sheer scale and impact it could have.

So right now, what's in the way?

The reluctance of funders, who in this instance would be lenders because they're lending money under the structure of a Capital Impact Loan, ceding control, genuinely considering a funding timeline of a minimum 10 years, maybe as long as 25.

Deploying a balance sheet as opposed to grant funding directly in support of organisations is very new and it will require a lot of education to improve understanding. What's missing or what's the roadblock to enabling this is actually those prospective lenders having something to feel and touch and really get their teeth into. Which is why the Go8 University when it launches the Capital Impact Loan will be so important.

How much are you having to coach them along?

The reason for the article in August through Philanthropy Australia was to start that conversation. And the reason why I've then posted a couple of articles on LinkedIn is similar – to start raising awareness. Through the premarketing phase for this University Capital Impact Loan, I'm going out to mainly intermediaries because it's so important to get to lenders and also organisations like Australian Impact Investments just to educate them and answer their questions. So, there's a big education piece.

How do you address the 'reluctance to cede control' aspect?

I think that is far easier dealt with if you have a wonderful philanthropic opportunity. People are not going to contemplate lending money to any organisation they don't think is of the highest quality that has appropriate and sophisticated governance processes in place, good quality management team, a track record of impact and a capacity to amplify that impact to benefit either people or the environment. So, I think if the philanthropic argument is strong, then you're a long way down the path of getting them to engage. In considering this as an investment opportunity.

In the work that's brought you to this, what do you see are the benefits to funding overhead costs?

There are a few things. Sitting down with not-for-profit leaders in my time as CEO of the Potter Foundation, and particularly in the last couple of years when I was thinking about this idea, some of our best changemakers are spending too much time fundraising and not enough time thinking about impact and outcomes. The way I describe that is funding overheads properly – I don't think paying what it takes works without at the same time thinking about the duration of funding as well.

Because if you pay what it takes, but it's still 12-months funding and it's transactional and I don't care about pay what it takes because that's not high-quality grant making. So, you've got to have pay what it takes aligned to educating funders on the value of longer duration funding and by that I mean minimum three and up to five years is where people's headspace seems to be, so effectively core funding for that duration.

If you provide organisations with that sort of funding structure, they can actually start to lift their eyes to focus on the impact and spend less time fundraising. Two, they can attract and retain better quality talent because they can put them on proper employment contracts. Three, they can flexibly respond to issues as they arise, which result in costs they need to spend to just support the scaffolding or the critical components of their business, whether that's IT spend or cyber security spend or other systems spend or additional staff in whatever area or whatever it might be.

Having the flexibility to take funding and apply it to your business as your business demands it is something for profit organisations take for granted. The not for profits scratch their head and go, I haven't got a funder for that. How do I do that? So, the benefits are a capacity to operate professionally and appropriately, I think.

Do the Bridgespan Group's emerging principles hold up for you?

Nope, but let's go through them. So multiyear funding, yes, I agree, obviously. A fair share of operating costs is counterintuitive to me. Define fair share and tell me that you can do that whilst levelling the playing field. Because fair share, by its very nature means the funder is making a determination as to what's fair.

And that's anathema to the provision of core funds. Their fair share needs to be changed to provide core funding where the allocation of grant funds to support necessary operating costs is the responsibility of the grantee. That's what I would change. Which then captures organisational development, effectively, because that's a subset of that. So, I'm comfortable with that.

What about building financial resilience?

They should specify that organisations should be empowered to retain a portion of grant funds to strengthen their working capital on their balance sheet. That's what organisational resilience looks like. Organisational resilience in my mind, and this is from my experience over 30 years and running a couple of businesses myself, is having the financial capacity to adequately deal with shocks so that if you need to carry something for a time, you can do that.

That is about working capital. And so, I think it'd be better if Bridgespan said, what is an acceptable minimum level of operating cost coverage you have reflected in working capital on your balance sheet? Most non-profits will carry between three to five months, and what they need to carry is 12 to 18 months.

What about the principle of diversity, equity, and inclusion?

I'm very comfortable with that, but that is different to a pay what it takes approach because that's adding a layer of consideration to your grant making, which is non-financial related.

So that gets back to my earlier point. If you elevate your thinking around funding to take it away from a fair share of operating costs to the provision of core funding prioritized by the grantee, then as long as the grantee has suitable policies around diversity, equity and inclusion, then they can enact those.

So, I don't make a decision on it. All I do is I ask a simple question. Does this grantee have adequate policies around diversity, equity and inclusion? What are they? They're authorized to then allocate money to fund those as they see fit.

What about the things they put forward as getting in the way?

Mindset and culture, both ways. I agree entirely. The way I address that in my new role at Perpetual, I've got what I call a general advisory client, and it's a large not for profit I've been helping.

They've got a new strategy. And the question was, how do we implement a philanthropic strategy that supports our vision, mission, and operating strategy? What we said to them was, you've actually got to really dig into what activities you're currently funding and ask what do they achieve? And what do you hope to fund with your additional funding? What are your expectations to achieve? And not be thinking from a project perspective and getting A, B and C funded, but always bringing it back to what are the outcomes or the impact that you're looking to achieve and how that aligns to your strategy.

Think about that first and have your approach to funding as a means of supporting attainment of that strategy. And as soon as you do that, what you start to bring into the conversation is the entire operating cost base of the organisation, because that's an output of the strategy. And the CFO has a three-year operating cost forecast.

And so, you're not trying to allocate funding to projects, you're just saying this is our overall funding need, this is why it's important. And that's a mindset shift for the organisation. And it's a capability shift as well. It requires their philanthropic team to properly engage with the service delivery people internally if they have those, which this organisation does.

To understand the operating strategy, to understand the rationale for the activities undertaken and to change the language in their pitch, because all of a sudden, their language is around core funding grants for everyone they go to. And even if there's a project grant, the project grant doesn't try to justify overheads.

It just says this is the cost of delivering and here's the rationale for it. So, I'm really happy with that mindset culture shift on the other side for funders, talking about provision of multi-year core funding. That's what you need to say to every funder is provide multi-year core funding. I don't care what multi-year looks like to you, just make it more than two, and core funding needs to be about shifting power. Which is back to the second point they've raised, which is trust. So, I actually think mindset, culture and trust, you know, are parts of the same issue.

Fear of economic downturn? I mean, give me a break. Really, I just, I find that very frustrating because economic cycles are going to be with us every year. And so, you don't just give more and think less about it because you're in boom times and then all of a sudden become really concerned in hard times as a funder. That's ridiculous. If anything, if there's an economic downturn, funders should lean in and give more and it's not for a not for profit to worry about economic cycles. All a non-profit needs to do is understand what its cost of service are, what its aspirations are, and raise funding to fund it.

Speaking truth to power comes back to mindset, culture and trust. Because, the reason why people are afraid to speak truth to power is because they're shit scared of someone saying no, or they don't trust their pitch, and, and they're not adequately informed as to why it is they're in the room.

And if you go back to my earlier comments, if you have a philanthropic team and an executive who's completely aligned around strategy and aspiration and ambition and why it is we're asking for money to fund these three or four things, then speaking truth to power is not an issue because your truth is your need. It should be pretty simple messaging.

What else would you say to grantseekers about making a better case to funders?

Have a really well articulated ask and then just be honest with your funders about why you need the funding and do not accept anything less. Have a cohesive and coherent strategic plan. Make sure that strategic plan articulates what it is that you do and why what you do matters. Don't just go seeking people and try to fit into their funding criteria. Understand your case. Data speaks to funders as well.

Is there something at the government level you'd like to plant?

So, I've literally already planted it in the last week. I met the Deputy Secretary of Treasury on Monday and said the government should change the PAF funding guidelines to approve Capital Impact Loans as an improved asset class, for example. And as part of that conversation, if elsewhere in the funding guidelines, the government can indicate a preference to ensure that grantseekers operating capacity is adequately funded as part of grant funding or charitable giving that would be powerful. And that would then require governments themselves to start to do that because governments don't fund overheads. That's a real failing of government.

I'm not naive enough to think that Treasury is going to listen to me, because if they do, then the obvious disparity is that the greatest funder of charitable organisations in the country, which is government would not be following the guidelines set by Treasury. I'm not hopeful, but that's what I'm trying to do.

Sarah Davies

PWIT WORKING GROUP
ADVISORY BOARD CHAIR, ACNC
CEO, ALANNAH & MADELINE FOUNDATION

With all of your different roles in mind, what do you think are the main challenges in the implementation of pay what it takes principles in Australia?

Let’s think about the clusters. One of the clusters of things we've got to come to grips with to advance the pay what it takes approach to grant making is that philanthropy is by definition idiosyncratic. And that gives it its strength, but it also creates challenges when you're trying to influence a kind of a mass behaviour around good practice. Because it's so idiosyncratic and very personal, you can't tell a philanthropist what to do or how to behave.

So, the rules of the game defined by regulation and standards are really important. Depending on the vehicle you drive, there'll be a set of rules around how you have to drive it. And I completely support those rules. Matched to that, we have the national regulator, the ACNC, and we have rules around DGR, and who can give to what, and when, and all that kind of stuff. Now, those, for me, are essential. We have got to have those kinds of tickets to play – definitions, guides, rules and boundaries about what is and isn't charitable and how you can and can't give deductible money away. Now, this isn't about giving all money away because anybody can give any money, they like to whoever they like, right?

I can pull money out of my bank account right now and give it to who the hell I like for whatever I like, just not in a deductible or charitable or tax concession environment. The moment we move into a tax concession environment, so all PAFs, all PUAFs, all private trusts and foundations, because they don't pay income tax, and they're GST exempt.

The moment you move into a tax concession environment, we have an obligation to the broad community of taxpayers who are subsidizing that environment to whatever degree. So, in terms of pay what it takes, in the tax concession environment there are a set of expectations and rules and standards that need to be continually checked and reviewed that I think are entirely appropriate because the taxpayer is subsidizing to some degree part of that operation.

A philanthropist's personal motivations and appetite to understand or not understand all of that is very idiosyncratic. And what's good about that is you get huge diversity, right? So, you get this whole kind of poly approach across all causes and issues. And I believe in the wisdom of crowds.

That diversity is really healthy. Where it becomes challenging is when you say there are certain practices that actually define good grant making. Because that becomes a matter of choice. We can't regulate for that, and I don't think we should.

So, one of the challenges is that huge diversity of interest. Putting in place a framework that talks about how you grant make and behaviour around grant making is incredibly important, though difficult. I think that's the first set of challenges.

I think the second set of challenges are around language and understanding of language and lexicon and labels. So, we have in Australia, and it's no different really to Western Europe and the USA, lexicon and language that has evolved over decades around admin and operational costs. And there is a prevailing attitude that the higher the admin or operational costs, the lower somehow or other the impact or efficacy, or worth or strength of the organisation that operates within that.

Are there other barriers in terms of mindset and culture?

Those are attitudes and prejudices held by the sector over decades. There has not been counterbalance with education and understanding about what that really means. So, I think the other set of barriers are around these long-held attitudes and words that imply a set of meanings that perhaps are not relevant or meaningful or helpful or actually true.

But somehow, we've created this language about admin costs and operational costs or overheads as though it's there's something heavy and bad. There's those perception and language issues related to that, the challenge that when we use a word, we don't all mean the same thing. So, whilst we have a national chart of accounts for nonprofits, that was developed many years ago, and it's never been mandated that we use that and that we use common definitions and common terms.

And I think that's unhelpful. I think the more charities and non-profits could use consistent lexicon and meaning and language around terms, the better and faster we're going to create good understanding and education with donors and the public about what that means.

And even in a charter of accounts when you're coding income and coding costs, what are you coding it to? For example, once a year we have the 'Do It For Dolly Day' and that has two very clear purposes. They're related, but they are separate in terms of their outcomes. One is as a fundraiser to support the programs that are then rolled out in communities and schools and online resources and all that kind of stuff. But equally important, it is an education campaign and a behaviour change campaign that gives families and young people the language and confidence to change the culture of bullying.

We get close to a million dollars of free pro bono media publicity and coverage. So, we would put that into our account as an in-kind marketing contribution, but when we're coding our costs, what do we code that as? Do we code that as a program against our costs or as fundraising? Because it's both. Or do we go 50/50? Do we say half the costs are programmatic and half the costs are fundraising? How do you judge that in terms of overhead or admin or operating cost? So that's what I mean.

And so, without a common set of definitions and coding, how do you compare across charities?

As a board member, how do you put PWIT on the agenda? How do you sell it?

I think one of the first things that's essential is that board members, those decision makers, understand at a theoretical and fairly basic level, how you create positive social change. Most of us assume that we understand that because we give to charity. But actually, that's not how you design tests, pilot, implement positive social change and pivot that to have a long-term impact. And unless you understand the different kinds of engines that are needed and the different kinds of design recipes that are needed for different types of social change, it's impossible. You have to determine what the resource fuel mix is that goes to drive those engines.

If you've got an engine that is designed to meet an immediate need, such as I'm cold, you need to give me a blanket, then that is the resource recipe. The resource fuel mix has got to know and understand and be appropriate to drive those outputs and outcomes.

Whereas my purpose is to build long-term collective community agency and capability, to be self-determining so that people understand their own challenges and issues in a way that helps them design their own solutions, its multiple systems coming together. Maybe one or two generations worth of change happening, then the fuel mix is different.

But if you don't understand the recipes of how you create positive social change, then you can't derive an appropriate recipe about how you resource and fuel it.

I think as board members and decision makers around grant making, that's the first thing to do –understand what kind of change you want to support, what the value model looks like, what the engine looks like, and therefore, what is the best fit for purpose recipe to resource it.

And your degree of investment in understanding that needs to be fit for purpose too. If you're making small grants once a year, you really wouldn't invest too much time in understanding that. But if you are stewarding significant amounts of philanthropic money and capital, and you're thinking about perhaps multi-year grant making, or even decent chunks of money, then actually you do need to understand that. It'll help you make better partnership decisions.

Do you think there's a missing piece in terms of educating the grantmaker?

I think the onus is on everybody, right? If I'm a grantmaker, then I want to be really curious about how I can have the most positive influence with what I'm able to put into the mix. It's unlikely that I'll have domain expertise. Maybe I will, but it's unlikely. So, you want that curiosity to understand that to work out how I can make my best play and my best contribution.

And if I'm a grantseeker, and I'm working with donors, then absolutely I want the donors to be able to understand what that marriage looks like, how it can be so exciting and positive because it's not just about money coming across. It's about actually understanding how you build those connections between all the people long term. I think it's everybody's responsibility.

Are there specific resources that could help that?

Yes. My bible is Tracy Geary's book 'Inspired Philanthropy'. It's conceptual. She talks about a continuum, and she talks about all kinds of clusters of change. First change is a needs-based change. Alleviation. I'm hungry. You feed me. I'm cold. You give me a blanket. When we then talk about the kind of funding or the process around that, you need a good distribution process. You need a good logistic process. You need to know where to find the hungry, cold people and you need to know how to get them meals and blankets quickly and efficiently. You need to understand that piece. But the funding needed is immediate. It's not a huge amount of money. It can be lots and lots of little bits. The coldness will diminish in summer and increase in winter. So, you need to dial it up and dial it down.

But you also need to understand that by giving me a meal and a blanket, you're helping me now but you're probably not changing my life trajectory. But we still need that kind of ambulance at the bottom of the cliff, right?

And then she says, so if you're then interested in how can you help Sarah not be cold and hungry next week, you move on and you think about the type of change that builds individual capacity. So, Sarah's cold and hungry because she doesn't have anywhere to live because she can't afford rent because she hasn't got an income, and she hasn't got a job.

So how do we get Sarah into a work program? You know, how do we give her some skills? How do we get her employment ready? How do we give her some work placement? So then maybe we're looking at social enterprises and I'll go in, and I'll do perhaps work for a hospitality social enterprise. And I learn how to do that. And I get some ancillary support through being connected to the housing services. And then I get a job and suddenly I've got some income. So that kind of funder is saying, how do we partner with individuals to build their capability to be self-sustaining and to have agency. Scholarship programs, education, training, employment, all that kind of stuff. But like we said before, depending on what that individual looks like, have I been in work before? Do I have a work ready wardrobe? Do I have the language to do that? Do I have a laptop and tech skills that I can write a CV or not?

So, the distance between where I am and that being delivered varies according to each individual. So, it could be quite simple, or it could be quite complex. I might need some mental health support. I might need some drug and alcohol rehab support.

When you're working with an individual, that funding suddenly needs to be a little bit more than ad hoc, lots of little bits, because if it's going to take me five years to get from where I am to stable accommodation on stable employment, I need a commitment over time.

So suddenly your funding pattern looks a bit different again. You need to understand what is that? What's that process to get me from where I am to what success looks like. And when you evaluate it, you're no longer just counting meals and blankets. What you're saying is, what's the impact on that person over the lifetime?

When you then move to communities, you've got a whole other world of complexity. You've got multiple systems connecting. You've got the dynamics in community. You've got causal factors. You've got all that intersectionality stuff. And suddenly you're thinking long term, complex, multiple partners. Government, private business, community, family, non-profit, all the infrastructure organisations. You've got a whole kind of melange of players that you have to connect. So as a funder, you're probably looking at 10 years and big licks of money. Because if you can't cover all the things that need covering, you're probably not going to get the traction you want.

So, you've got needs based, immediate, ambulance at bottom of the cliff. You've got individual capability, fence at the top of the cliff, give me the skills to have self-agency. You've got collective working at the community level.

And then the fourth type of change is saying, well, that's all very well and good, but if you don't change the universal services and the rules of the game, all of those are just going to be self-perpetuating.

What is the one thing you would want to embed in people's minds, grantmakers or grantseekers?

I think unless people understand how positive social change or cultural change or environmental change actually requires, you can never have a conversation about, well, what does it take?

That basic level of understanding about different types of change, what we're trying to achieve, and therefore, what is that recipe? Because the 'what it takes' is going to be different.

I think from a grantmaker perspective, the most important thing is curiosity. I think that opens up the conversation and the exploration of that. I also think that we have to tackle this shorthand assumption that admin costs and overhead costs are bad. And the lower the ratio, the better the efficiency.

If we can start with curiosity, if we can start with that core education and understanding, we can start with some common language, common measures, common lexicon, then it takes the fear and the unknown out of it. It builds a knowledge base with knowledge, then comes practice, with practice comes confidence.

Rona Glynn-McDonald

CEO, COMMON GROUND
DIRECTOR & CO-FOUNDER OF FIRST NATIONS FUTURES

What are the roles you currently hold?

In the not-for-profit sector, I'm the CEO at Common Ground, the First Nations storytelling not-for-profit that creates ways for Aboriginal and Torres Strait Islander communities to tell our own stories our own ways. I am also the director and co-founder of First Nations Futures, an economic justice organisation creating pathways for all Australians to redistribute wealth and create a movement towards active solidarity and economic justice. Beyond that, I am a board director for a number of First Nations led and operated not for profits, and I hold some advisory positions within philanthropy for some family foundations.

Focusing on First Nations Futures, can you describe the funding platform you are developing?

We created a funding platform after two years of co-creation and consultation with First Nations communities across the continent. And those conversations centred Elders, community members, leaders, and young people. With a collective of people, we worked together to create a model that would enable pathways for all Australians to redistribute wealth through our platform. We launched the organisation publicly in August 2023. We're a First Nations-led philanthropic vehicle that shows the way in terms of creating space for First Nations organisations to receive the resources that would enable us to self-determine our futures and create balance in an increasingly inequitable and colonial philanthropic system.

Our platform is targeted at general Australians and individuals who may have the means to be redistributing only twenty dollars a week or forty dollars a month, up to family foundations that have hundreds of thousands of dollars that they're wanting to distribute. We're also targeting businesses and social enterprises and B Corps and corporates as well.

We think that every person living on stolen land has a responsibility to be backing and investing in First Nations communities. And we very intentionally use the language around co-investment. Our work isn't about a hand up or a handout, but about people locating responsibility, encouraging people to step back and decentre themselves, recognising that First Nations people know where money should be going to drive the best outcomes for our futures.

When you talk about showing the way and co-investing, what work do you have to do to bring people along, or are they already on board with that?

Our hope was that through conversations around the referendum people would come to this space of recognising that we need real change and tangible action on the ground, not just now but into the future as well. But to be honest, I don't think we've seen the movement of the referendum translating into more money coming into First Nations communities. When the Black Lives Matter movement came a moment in Australia that saw a huge influx of money coming into the First Nations ecosystem. But I think that hasn't necessarily continued at the scale and intention that we would have hoped in terms of people recognizing that injustice exists here, not just in the past, but in the present. And we all play a role in beating injustice.

There are people that operate in ways that are further along in the journey of backing First Nations' communities. They're doing this by operating from a place of trust, getting out of the way and handing over money and power to our communities to self-determine our aspirations. But I'd say they're a minority.

The majority of people in the ecosystem, either aren't giving to First Nations areas or are giving in ways that perpetuate harm.

Can you elaborate on ‘giving in a way that creates harm’?

I think a lot of people give in ways that are underpinned by colonial mindsets and biases. They give in ways that put their lenses of what impact looks like at the centre. They don’t really trust First Nations communities to have agency over our own lives.

The way people give is often built on who their friends have funded and who they can hold relationship with— the kind of sphere that they live within. There are other spaces missing out and there's harm in that inequity.

Whereas the communities that don't have that access completely miss out on the funding. You need to look and act and be a certain way for funders to trust you. That is inherently violent and problematic.

So, thinking about the boards you work with, is ‘pay what it takes’ a current conversation?

Every First Nations person I speak to who interacts with philanthropy knows the system is working against us and knows, particularly if they've led organisations or led movements and been part of change over the last few years and decades, they've viscerally felt how challenging it is, how hard it is.

When you step into rooms where the racial microaggressions are so insane, and doors are closed to you, you feel paternalism and violence in action. Our governance and team are part of First Nations futures because they want to change that.

They want to make sure that any First Nations person who is leading change in their communities has access to funding and resources that centre their aspirations and interests, that the way they receive funding doesn’t cause harm, that they have support that backs their visions for change. We are creating sustainable and autonomous funding flows that mean community organisations and initiatives can focus on the work rather than having to spend time fundraising and sending insane evaluation metrics to funders to keep them happy. So, they can actually just be in community, and drive work strategically based on their own priorities.

Our board and our advisory group and our team are also strongly affirmed in the reason why we exist. We feel really privileged to have a collective of amazing leaders with us.

I think testament to our work is how supportive our communities have been on this journey. When we set about co-creating what First Nations futures would become in 2020, we connected with over fifty Blackfellas all on Zoom—people giving up their time, amazing leaders who I just never would have thought I'd be able to get a calendar invite with were showing up to have yarns with myself and my co-founder as two people in our early-mid 20s.

First Nations community are really on board with this conversation around how do we shift this system? How do we create economic justice for our communities now and into the future?

If the philanthropic sector in Australia was really centring First Nations people, what would be done differently immediately?

Immediately, money and power would be shifted to First Nations communities to determine how it's spent, where it's spent, what it's spent on and what the impact of that money is. That would be the real tangible change.

They would be handing more money and power over to First Nations-led philanthropic vehicles like us and supporting more to exist. The future of philanthropy should have First Nations-led philanthropy at the centre. We've seen that movement globally, and we're starting to see it grow in Australia.

In terms of the principles of 'pay what it takes' this idea of trust and self-determination is inherently what we need to centre in order to shift the system and get the best outcomes. Because in the end, First Nations people should be leading our futures, on our own terms, on our own lands.

In terms of a longer-term shift, what resources are needed?

We're trying to raise funding at the moment for just our operations as well as our partners and only a handful of funders that we've come across are really invested in supporting our capacity internally because they can see that long term vision.

They can see what it looks like and what it's going to take. They can see what the future could be when we have First Nations-led funds. We need more progressive funders that can step away from ego and acknowledge they don't have all the answers. Questioning positionality, questioning equity, questioning trust, questioning bias, questioning colonial lenses— these are the areas people should be interrogating, for themselves and others in the sector too.

The data we have is that only 0.5% of philanthropic money is going to Aboriginal and Torres Strait Islander controlled organisations.

How are you building trust with your funders and bringing them along?

I think inherently the funders that engage with us already have trust. We're not doing a song and dance to build it. They know we have strong cultural governance and ethics, so the trust remains strong. People are really getting out of the way and going, we back you, we know you've got it, we'll let you get on with the work. It takes special people to be like that to shift the system. I wish everyone were like that.

What about the organisations you co-invest in, how do you build trust with them?

We have a term we use a lot internally, which I think comes from Adrienne Maree Brown—we talk about 'moving at the speed of trust'. With Blackfellas, it's like, when do you get to that point of mutual good feeling? It doesn't happen immediately, sometimes it never happens, but knowing that we've spent the time, we've had the yarns, we've sat down with people properly. That is the way that mutual trust is built. It comes to a sense of shared values all our partners have. They care about young people. They care about intergenerational impact, our future generations. They care about strong cultural governance. They care about community. They care about doing things the right way. They've got a grace and a deep intention about their work. All our partners are so strong in that. They are questioning, reflecting, learning, adapting. They are transparent as well. And it's a privilege that they've even partnered with us.

Are the principles of pay what it takes something that you're consciously measuring yourself against?

When I think about 'pay what it takes', it's not static. I know there is this movement towards paying for the operation and making sure everything is covered but I think it's also about paying for the space between the work—the time for people to sit down and redefine their aspirations.

It's also about paying what we are owed. What is built here is built from the extraction of Country and the dispossession of First Nations people. A redistribution of three percent is not even the beginning of that. Pay what it takes is about economic justice.

For the organisations you co-invest in, what are the biggest challenges in implementing pay what it takes principles?

What I notice across the not-for-profit sector, and particularly organisations that are grassroots and are critically underfunded, is this mindset that has come from the way philanthropy has operated—which is project specific, often short term and hyper competitive. Funders often want to pick and choose the project that suits their funding priorities best, but each organisation's impact is so multi-layered and connected across many programs and activities. So, there's this friction point in which people aren't asking for untied multi-year funding because we've rarely been afforded that. Whenever I pitch to a philanthropist, every deck that I've ever made is asking for untied multi-year. That's just bare a minimum for me in the work, but I was lucky in that the organisations I've led have had trusted funders at the start who also saw that as the bare minimum. Also, as First Nations not for profit leader, its often hard asking for big bucks. We don't want to take up the funding pool when there's such a scarce amount coming to First Nations areas.

I think as well, the trust side is interesting because. A lot of Blackfellas don't trust Whitefellas and to build trust takes time, sitting down properly, shared values. There is the idea that to build trust you must look people in the eye, present a certain way, bring the graces that make whitefellas feel comfortable. The way that a First Nations person is expected to build trust with these kinds of cues or measures that are inherently Western and colonial means so many people in our communities will be excluded from funding ecosystems. Which is why we need our own ecosystems.

So, in thinking about pay what it takes a First Nations perspective the trust piece is so important because we need people to trust us when we say what it takes. And to step back and give us permission to really define what it takes.

To really define what it takes, we need the resources to be able to do that.

Peta MacGillivray

SENIOR RESEARCH FELLOW IN THE YUWAYA NGARRA-LI UNSW PARTNERSHIP WITH THE DHARRIWAA ELDERS GROUP IN WALGETT, NSW

CHAIR, COMMUNITY RESTORATIVE CENTRE

Can you start by telling me the roles you currently have in this sector?

My main employment is as a senior research fellow in the Yuwaya Ngarra-li UNSW partnership with the Dharriwaa Elders Group and Walgett. But other non-academic roles I've held there are Youth Justice Advisor and Partnership Manager. I'm also doing my PhD in the Law Faculty of Law and Justice at UNSW. My voluntary work in the sector includes Chair of the Community Restorative Centre (CRC) of New South Wales. I've been on the board since, 2013. And I've been chair of the board since 2022. I've also been an elected company member and director of the Aboriginal Legal Service, New South Wales, ACT.

With the organisations you work with and for, is 'pay what it takes' current being talked about and on the agenda?

In my work with Yuwaya Ngarra-li it is being talked about as 'pay what it takes' because we have the benefit of professional relationships with people who are close to the work and are familiar with the concepts, and we are philanthropically funded. So, it means that we're engaging in these ideas and we're directly working with the Elders Group to look very closely at how things are funded, what needs to be funded, how resourcing works.

Whereas Aboriginal community-controlled organisations (ACCOs) are more entrenched in government funding environments. The ideas of 'pay what it takes' are just not conceptually understood or engaged with. It's not something that people are thinking about – about going back to government and saying, actually this is the realistic picture of what we need, and can we take a different approach to just determining what it takes.

So, there's this spectrum based upon opportunity and the actors who are in the space and what kind of funding you already have.

In terms of the organisations that are operating in the government-funded space, is that typically project-based funding, short-term funding?

Typically, that's it. It sets up a paradigm where Aboriginal community-controlled organisations feel insecure about the resources that are coming their way.

> ***You might only get it for a couple of years, maybe only a year. You'd be lucky to get it for three years and then having to acquit and reapply and all the while there'll be competition from other providers also trying to get that funding.***

You don't even get to think about doing the work that goes into carefully looking at your budget and planning, and how that fits with strategies. All of that capacity would come from a board. Aboriginal community-controlled organisations are, constituted by community representatives so unless that organisation has partnerships with others who are bringing in that assistance, it's very difficult for Aboriginal community-controlled organisations to have the same capacity to do any of the strategic work around funding and advocating for yourself to get what you need.

If the philanthropic sector centred First Nations people and First Nations' knowledge, what would have to change immediately?

The first thing the philanthropic sector would have to do is to genuinely listen to the vision and the goals of Indigenous organisations and what they're trying to achieve in their life – and align accordingly. So, if philanthropy has a vision for change, which looks nothing like what Indigenous organisations vision for change is, then there's a problem there immediately. And because that's the same problem Indigenous organisations have with government's assumptions about what everyone's working towards.

Who gets to say what those priorities are and what the goals are and what the vision is, actually getting to that point takes a lot of support, capability and capacity for an organisation and for a community. So, the idea that philanthropy could just go to an Indigenous organisation and say, 'Okay, we're ready to support your vision for change, we're ready to support your goals', well, not every organisation or community will have necessarily had any investment in trying to get to that point yet. But they've probably been talking about it for decades and there's probably been lots of attempts to do so. They're just looking for that support without too much intervention, and the time to do it.

Can you describe your current funding relationships?

For Yuwaya Ngarra-li, together DEG and UNSW are thinking about and doing the work that goes into it and how we can best bring the Paul Ramsay Foundation (PRF) along in learning with us. Because that's key. They need to understand how progress is made and so there's lots of collaborative work in the partnership about how best to communicate that from everything from what our reporting looks like, to different ways to help our staff comprehend the nature of the challenges we're facing. That's an ongoing reflection. In our partnership, PRF only understand as much as they're given the opportunity to be educated.

Do you see that as part of trust building?

Yes, because if PRF don't see that as valuable, then that really erodes trust in the idea that PRF are a key player in creating the change. It goes back to my original point about the role of philanthropy and aligning their vision for what we're working towards with the community's vision, because if they don't demonstrate that they're up for learning, then how could they possibly be trusted to join us in kind of achieving the change that we're trying to achieve?

So, it's about reciprocity, which is one of the key Indigenous values, in our partnership. It's a cultural value.

In terms of Indigenous cultural values that you want to see clearly and distinctly brought into this space, what are others?

Taking in our partnership, I'll cite directly, Virginia Robinson, who's secretary of the Dharriwaa Elders Group, one of the key leaders and thinkers in our work. She talks about 'do no harm'.

That has come from hers and many other elders' lived experience of what not following cultural protocol and cultural values looks like and the consequences of that.

Do no harm goes to the core of the experience of Indigenous peoples globally, which is lots of good intentions, but that doesn't matter if the impact and the consequences are devastating. It acknowledges the reality that any kind of move that you make in this space, leaves a mark and has an impact. So, it needs to be a constant and careful process of thinking about both your conscious and unconscious thinking and behaviours, and the values and assumptions you're bringing into the space. You have the potential to cause a lot of harm if you're not coming into the work with the mindset of asking, 'What am I actually doing here? What are my motivations?"

In terms of the emerging PWIT principles, how do they stack up for you?

Multi-year funding would be transformational for Aboriginal community-controlled organisations. The idea that you could actually ask government to pay for the things that you need to actually stand-up services. Flexible funding a fair share of core costs means letting organisations determine how and what the priorities are and the flexibility to do that.

Investment in organisational development is absolutely key because, in Aboriginal community-controlled organisations, that has almost been impossible to get any investment into, and it really erodes their sustainability and longevity. It impacts on the operations of an organisation as well, because you end up with a particular type of management style in organisations to account for deficiencies in the capacity of your board or the succession planning.

So, investment in organisational development, I would interpret more broadly as investing in organisational health, really. Building financial makes a lot of sense for me, based upon what I was saying earlier about, and building an organisation's capacity to actually look for and hold diverse funding.

So, there's an extra set of considerations and skills that goes into seeking and using those types of funds. And I think that it's a really good way to practice what it takes to develop independent programs of government programming, understand how much they cost, understand how they're resourced, plan and accordingly, and then demonstrate that there's capacity within the organisation to deliver those services.

What about the diversity, equity, inclusion principle?

If philanthropy is only understanding its obligations to fund non-white organisations through diversity, equity, inclusion, I think we're in big trouble. It needs to be far more deliberate, whether it's social justice or speaking about racism explicitly.

Do you think there are specific resources required to implement these principles?

Yes. I think the resourcing goes into sharing the knowledge of the philanthropic sector with community-based organisations. I think it needs to be demystified. Community organisations need to know that there's philanthropic funds out there. Otherwise, it's so out of reach that it's not tangible or practical.

I think there's a big piece of work around capacity building the community sector about what's possible with philanthropy. For example, what expectations you might have or how you might advocate to shift where philanthropy's appetite is.

Is there anything else you want to add?

I think that there are some really powerful grassroots organisations and efforts, which will miss out on the opportunity that is philanthropic investment. In Australia, you have philanthropic organisations that work with entities that they recognise and trust and see as having the capacity to deliver.

It seems to me that historically, that's where there's been a disconnect between actually getting outcomes, because people who position themselves as being the right people to partner with actually aren't. Because philanthropy doesn't know they're just being told a story. In Indigenous affairs, I think there are really genuine and incredible people, but they don't have the support to be able to develop their ideas further to the point where they are ready to be invested in.

And I think this actually looks like your most socially disadvantaged neighbourhoods, your poorest communities within kind of bigger communities where there are people doing really sophisticated work and who do deserve to be partnered with.

And I would like to see a more equitable approach to philanthropy that concerns itself with those dynamics in order to ensure that they're not leaving anyone behind.

Jen Riley

PWIT WORKING GROUP
CHIEF IMPACT OFFICER, SMARTYGRANTS

Can you describe your role at SmartyGrants?

I'm the Chief Impact Officer here at SmartyGrants. I work with SmartyGrants clients to use the Outcomes Engine – a feature that enables grantmakers to understand the outcomes of their grants and the impact of their investment.

How live is the pay what it takes conversation within SmartyGrants?

SmartyGrants provide a service and support to grantmakers and we've very much got grantees at the centre of everything we do, which comes from our starting place of providing information to not-for-profits on grants. So, we say things like, don't ask that bloody question in your forms! Don't overburden applicants. Don't create grant rage. We're really big on supporting the community first. We're really centred on that. So, pay what it takes, absolutely, is something that we are very supportive of.

We understand the pain that grantees can go through. Our organisation Our Community (of which SmartyGrants is one part) has a membership base of community orgs of 50, 000. We have the Funding Centre, and GiveNow, and we also have the Institute of Community

Directors Australia. So, we are strong advocates for pay what it takes and not for profits being sustainable.

But we are at the stage where we're like, yes, and what does that mean in practice? What can we practically do to support this? Because we have over 500 SmartyGrants clients across Australia and NSW including government, local councils, and private and corporate foundations. We are looking to translate these ideas for grantmakers in tangible ways.

What advice would you give grantseekers in advocating for pay what it takes?

In SmartyGrants we have produced a white paper on unrestricted funding, which is more focused on grantmakers, but grantees could use it to advocate for unrestricted funding.

Unrestricted funding is not quite pay what it takes, but it's in that same vein of, well, don't tell community orgs how to spend the money. It is give them a chunk of cash and trust that they'll do the thing they need to do and pay for it with the cash, so in a way it could be pay what it takes.

When working with grantmakers in my role, I am always advocating Our Community's line that grantmakers support 10 percent of grants going towards evaluation. Evaluation funding is only part of this bigger picture of pay what it takes, but we are saying that to grantmakers, you've got to pay. If you want grantees to do evaluation, you have to put money in their budget so that they can do the evaluation, it can't just be expected on top of everything else that grantees do.

In advocating for PWIT principles, have you noticed some catching on more than others?

I think in terms of unrestricted dollars funding it takes a special organisation to go down that route. But I do believe that the evaluation conversation is cutting through. We can give them that 10 percent rule and say, look, it's got to be proportionate. If you're giving out a hundred thousand dollars, then expect them to spend $10, 000 on doing the evaluation. But if you're giving them $5,000 keep your expectations very simple. I think that's getting some cut through because it's practical. We can make sure that 10 per cent is put in there, and they're using that principle when asking questions in their acquittal forms, and this issue of proportionality is getting through.

I know it takes time to create these sort of policy changes for grantees. But I'm certainly seeing some changes around the types of questions grantmakers or funders are asking and an understanding about the burden of administration. They are certainly reducing their forms or being more mindful – given the amount of money they're giving. So, I'm seeing it. But it's slow.

What characterises an organisation offering unrestricted dollar funding, in terms of their leadership and governance?

Personally I think they're bold, they're great. But what holds them back is the worry of giving money out, often someone else's they have been entrusted to manage, and it being misused. So, they'll put limitations and controls in place. So, for an organisation to strip all that away and just give out a chunk of cash. I mean, I actually don't know anybody using SmartyGrants who does that. I think the unrestricted tends to be very niche, privately run, entrepreneurial philanthropics willing to have a relationship with an NGO and, you know, give that money based on trust and relationships.

Is there room for your clients to develop trust with their grantees?

There is one client, The Ecstra Foundation who support financial literacy and Jeremy Motbey heads up that grant program. I think he's built really good relationships and dialogue with their grantees. He has created a forum and the opportunity for conversation around evaluation and grants, and he is learning more about the programs and the challenges and so on.

I think governments are in a different space to philanthropics and are therefore more risk averse, it can't be about relationships for government. It has to be about process and those processes must be transparent.

But there's one example of local government we work with, the City of Greater Dandenong. They're giving out significant community grants and they have a community development approach, so they've gotten to know the organisations and I think those organisations do have some flexibility with their funding.

It has to do with personality as well. The grant manager has to be willing to go a bit further, to colour outside the lines a bit. And I think it pays off when grant managers can be more flexible. Overall the programs I am sure get better results. I'd love to evaluate that. My hypothesis would be that those grant giving relationships based on trust have better outcomes for beneficiaries on the ground.

There is a general understanding and acceptance that you've got to pay a percentage to an overhead. I think that's made its way into grantmaker lexicon, a 20 percent overhead to keep the lights on. It's not 100 percent standard practice, but it doesn't raise eyebrows to put an overhead line in a budget.

I think getting them to move to pay what it takes is a challenge. A lot comes out of that awful stuff that was in the 90s and 2000s about fundraising ratios. We've got such a legacy and that narrative about 'admin' as though it's a dirty word, like they're just sitting in their nice offices and what about the poor people? We have ended up with a narrative that if an NGO is not spending 75 percent on program costs, then they are somehow inefficient. Which is an absolute furphy, and we all know it.

And I think most would agree in the sector that there are many NGOs reviewing their annual accounts so that they stay in that 75 percent or 80 percent program spend in their annual reports. It is not really the best system.

How can it be improved?

If an NGO came out and said they spent 50% on overhead, they'd end up on the front page of the newspaper and they'd lose their donors overnight.

The problem is with the terminology 'overhead'. I think we need to change the language around it. People don't get what it actually takes to run a program. You can't have coffee without the coffee cup. You've got to have the infrastructure and train capable people; you've got to support staff to do a good job. So, the whole problem is in the framing of 'admin' vs 'program' vs 'fundraising'. NGOs are all stuck reporting on these ratios. We're stuck in a narrative or a frame of program being different to admin.

I think for funders flexible funding is more palatable than unrestricted. Unrestricted sounds like a blank check to some! And that can really keep some people awake at night.

Do you think there are cultural values around this that are specifically Australian?

I think Aussies hate the concept of a bludger or someone taking people for a ride. I think the US has foundations with bigger money who are seeing bigger results. And I feel like in America they've got a higher appetite for risk. And they've got the story about the freedom of information being an outcome of unrestricted dollars.

Our Community actually started with an investment to develop and grow the organisation. So it happens. But it's often a relationship, you know. Carol Schwartz invested in Our Community due to her relationship with Denis Moriarty and then this amazing organisation was created. It's those investors who have faith in people, who make an investment like that.

What would you like to see happen?

I would like to see some controls relaxed and some trust given to the not-for-profit sector so they can do what it takes to make the change.

Often, they can't do what it takes because they don't have the money to do what it takes. Because they're dancing around these restrictions that are put on their funding. And some of these poor orgs, they've got like twenty different grants they're managing, and they've all got different requirements, different forms. Orgs spend so much time doing grant admin. As a system, it's self-defeating. So, we've been trying to standardize reporting across the sector.

What advice would you give to these organisations?

You've got to take the grantmaker on a journey. I say this all the time to grantees. Because the problem is, if you just say, oh, we are going to create world peace, and the grant manager is like, well why haven't you done it? Grantees need to stop over inflating their outcomes in their applications and setting themselves up to fail and break trust with donors.

I think one of the best examples I have is when I was working with a drug and alcohol organisation and we were developing a theory of change and outcomes they were trying to achieve with this residential program. And what was awesome is we had people in the room, we had actual residents, you know, people recovering from drug and alcohol issues in the room, doing this theory of change work. And the staff were focused on long-term relationships, achieving employment and all this stuff. And the resident in the room was like, 'Mate, the first four weeks I was here all I was trying to do was get a good night's sleep.' So really for the first three months of a drug program, you're pretty much working on getting the person to just come out of high stress, get a good night's sleep, eat three meals a day, get your bodily functions working et cetera.

Grantees need to stop telling funders they are going to achieve all these big outcomes. And instead get real about the state these people are in when they come in and what is actually happening. And what's actually happening is really important. Any funder when given the chance to understand is going to get that.

But there is a problem in that often the people assessing grants don't have the power. They're often low-level bureaucrats. And if an applicant doesn't fit in a box or meet a funding criteria, then the grant application won't make the cut.

Do you think there's any resources that would help people to communicate the reality of their situation better?

Grant managers that are curious and get to know the community and you know, sit down and have conversations and listen are the ones more likely to fight for that program or allow for more flexibility within those funding lines. These are the grant managers that can see the grey. But it's risky business for people. It is their own security and livelihood.

So, in terms of what principles and approaches make grant making excellent, trust your staff to make flexible, responsive decisions with the evidence they have at hand. We know by the time the grant guidelines are written and the grants go out the door, the world may have changed.

There's another value that sits under this – you've got to get it right, otherwise you're wasting money. And that whole frame is problematic. What if you could get it wrong and learn so much and we value that and then we should scale those learnings? But we're so obsessed with getting it right that we limit the train tracks we operate in.

What keeps you hooked on solving these challenges in the sector?

Because of those conversations that I do have with grantmakers. They'll hear something and the light bulb will go off and they'll realize that they can enable really good granting and good stuff can happen. So, I guess it's building the capacity or bringing grantmakers into awareness that evaluation it less about performance, more about learning.

At Our Community we are striving to shift the system to one of learning, of asking what works well and what doesn't work well? But this requires more honest dialogue on both sides of grant making. I know good things will happen. I'm an optimist and I have access to these people. And most of them are really curious and want to change their practice and want to do better grant making.

And I have the opportunity to sometimes give them an excuse to do that. Like I say, you know, you've got to do this, you've got to put money in that budget so we can work out what has worked. I have advised grantmakers to take out the word 'success' against indicators because you're going to end up with a bias in your data. And they're like, oh yeah! It's drip, drip, drip, but I just hope we're all in this together.

What would you really like to get in the heads of board members?

Create space for learning and for risks to be taken and for it not to be seen as a failure. If they really want to create social change, they've got to be willing to have some failures, like investors in start-ups who know two thirds of them will fall over and they build that into their financial modelling. Why don't they do that for the social sector?

So, if I had one thing that could get into their head would be see failure as an opportunity to learn.

Cynthia Scherer

PWIT COLLABORATION GROUP GENERAL MANAGER, ANTHONY COSTA FOUNDATION

What has been your experiences of PWIT and the Anthony Costa Foundation?

To start with some context, the Anthony Costa Foundation is a family foundation. It was set up to manage the philanthropy of two brothers and their families. It has been around in its current form since late 2015. From 2015 to 2020, it was primarily managed by family members on the Foundation board - whoever might've been available at that moment in time, whenever something was happening.

By early 2020 the family felt like the Foundation had outgrown their capacity. They were committed to the idea of there being a clear vehicle for the family's philanthropy and wanted to make sure that there were structures and processes in place, giving clarity to the family, the community and organizations they supported. I was hired in mid 2020 as the first staff person for the Foundation. I had been working in philanthropy in the same community, so I understood the local philanthropic and community context. I also had deep relationships with local community organisations and an understanding of what community organisations wanted and needed.

I had seen and experienced some of the challenges that existed for philanthropy and the implications of those challenges for community organisations particularly as it related to concepts like multi-year funding and general operating support.

In what ways were you challenged? In what ways is the Anthony Costa Foundation different?

Part of it was around how and from whom funds were raised. Part of it was around having to communicate your value and the difference you were making to the community. This meant that the process of identifying who you gave the money to every year was important, as it was a touch point for the community and donors. It also meant you had a much larger donor pool you had to educate and bring along when trying to change how you might do things. Coming to the Anthony Costa Foundation, there was more opportunity for flexibility and nimbleness as there is one donor – the family. The ability to be flexible and nimble is something that they value.

I was also lucky that when I came that the family was open, and still is. They want to know what is best practice philanthropy and how to make the biggest difference. They are willing to learn and evolve.

Another element about the Foundation which has been helpful is the fact that it is place-based. This means you are already closer to everybody you fund, you know everybody that you fund, which adds to the ability to have trust, which I think is one of the underlying elements of pay what it takes. You have to trust the organisations that you work with and that you're supporting. Relationships and connections are important to the family and this plays out in the work of the Foundation. It has been and still is a journey, but in 2020-21, multi-year grants became an important part of our grantmaking, with half of or grants that year being multi-year grants.

That’s a quick turnaround.

The Foundation had the monetary resources to be able to do that [multi-year grants] and had some history of doing multi-year capital grants, but it honestly made sense to them. In early 2021 the Foundation reflected on its strategy to date. As part of that reflection the Foundation identified its values and grantmaking principles, many of which are consistent with some of the PWIT principles. Multi-year grants were a natural extension of this.

The Foundation’s understanding and thinking has continued to evolve since then. I think it is important to understand the amount that organisations need and what they need it for. We reflected again on our strategy in early 2023, both how we gave, how much we gave, but also the processes we used.

As a result of this we made some changes about the kind of grants we give. So, we have some multi-year grants that are $7, 000 a year for 7 years. A scholarship, for example. WE know some organisations need small grants. So we have a small grants round (under $25,000) to ensure access to smaller grassroots organisations who have smaller needs, but we've been more focused on providing a minimum of $50,000 a year, more often than not in a multi-year grants, knowing that there's a sweet spot for organisations around what's going to make enough of a difference for them to build on or build around, to actually free them up enough to feel like they can get ahead of the curve.

We understand these small grants of $25,000 are more transactional and they're going to be small, but they are about engagement. They are about getting the rest of the family involved in the work of the Foundation. In the middle we have these grants of at least $50,000. And then we're doing what we call transformational grants, which is really around significant multi-year, beyond three years, and those are high engagement. Those are about deep relationships. We've identified four initial organisations with which to work. It's not about an application, its about working with them to define their needs, and to try and make it unrestricted funding so we're not saying that it's tied to a specific project or a specific thing. It's money because we believe in your mission, vision and values, and we want to see you succeed and have an impact.

To me that is where we should want to be. Longer term, unrestricted, and a significant enough amount of money that it releases the organisation from having to be on the treadmill. The Foundation's money is never going to be all of it, but it is enough money that they'll be able to then leverage it to do the other things that they want to do and have some stability.

Does the foundation have a particular funding focus?

We do have some clear focus areas, which we've revised recently as part of that strategic reflection that we did. So, in revising how we wanted to think about our grants, we also revised the things that are important to us in the community where we live and work. There are three areas. Thriving children and young people, which focuses on equity and education and mental health and well-being for young people. Safe place to live, which focuses on homelessness, family violence, and addiction. And creating vibrant communities which focuses on food security and basic needs, inclusion for people with disabilities, and arts and culture.

Those first four organisations we identified for transformational grants are ones that tie very closely to one or more of those areas. They are also all organisations that we have funded previously for a number of years, so we know them and trust them.

The idea is that our small grants are a first chance for us to get to know organisations and organisations to get to know us and even though I've called those a transactional relationships, it's actually a very high touch process. Our small grants process actually engages family members in reviewing the applications and meeting with the organisations, and then they make the recommendations to the board for funding. So that is all about getting to know organisations and being able to connect with them at a family level.

We've already seen a couple examples of organisations that we have never had any relationship with before who got a small grant, the family really liked them and now we've given them a multi-year grant. Not necessarily one of the four and the unrestricted, but still a next phase of funding where now we're continuing to build a relationship with that organisation. That is how you build the trust and engagement.

What do you think are the broad challenges in implementing pay what it takes?

One of the things I've really tried to sell my board on is we are not the experts. I personally think sometimes what happens in philanthropy is we like to position ourselves as being experts, and think we know how to solve the problems.

Generally speaking, we are removed from what's really happening. We need to be focused on organisations that align with us in terms of issues that are important to us and align with us in terms of our values. We need to trust their competence and expertise to approach the issues in the way they know and see best. We need to buy into what they want to achieve and not the activity because they're going to know the best way to get there.

You know, we absolutely should ask questions about that activity, but we shouldn't get concerned if it turns out that that's not the right activity. We should allow them to adjust, adapt, be flexible. I've really tried to get that across to the board, not to get too caught up in the activity, but to focus on the outcome. That's where the trust piece and the relationship piece becomes really important.

We're really believing in the organisation and the people in the organisation and trying to give them the resources they need to be successful. I think it's about deciding what you want to be good at. Do we want to be good at the issue or do we want to be good at finding the right organisations that actually know the issue.

Is there anything else you would like to plant in a board member's head?

The other thing I find that happens is that a lot of boards don't understand how not for profits work. A lot of times donors hold not for profits to a different set of standards than they would other kinds of organisations. Do you really think you can give them money just for programs and that they're going to be able to survive and they're going to be able to be successful?

If you're somebody who has a business background, when you invest money in something to achieve a financial outcome, you're not so concerned about what that money was used for to achieve that outcome. Did that money actually, you know, build the widget? So, I think we need to help them understand how not for profits work and what the reality is for a not for profit in terms of resources versus outcomes. The reality is they do so much with so little. To be penny pinching and micromanaging them is actually insulting.

Do you think there's a way to challenge that ‘do more with less’ narrative?

Again, part of it is about not focusing on the activity. Let’s focus on the outcome. Think about it as if you're investing in the outcome. Say my outcome is I want young people to reach their full potential. That’s a very broad goal. But if I say the money is for a mentoring program and it’s going to cost $30, 000 to run a mentoring program for 15 young people. That’s $2, 000 a young person. A funder might look at that and say, but you’re spending it all on a staff person. Whereas if you said, is it worth $30,000 to give 15 young people the opportunity to reach their full potential? Well, that’s a very different framework and way of thinking. So, it’s trying to get people out of the weeds to thinking that’s an absolute bargain because they are focused on the outcome.

You also have to get out of your armchair, you need to visit the organisations you support, as simple as that seems. Then you start to understand that it takes a lot more than you give people credit for, to make it all happen. When you meet the people at their organisations that changes things because the people are amazing. They’re passionate, they’re knowledgeable and they are experts at what they do. And you can get excited and connected.

Appendices

More useful perspectives and articles on implementing Pay What It Takes from around the world, and the latest literature.

Definitions

Pay What it Takes (PWIT): A principle advocating for covering all costs associated with a program or initiative, rather than only project-specific expenses.

The Pay What It Takes (PWIT) Coalition is an alliance formed by individuals and organisations working collaboratively to influence philanthropic funders to 'pay what it takes to create impact'; and recognise and value the true cost of creating impact – leading to increased financial sustainability, effectiveness, and equity within the for-purpose sector.

The Pay What it Takes (PWIT) Charity Consortium is a collection of individuals and organisations working collaboratively to address the critical challenges faced by Australian Not-For-Profits, focusing on the crucial but often underfunded area of overhead costs. We conduct research, raise awareness of the issue, and provide resources for those in the Not-For-Profit sector looking to tackle this systemic challenge and create change.

Charities: Organisations registered with the ACNC (Australian Charities and Not-for-profits Commission) that have a specific charitable purpose.

For-purpose organisation: This term includes organisations like some social enterprises that exist to fulfill a social purpose, irrespective of their legal structure as not-for-profits.

Full Cost Recovery: Refers to the practice of covering all costs associated with a program or initiative, including indirect costs.

Funders:
Grantmakers/Grantees: Refers to those entities providing or receiving grants
Funders/Fundees: Entities providing or receiving funding
Funding Practice: The methods and principles governing the allocation of funds.
Funding Paradigm: The overarching approach to funding within a sector or organization
Philanthropists: Individuals or organisations providing funds for charitable purposes

Impact: The broader effects or changes resulting from an organisation's actions, often beyond immediate outcomes.

Non-government organisations (NGOs): A subgroup of not-for-profits, often defined as working towards social objectives or internationally.

Not-for-profits (NFPs): A broader category encompassing any organisation that has declared itself a not-for-profit entity in its constitution. While all charities are not-for-profits, not all NFPs are charities.

Outcomes: The results or impacts achieved by an organisation or program.

Overheads/administration costs: Operational expenses not directly tied to program delivery.

Unrestricted/Core funding: Funding provided without specific restrictions on its use, allowing organisations flexibility in resource allocation.

Summary of perspectives from overseas

Gathering diverse perspectives on global philanthropy, the West tends to hold the microphone, especially the US with its big name and big money funders. But a booming technology sector in Asia has created more new billionaires than in any other region in the word.[6] A generation of wealthy donors educated in the West have an interest in moving away from informal to more strategic giving. Social investment networks such as AVPN and the Asia Philanthropy Circle promote discussions on untied giving, trust and transparency. But is there evidence to suggest PWIT principles are taking hold there?

A social impact study, Doing Good Index 2022, released by the Centre for Asian Philanthropy and Society (CAPS) suggests that it is not. Examining the social investment landscape in Asia, the study points to structural conditions preventing organisations from thriving. It names a 'trust deficit' between the government, private and social sectors as hampering collaboration and investment, and reducing for-purpose organisations' ability to deliver on their objectives. Specifically, one third of organisations surveyed reported a decline in unrestricted funding.

From the US, there is overwhelming consensus that for-purpose organisations should be granted funding for indirect costs. But as our interviewees discuss, determining what indirect costs actually look like is difficult––with different definitions and approaches used across the sector. There is a long history of funders incentivising underreporting, and the risk that the rates proposed are still insufficient for what the organisation needs. If organisations do name their true funding costs, they may fear jeopardising their funding.

If this is to be addressed by unrestricted funding or another approach is an ongoing debate. What is clear is that as a result of advocacy and evidence around the positive impacts of funding indirect costs, there has been a considered shift to the 'pay-what-it-takes' model.

The following organisations' reports and initiatives were influential in achieving this shift:

- The Rand Corporation's 1986 report on the impacts of low indirect cost rates: Indirect Costs A Guide for Foundations and Nonprofit Organisations. https://www.rand.org/content/dam/rand/pubs/reports/2005/R3376.pdf

[6] The Economist reports: 'There are 896 billionaires in Asia, more than any other part of the world (America has 746), with a combined $3.4trn in assets.'

- The Bridgespan Group's introduction of the concept of the non-profit starvation cycle in 2009: 'The Nonprofit Starvation Cycle'. https://ssir.org/articles/entry/the_nonprofit_starvation_cycle
- BBB Wise Giving Alliance and Charity Navigator's 2013 'Overhead Myth Campaign' where they wrote an open letter to donors explaining that grantees were under constant pressure to meet unrealistic donor expectations, and challenged the idea overhead rates were an appropriate measure of organisational efficiency.
- In the wake of Covid 19, Funding for Real Change (FRC) developed a series of recommendations and resources to help funders change their practices to 'good grantmaking' and to support for-purpose organisations to identify and communicate their true costs. https://www.fundingforrealchange.com
- Further research commissioned by FRC contributed evidence on the impacts of underfunding on national NGOs in ten countries: Breaking the starvation cycle: How international funders can stop trapping their grantees in the starvation cycle and start building their resilience. https://humentum.org/policy/administration-costs-research-project/.

Examples of the shift

- In 2019, the MacArthur Foundation almost doubled the allowable overhead from 15% to 29%. This increase was based on analysis into the average minimum indirect cost rate non-profits identified as financially healthy.
- In 2023, the Ford Foundation increased their minimum indirect cost rate from 20% to 25% and allows for higher rates if the costs can be demonstrated.
- The Casey Foundation adopted a sliding scale of between 15– 25% dependent on the size of the grantee, suggesting that a one-size-fits-all approach may not be appropriate for their grantees.
- The Ford Foundation has increased the proportion of its funding being provided as core support to 81% in 2021, and in 2016 launched the Building Institutions and Networks Initiative (BUILD). BUILD provides flexible, multi-year funding to social justice organisations to strengthen their institutions and build organisational and financial resilience and achieve impact.

Lessons learnt from build

by Kathy Reich

DIRECTOR, BUILDING INSTITUTIONS & NETWORKS (BUILD) – FORD FOUNDATION

Recognising the limits that tied project funding was imposing on organisations, in 2016 Kathy Reich initiated BUILD at the Ford Foundation. To begin, one billion dollars was set aside to provide five years of untied funding to support social justice organisations and networks in their fight against inequality. After a review of the program, the Foundation committed another one billion dollars. To date, they've supported 399 organisations.
After the first year of the initiative, Kathy authored a report Changing Grant Making to Change the World. She summaries the learnings from that first phase as:

- Lesson 1: Non-profits thrive with larger, longer, more flexible grants.
- Lesson 2: Long-term, flexible grants work best when they closely align with strategy.
- Lesson 3: Grants like these can foster deeper relationships between grantmakers and the organisations they support—but money can't buy trust. It takes work.
- Lesson 4: Grants like these can work anywhere in the world.
- Lesson 5: Supporting institutions is critical—but so is catalysing and supporting networks.
- Lesson 6: Patience is a virtue. So is rigorous evaluation.'

Five years on, Kathy expands on those learnings in a 'fireside chat' delivered online (October 26, 2023) and hosted by Philanthropy Australia.

'After eighty years of working on the front lines of social change, the Ford Foundation recognised that non-profit organisations are playing a long game and progress is not linear, especially when looking at complex problems like climate change or inequality. But up until BUILD, the Foundation's funding did not reflect that. Most of their grant giving had been to provide project support tied to rigid timeframes and deliverables, which was stifling their investments and talent and organisational development. It was not encouraging organisations to innovate, collaborate, or learn from failure or scale.

The first phase of the program ran from 2016 to 2021. We granted a total of one billion dollars in that phase. After an evaluation found significant positive impact, our board approved an additional billion dollars to continue the program through 2027. An estimated 30 percent of our grant making budget is now allocated to BUILD.

An evaluation has found that BUILD organisations are better able to plan and execute on their missions than before they received the support. They are more financially stable.

They're more successful at leveraging support from other donors. They're better able to compensate and support their staff. And as a result, the evaluation reports that BUILD has contributed to an increase in their social impact.

We work with an emphasis on having the grantee in the driver's seat because a key goal of BUILD is to transform our relationships with our partners. We let them define their programmatic and institutional strengthening priorities, and in our visits and check ins, we are as interested in the organisation behind the program as we are in the program itself.

We're about funding organisations. But what we found was that time and time again, having this type of flexible funding and attention to institutional strengthening made organisations more generous and more creative partners. And so that the effects we had within networks and movements were much greater than we predicted at the time.'

Lessons expanded

The comprehensive nature of the support matters. It is not just the multi-year commitment.

'It is not just the flexible funding and special funding for institutional strengthening. I can't emphasize strongly enough that capacity building or institutional strengthening alone will not suffice. It's actually those three elements together that have made the program successful. Organisations really do need long term flexible funding to implement the visions and the plans and the practices that they develop through capacity building.'

Cultural relevance really matters.

'We learned very early on in BUILD that working with Indigenous networks in Latin America called for very different approach than working with research and policy organisations that were based in Europe, and we've really deepened our efforts to embed culturally appropriate practices into our work.'

Following the grantee partner's lead really matters.

'The less we try to dictate, either in organisational strengthening or in overall strategy and operations, the more candid and collaborative and ultimately successful we have found the BUILD relationship to be. We're really trying to shift the paradigm so that the funder isn't the orchestra conductor, or the director. But the funder is a coach and a thought partner and a connector.'

Don't just dive in.

'If you don't know someone well or if you have reason to think their financial management is not what it should be, then you should be thinking about other ways to deepen your relationship with them. BUILD is not always the right tool. For example, you could start with a smaller and shorter flexible grant and see how it goes and increase and deepen that support over time.'

Shared analysis and shared strategy really matter.

'One concern people have when they think about making grants flexibly is that they might be sacrificing rigor, or strategy or benchmarks or indicators. And I don't believe you have to sacrifice any of that.'

Click here to listen to the full conversation.

Or click here to read Kathy's report,
'Changing Grant Making to Change the World'.

Literature review

The last 'Pay What It Takes' literature review: developing insights on the nonprofit starvation cycle in Australia (2021) was conducted by the Centre for Social Impact UNSW to 'identify the extent, drivers and effects of the non-for-profit starvation cycle.'

Looking at relevant literature published between 2005 and 2021, it found:
- 'Other literature uses Australian data but does not explicitly position itself as researching Australian NFP issues.
- The relationship between funder and recipient is not an equal one. NFPs are vulnerable to the requirements of their different funders.
- Australian research needs to address the unique Australian funding and reporting landscape that Australian NFPs face.'

Methodology

The 'Pay What It Takes' literature review: developing insights on the nonprofit starvation cycle in Australia (2021) used the following key words in compiling relevant literature:

starvation cycle, overhead, indirect cost, shared cost, core cost, unfunded expense, non-profits, not-for-profit, nonprofit, charity, cross subsidisation, culture of permission

Building on that, this literature review will employ the same search terms for relevant literature published after February 2021, with one additional search term added – 'pay what it takes'.
For this literature review, we used the same databases as the 'Pay What It Takes' literature review: Embase, ProQuest, PsycInfo, Web of Science, Google and Google Scholar.
The findings of those searches were scrutinised for quality and relevance.

Summaries of recent articles and papers

Allred, A. T., & Amos, C. (2023). A processing fluency perspective on overhead aversion: How much is too much?. Journal of Philanthropy and Marketing, 28(2), e1781

What does it add?
- The fundamental purpose of the study from Goddard School of Business, Weber State University, Ogden, Utah, USA was to assess potential donors' willingness to donate to nonprofits at varying overhead ratios.
- Their results suggest a 'fluency threshold' where a 25% overhead ratio seems to be the maximum acceptable overhead limit.
- The paper makes suggestions around when to communicate or withhold over-head ratio information.

Quote:

‘Nonprofits that can effectively operate, and avoid the starvation cycle at levels well below 25%, may be able to leverage their low overhead to gain an advantage in the donor market. Marketing managers for such nonprofits should consider creating clear and explicit promotional (traditional, alternative, and Internet) communication materials that identify the specific amount of overhead expenses—this would inhibit false perceptions while consequentially increasing donations. Next, if a nonprofit's over-head expenditures are well below 25%, but they need to increase them for greater effectiveness, they should not immediately feel as though any increase in overhead will deter donors. Likewise, non-profits operating effectively at a level proximate to 25% should not blindly succumb to the pervasive heuristic that lower overhead ratios would attract more donors. Based on the results of this study, as long as the overhead ratios are within the fluency threshold, donors should be minimally deterred.’ P13

Connelly, C. (2023) New impact investment opportunity for ancillary funds a game changer. Philanthropy Australia. https://www.philanthropy.org.au/news-and-stories/new-impact-investment-opportunity-for-ancillary-funds-a-game-changer/

What does it add?

- Points to a key challenge faced by not for profits – critical operating expenditure is not available or commensurate to the complexity of the issue they are seeking to address.
- Introduces a new product, the Capital Impact Loan.
- Considering ‘pay what it takes’, the Capital Impact Loan is distributed in a manner determined by the NFP, allowing the NFP to amplify its impact.

Quote:
‘NFPs who successfully raise Capital Impact Loan funds will receive substantial, secure, long-term annual cash flows to fund their core operations. Rather than our leading changemakers having to fundraise for these funds, they are empowered to “lift their eyes’” and focus solely on impact and outcomes.
A Capital Impact Loan represents an opportunity to mobilise substantial balance sheet investment in direct support of our most outstanding charitable organisations, focused solely on impact as prioritised by the NFP. It will also leave a substantial and enduring balance sheet asset to assist long-term sustainability. This will be a game changer for those organisations.’ Online.

Harris, E. E., Neely, D. G., & Parsons, L. M. (2022). Nonprofit Performance Measurement and Reporting: Looking Forward. Journal of Governmental & Nonprofit Accounting, 11(1), 51-58.

What does it add?

- Challenges the overselling of the program ratio (the amount of expenses directed toward mission-related activities (rather than overheads) divided by total expenses.
- Suggests organisations put forward unique and self-defined performance measures, to convey true nonprofit outcomes rather than spending patterns.
- Provides examples of best practice.
- Puts forward more appropriate measurement and better reporting as ways to improve measures of nonprofit performance.

Quote:
'As technology evolves and stakeholders become more sophisticated in their ability to gather and process nonprofit information, better reporting and tracking systems may be of vital importance to the sector. For example, how effective are social media tools for reaching potential donors? Can social media companies use AI to target donors with performance information based on their online profiles, similar to the way they direct advertising to users?' p57

Hunt, C. (2023). The Importance of Establishing Operating Reserves for Nonprofits. Stanford Social Innovation Review. https://doi.org/10.48558/XWH4-1B06

- Reports on the Kendeda Fund's experience of funding operating reserves.
- Initially a way to prepare organisations for the fund's 'sunset', it looked to existing multi-year grantees who had less than 6 months of reserves.
- The offer was a 1:1 match if the organisations could commit to building their operating reserves and raise an additional 12.5 percent of their operating budget towards the reserve.
- The article outlines the positive outcomes that were not anticipated, and the lessons learned.

Quote:
'In many cases, having cash on hand helped rewire how organisations approach their work and helped them move from a scarcity mindset to one of growth and stability. Being relieved from cash-flow stressors gave grantees confidence to be strategic and forward-thinking. One partner explained how having a reserve fund "ignited a shift in our thinking, making financial resilience a priority for our management team and board of directors. Additionally, knowing that we have a reserve that is almost equal to our line of credit means that we didn't have to draw on our line of credit at the beginning of our program season when we typically draw up to half a million dollars from the bank. In 2022, this saved us thousands of dollars in interest payments."'

Richardson, K., Wiepking, P. & Presser, J. (2023) Unresticted funding: why grantmakers need it. Our Community. https://smartygrants.com.au/help-sheets/whitepaper-unrestricted-funding-why-grantmakers-need-it

What does it add?

- Makes a case for 'no strings attached' funding – with a sliding scale of restrictions, depending on the risk appetite.
- Points to benefits as being: boosting recipients' ability to respond to changing circumstances, addressing power imbalance between grantmakers and recipients, increasing impact by giving recipients the power to develop their own solutions, and reducing administrative burden.
- It points to risks and challenges of unrestricted funding including, with its reliance on trust building and long terms relationships, perpetuating unconscious bias and inequity
- Australian perspective.

Quote:
'When grant recipients were asked about the benefits of unrestricted funding, their number one response was that it improved the organisational and financial sustainability of their organisation.
The study found that the provision of unrestricted funds allowed grantees to:
- fund core costs – allowing them to break the non-profit starvation cycle
- attract other funding – the provision of unrestricted funding allowed organisations to invest in their fundraising capability, enhancing their sustainability and potential for future growth
- invest in organisational capability, for example IT infrastructure or training and professional development
- bridge financial gaps – many respondents said that unrestricted funding helped to cover the financial gaps that exist when traditional project-based grants either don't cover core costs, or don't cover enough core costs to cover the overheads involved in running programs
- create reserves – which enables organisations to withstand financial shocks.'

Robichau, R. W., Sandberg, B., & Russo, A. (2023, May). Beyond 'Psychic Income': An Exploration of Interventions to Address Work-Life Imbalances, Burnout, and Precarity in Contemporary Nonprofit Work. In Nonprofit Policy Forum (No. 0). De Gruyter.

What does it add?

- Challenges the assumption that working for a nonprofit is inherently meaningful or that 'psychic income' is fair compensation for workers, as reflected by the 'great resignation'.
- Suggests nonprofits need to centre their workers' contemporary needs and desires – including pay, flexibility, and work/life balance.
- Points out that since Covid, nonprofit revenues have plummeted while the need for services has increased.
- Suggests that women and people of colour face a 'triple-bind' as they navigate neoliberal market values as well as the impacts of gendered and racialized organisations

- Calls on organisational and public policy initiatives around pay equity and flexible work to support such a transition.

Quote:
'While nonprofit leaders navigate adapting to pandemic life (Akingbola 2020; Stewart et al. 2021), it seems clear that nonprofits are not immune from larger forces shaping workplaces. Whether called "the great resignation," "the great attrition," "quiet quitting," or setting healthy boundaries, precarious working conditions and high levels of worker burnout coupled with a strong labor market are leading workers to question the importance of work. Indeed, workers everywhere, including the nonprofit sector, are engaging in a new "worth it" equation weighing flexibility, relationships, personal wellbeing and health, and purpose and meaning against the importance of paid work (De Smet et al. 2021; Microsoft 2022).Experiencing MFW [meaningful work] is one of many factors included in the "worth it" equation.'
(online)

And:
'Recent scholarship conveys the possibility for changing the narrative around nonprofit overhead. Berrett (2022) demonstrates that investment in organisational capacity including salaries and technology actually supports nonprofit effectiveness. Qu and Daniel (2021) suggest that framing overhead not as "overhead" but as investments in organisational capacity lowers donors' aversion to supporting such costs.' Online
Venkatachalam, P., Yeh, D., Rastogi, S., Siddiqui, A., Gupta, K., Shekar, L., & Thompson, R. (2022). Bridging the Gap on Funding the True Costs of NGOs in India. Bridgespan Group.

What does it add?

- Identifies that funders and NGO have a common desire to work together for lasting change.
- Offers ways for NGOs to understand the funder mindset through three archetypes – to allow for conversations about what it truly costs to run an organisation.
- Strongly suggests the need to improve communication and trust-building between funders and NGOs.
- Points to the paradoxical situation many NGOs are in: they do not have the staff, evaluation skills, and financial resources needed to make the case for more indirect cost and organisational development funding.

Quote:
'NGO leaders also note that most funders approach grantees with a transactional mindset, meaning they are more interested in short-term programmes results than in longer-term partnerships that emphasize building stronger, more resilient organisations. Moreover, few funders have written policies describing their approach to organisational development grants, leaving NGOs in the dark about whether and how to apply. In response to such critiques, some funders see reason to change course.'

Other relevant articles and papers published after February 2021

2024

Kim, M., Charbonneau, É., & Sowa, J. (2024). The Nonprofit Starvation Cycle: The Extent of Overhead Ratios' Manipulation, Distrust, and Ramifications. *Nonprofit and Voluntary Sector Quarterly*, *0*(0). https://doi.org/10.1177/08997640241233724

2023

Allred, A. T., & Amos, C. (2023). A processing fluency perspective on overhead aversion: How much is too much?. *Journal of Philanthropy and Marketing*, *28*(2), e1781

Connelly, C. (2023) New impact investment opportunity for ancillary funds a game changer. Philanthropy Australia. https://www.philanthropy.org.au/news-and-stories/new-impact-investment-opportunity-for-ancillary-funds-a-game-changer/

Harris, E. E., Neely, D. G., & Parsons, L. M. (2022). Nonprofit Performance Measurement and Reporting: Looking Forward. *Journal of Governmental & Nonprofit Accounting*, *11*(1), 51-58.

Hunt, C. (2023). The Importance of Establishing Operating Reserves for Nonprofits. *Stanford Social Innovation Review*. https://doi.org/10.48558/XWH4-1B06

Robichau, R. W., Sandberg, B., & Russo, A. (2023, May). Beyond "Psychic Income": An Exploration of Interventions to Address Work-Life Imbalances, Burnout, and Precarity in Contemporary Nonprofit Work. In *Nonprofit Policy Forum* (No. 0). De Gruyter.

Venkatachalam, P., Yeh, D., Rastogi, S., Siddiqui, A., Gupta, K., Shekar, L., & Thompson, R. (2022). Bridging the Gap on Funding the True Costs of NGOs in India. *Bridgespan Group*.

Wiepking, P., & de Wit, A. (2023). Unrestricted funding and nonprofit capacities: Developing a conceptual model. *Nonprofit Management and Leadership*.

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Altamimi, H., & Liu, Q. (2022). The nonprofit starvation cycle: Does overhead spending really impact program outcomes? *Nonprofit and Voluntary Sector Quarterly*, *51*(6), 1324-1348.

Hung, C., Hager, M. A., & Tian, Y. (2022). Do donors penalize nonprofits with higher non-program costs? A meta-analysis of donor overhead aversion. *Nonprofit and Voluntary Sector Quarterly*, 08997640221138260.

Kingman, L. (2022). The pace and vision of modern philanthropy. *Governance Directions*, *74*(7), 619-623. 2022

Keith, D., Taylor, L., Paine, J., Weisbach, R., & Dowidowicz, A. (2022). When Funders Aren't Customers: Reputation Management and Capability Underinvestment in Multiaudience Organisations. *Organisation Science*.

Kotsi, T. O., Aflaki, A., Aydin, G., & Pedraza-Martinez, A. J. (2023). Allocation of nonprofit funds among program, fundraising, and administration. *Manufacturing & Service Operations Management*, *25*(5), 1873-1889.

Matthews, J. T. (2022). *Strategies for Navigating the Nonprofit Starvation Cycle* (Doctoral dissertation, Walden University).

Parsa, I., Eftekhar, M., & Corbett, C. J. (2022). Does governance ease the overhead squeeze experienced by nonprofits? *Production and Operations Management*, *31*(8), 3288-3303.

Singh, K. K. (2022). Mandatory CSR in India-A Trailblazer from the East. *BRICS Law Journal*, *9*(4), 81-107.
Spiteri, G. W. (2022). Does the evaluability bias hold when giving to animal charities? Judgment and Decision making, 17(2), 315–330.

2021

Ferris, J. M. (2021). *A GENERATION OF IMPACT: The Evolution of Philanthropy over the Past 25 Years*. Center on Philanthropy & Public Policy at the University of Southern California.

Hunnik, O., De Wit, A., & Wiepking, P. (2021). (In) Equality through unrestricted grantmaking: Examining trust and power in the collaboration between the Dutch charity lotteries and their grantees.

Kerastas, N. (2021). *Perspectives of Risk: Nonprofits During the COVID-19 Pandemic* (Doctoral dissertation).

Park, Y. J., & Matkin, D. S. (2021). The demise of the overhead myth: Administrative capacity and financial sustainability in nonprofit nursing homes. *Public Administration Review*, *81*(3), 543-557.

Qu, H., & Daniel, J. L. (2021). Is 'overhead' a tainted word? A survey experiment exploring framing effects of nonprofit overhead on donor decision. *Nonprofit and Voluntary Sector Quarterly*, *50*(2), 397-419.

Samahita, M., & Lades, L. K. (2021). *The unintended side effects of regulating charities: Donors penalise administrative burden almost as much as overheads* (No. WP21/06). UCD Centre for Economic Research Working Paper Series.

Sarikaya, S., & Buhl, H. U. (2021). The challenge of resource allocation in the nonprofit sector: determining the right amount of fundraising expenses. *Journal of Nonprofit & Public Sector Marketing*, *33*(1), 1-28.

Schubert, P., & Boenigk, S. (2021). Pressure, cost accounting, and resource allocations: Experimental evidence on nonprofit financial decision-making. *Nonprofit and Voluntary Sector Quarterly*, *50*(6), 1216-1238.

Social Ventures Australia (2021). Vital support: building resilient charities to support Australia's wellbeing.

Suk, K., & Mudita, T. (2021). Charitable Organisations' Cost Disclosure Mitigates Overhead Aversion. *Sustainability*, *13*(23), 13425.

The PWIT principles outlined in this resource, and our interviewees' reflections on them, are a starting point. They invite a shift in mindset.

You may be already thinking, 'all this is easy to say but not easy to do' – which is why this report exists. It is the beginning of a growing community of practice, which can share experiences, learnings and tools, all with the goal of creating sustainable FPOs that are consistently benefiting communities across the country, and not inadvertently creating harm as they do it.

PAY WHAT IT TAKES