

A Transformations Financiers Network

This document is underdevelopment, integrating perspectives shared through interviews and emails. For more information, contact Steve Waddell: swaddell@transformationsforum.net

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Summary

This is an inquiry into the possible formation of an investors network distinguished by (1) its focus on financing transformation radical innovation and paradigm shifts through large systems change, and (2) integrating funding modalities including foundations, impact investors, crowd-sourcing platforms, and government agencies. The interest could be around (1) a particular issue such as one associated with an SDG, (2) a particular place/community, or around (3) what the Forum describes as “deep causes” inhibiting transformation (see Attachment 2). This inquiry will:

1. Building on recent analyses, identify who is interested in making such investment;
2. Identify priority issues that such investors would have for a network of them;
3. Convene those making such investments to identify paths to address opportunities and challenges.

Submitted by

This inquiry is being led by the [Financing Transformations Working Group](#) of the [SDG Transformations Forum](#).

Its Lead is:

- Lead Steward: Steve Waddell – [NetworkingAction](#) and the [SDG Transformation Forum](#)
swaddell@transformationsforum.net

The Working Group will act as Advisors for this project. They are:

- Andrea Armeni – [Transform Finance](#)
- Stuart Cowan – [The Capital Institute](#)
- Carolein de Bruin – [CChange](#)
- Heather Grady – [Rockefeller Philanthropy Advisors](#)
- Mark Halle – [International Institute for Sustainable Development](#)
- Erica Key – [Belmont Forum](#)
- Laurie Lane-Zucker – [Impact Entrepreneur](#)
- Steven Lovink – [Philanthropy4Life](#)
- Stuart Valentine – [Financial West Group](#)

The Problem/Opportunity: Financing for scaling transformations

The unprecedented and urgent need for transformation investing globally is illustrated by the Sustainable Development Goals (SDGs). However, efforts for financing transformation are simply insufficient, as recognized in funders call for scaling, impact investors’ calls for “more product” and calls for a new approach highlighted in work by the Scaling Solutions Project¹ and RSF Social Finance². These suggest an agenda that should be advanced (Attachment 3).

¹ Grady, Heather, Kelly Diggins, Joanne Schneider, and Naamah Paley Rose. 2017. "Scaling Solutions Toward Shifting Systems." Rockefeller Philanthropy Advisors.

² Fram, Stu. 2018. "The Next Step in Impact Investing: Breaking the Shackles of Extractive Thinking." Stanford Social Innovation Review (July 13).

The word “transformation” is used to describe a specific type of change. It is associated with paradigm shifts, large systems change, fundamental change in habits and mental models, and radical change in socio-political-economic structures, such as with moving to carbon-free energy. (See Attachment 2 for more on transformation.)

Like traditional venture capital financing, transformations financing involves stages. Initiating stage investment identifies new possibilities classically with sweat and friends’ equity; mid-stage involves advancing them to become self-generative structures, and late stage is when they become the new norm. **The focus of this proposal is on moving from initiating to mid-stage transformations financing** (it can be likened to moving up the right side of the “U” in the famed Scharmer model of transformation³). This financing requires addressing issues distinct from other investing, including:

- **Purpose:** the transformations goal involves displacing well-embedded structures and ways of doing things;
- **Investment technologies:** innovation has at least as much to do with social, as physical, technologies – “social technologies” refers to processes, relationships, organizations and beliefs that shape outcomes and impact of physical technologies;
- **Complexity:** physical technologies focus on “complicated” impacts with “hard systems” within the current system, whereas transformational investment deals with “complex”, “soft systems” with a future, unexperienced system in mind⁴;
- **Paradox:** the transformation goal has to do with changing the very structures and distribution of assets that are the basis for the current investors’ positions and the economic structure that gives them their pre-eminent position;
- **Risk:** investment in transformations is associated with “pure science” investment in previously unimagined possibilities and involves significant rates of failure;
- **Time horizon:** Transformations build on experiments that may be short-term, but usually transpire over decades; and
- **Scale:** By their very nature, transformations involve change across wide geographies, industries, cultures, and issue silos.

Although there are many networks organized around particular funding modalities (Attachment 1) that can play an important role in this proposal, there is no space categorically focused on transformation and the breadth of funding modalities associated with it. Therefore, many innovations that are developed by transformations agents flounder. Transactions costs between investment modalities are very high, given the lack of connection between them. Venture capital systems are developed largely for physical innovations with little regard to socio-environmental impact; social investment systems are weak and poorly financed. And only tiny amounts of investment in both systems goes to transformation. Financing for transformation today is not reflected in a distinct set of practices, knowledge, structures and processes. Consequently, transformations efforts are occurring (eg: Uber, Airbnb), but largely driven by Wall Street logic. A new approach is needed.

A Response: An early-moderate stage financing for transformation system

Now is a good time to initiate a broad network or community of investors that is categorically focussed on transformation as a distinct financing activity that requires distinct knowledge,

³ Scharmer, C Otto. 2009. *Theory U: Learning from the future as it emerges*: Berrett-Koehler Publishers.

⁴ These distinctions are made by many analysts. See for example:

- Snowden, David J., and Mary E. Boone. 2007. "A Leader's Framework for Decision Making." *Harvard Business Review* 85(11):68-76.
- Reynolds, Martin. 2015. "(Breaking) The iron triangle of evaluation." *IDS Bulletin* 46(1):71-86
- Waddell, Steve. 2016. *Change for the Audacious: a doers' guide to large systems change for a flourishing future*. Boston, MA, USA: NetworkingAction.

principles, structures and relationships. Governments, foundations, impact investors, traditional funds, and crowd sourcing platforms are increasingly recognizing how their assessment processes, structures and strategies are part of the problem that is inhibiting the necessary type of financing. These distinctive qualities of transformation suggest unique approaches are needed to develop financing for a transformational innovation system. These include:

- **Risk-sharing amongst transformation financiers:** “Transformation” investments can, in effect, be considered a distinct activity, where investors need to share risk;
- **Pooling for scale:** Societal-oriented transformational investments require significant investment beyond the capacity and appetites of any one investor;
- **Addressing specific issues/locations:** Financiers may choose to focus on a particular issue such as climate change, forests, blockchain; or specific communities, to both scale and speed transformations;
- **Learning and expertise-sharing:** The high-risk and novelty of transformation investments can be alleviated by sharing lessons amongst investors, their expertise in different issues and regions, and linkage with leading transformations knowledge;
- **Connecting financiers and transformations agents:** identify issues hindering transformation in issues, financier-agent relationships, and locations for joint exploration and action development;
- **Promotion of transformations investing:** Few investors today would describe themselves as experts focusing on transformational investing – there is need to greatly grow the number through a range of activities such as promotion with philanthropists of applying a percentage of their assets to transformational approaches;
- **Networking for integration of diverse investor profiles:** There is need to integrate investors who today are separated by financier categories (eg: impact investor versus foundation) and lack of knowledge of those interested in advancing transformations;
- **Changing regulatory environment:** Barriers to transformational investing are coming down (eg: Benefits Corporations, in US allowing for private placements at less than \$1 million), but more change is needed;
- **Experimentation with new finance models and principles:** Principles, such as those associated with regenerative finance, can be applied to particular investments to help define the operational implications and refine the principles; and
- **New impact measures:** Traditional short-term input-output measures actually undermine transformation efforts, and new approaches to metrics are required to focus on systems-level impact.

Responding to these issues and needs associated with transformations financing and the urgent need for it, suggest the value of an on-going leadership community defined by the intersection of:

1. Transformations investors;
2. Those with transformation expertise; and
3. Those working specifically on finance transformation, such as bitcoin.

Only a tiny percentage of investors, donors and funders are likely to be attracted to transformations investing. They are largely isolated in their organizations or within a financing group. These groups include individual staff/financiers, their organizations and their networks from the following:

- science funders who focus on knowledge development,
- philanthropic investors focusing on social-environmental issues,
- public investors focused on public good challenges,
 - Including donor agencies, sovereign wealth funds
- private investors who have transformational aspiration,
 - Eg: likely subset of SRI, ESG, impact investors
- emerging platforms such as crowd-sourcing and virtual currencies working with the general public.

The purpose of this community would be to advance development of a financing transformation system. It is anticipated that only a couple of financiers from each category would be necessary to initiate the network. The participants would identify their priorities and activities as a group and sub-groups.

ACTIONS

The Financing Transformations Working Group will host the emergence of the new community through:

- 1) **Initial Research:** Building on the work of others, in particular Scaling Solutions, the financing groups will be investigating through surveys, interviews and document reviews in order to:
 - a) Identify individuals and organizations who are undertaking or want to undertake transformations mid-stage investment;
 - b) Define major impediments to such investment;
 - c) Describe proposed actions to address the impediments;
 - d) Identify individuals who would like to participate in formation of a network community.
- 2) **Convening founders:** A 2-day meeting of 20-25 individuals will be held of those identified through the research who (1) have demonstrated leadership, (2) are passionate about, and committed to, “transformation” financing, and (3) can make a modest time commitment to the network’s development. They will:
 - a) Share what their work and perspective on transformation financing;
 - b) Identify what they would value doing together;
 - c) Agree upon priorities and steps to address them;
 - d) Initiate a network structure and how it will work and be financed.
- 3) **After care:** To support realization of the action plan, there will be support for 6-8 months to:
 - a) Provide the networking connections and advance the priorities identified;
 - b) Develop a longer-term financing and development plan as the meeting outcomes warrant.

Attachment 1: Some Financier Networks by Modality

Who might be interested in a Transformations Financiers Network? Below is a list of some possibilities arising from a quick analysis. In the case of foundations and impact investing the focus is on networks.

Organization	Modality
Arabella	Advisor
Big Path Capital	Advisor
Echoing Green	Advisor
Tiedemann Advisors	Advisor
UBS-Global Philanthropists Community	Advisor
Crowdrise	Crowdfunding
gofundme	Crowdfunding
Indiegogo	Crowdfunding
Kickstarter	Crowdfunding
Patreon	Crowdfunding
Razoo	Crowdfunding
RocketHub	Crowdfunding
Global Donor Platform for Rural Development	Donor
World Bank	Donor/investor
Biodiversity Funders Group	Foundation
Council on Foundations	Foundation
EdgeFunders	Foundation
Emerging Practitioners in Philanthropy	Foundation
Foundation Center	Foundation
Funders Network	Foundation
Global Philanthropic Circle	Foundation
Global Philanthropy Forum	Foundation
Grantmakers for Effective Organizations	Foundation
National Center for Family Philanthropy	Foundation
Philanthropy Roundtable	Foundation
Scaling Solutions Steering Group	Foundation
SDG Funders	Foundation
The Giving Circle	Foundation
The Giving Pledge	Foundation
United Philanthropy Forum	Foundation
Balle	Impact Investor
Confluence Philanthropy	Impact Investor

Global Impact Investing Network	Impact Investor
Impact Investor	Impact Investor
RSF Social Finance	Impact Investor
Skoll Foundation	Impact Investor
Toniic	Impact Investor
NEXUS	Mix
Belmont Forum	Science

Attachment 2: Types of Change

The term “transformation” is usually used to mean change that is big and complex, and will take time. Indeed, it’s associated with paradigm shifts, radical change/innovation/alternatives and transitions. Following is a description the SDG Transformations Forum uses to explain “transformation”.

Transformation examples

- From carbon-based to carbon neutral energy systems. Change in core logic technologically and understanding of socio-ecological relationships.
- From incarceration (or worse) to marriage equality. Change in core values, social norms and understanding of gays and lesbians.
- From apartheid to post-apartheid. Change in core values, social norms and political system rules.
- From war to peace in Northern Ireland. Change in core values and social norms.
- From centralized to decentralized: Change in power structures and governance mechanisms.
- From the world is flat to the world is round. Change in ways of thinking about the world.

Three Types of Change

Substantial increased ability to support transformation arises with distinction between different types of change, recognizing that transformation is a specific type that requires particular tools, strategies, mindsets, and actions.

One type of change is incremental. This is sometimes referred to as working inside the box. It is doing more of the same, within the current rules. It’s what happens when Starbucks opens another store: it’s something that’s been done many times before and there’s a well-known set of activities and steps in doing it. Efficiency is a major concern. A key activity is negotiating within a set of parameters that are quite well known. The repetitiveness allows produces best practices.

A second type of change is reform. This is sometimes referred to as working outside the box. It arises with dissatisfaction of the current rules and structures for doing things, with effectiveness as a major concern. This requires policy reform or organizational restructuring, which produces new reporting mechanisms and relationships, while maintaining the same goals and objectives. A key activity is mediating and discussion to identify new rules. Because of the newness the reform produces, there are not previous comparables and good practice, rather than best practice, is the standard.

Transformation is a third type of change. It is so challenging, it raises the question “is it a box?” This is a question about the basic ways of thinking about issues and understanding about the way things work. This involves redefinition of goals (eg.: from producing energy to producing sustainable energy) which arise from a new understanding about the way things work (eg.: carbon emissions result in climate change) and produce fundamental change in operating logics (eg.: from “mining” of nature, to harmony with nature). This usually involves deep shifts in power structures (eg.: away from carbon extractors). In transformation, a key activity is visioning new possibilities that require radical innovation socially and often technologically, and certainly societally. The key activity is trying to do things in fundamentally new ways – experimenting. This is often at large scale, such as with reorganizing national energy programs. And it often involves rethinking traditional boundaries (such as “national”). Giving this radical novelty, there are continuous cycles of emergent learning.

These three types of change interact. Successful transformational experiments require reform to support destruction (eg.: of carbon miners) as well as of creation (eg.: of sustainable energy producers). Reforms, in turn produce new enabling environments and rules to support incremental change.

How to support this complex transformation process through appropriate tools, strategies and actions, is the heart of the work of the Forum. Our societies are today structured to resist

transformation, such as the current financing and assessing processes. We are organized around stories and myths (eg.: the current economic narrative) that require changing. We need to create radical innovation that makes sense not just physical technologies and investment returns, but also social-ecological impacts. And we need to build the new capacity to support all of this.

Types of Change			
	Incremental	Reform	Transformation
Core Question	How can we do more of the same? Are we doing things right?	What rules shall we create? What structures and processes do we need?	How do I make sense of this? What is the purpose? How do we know what is best?
Purpose	To improve performance	To understand and change the system and its parts	To innovate and create previously unimagined possibilities
Power and relationships	Confirms existing rules.	Opens rules to revision.	Opens issue to creation of new ways of thinking about power.
Archetypical Actions	Copying, duplicating, mimicking	Changing policy, adjusting, adapting	Visioning, experimenting, inventing
Tools Logic	Negotiation logic	Mediation logic	Envisioning logic

Deep Causes

Those who are working for transformational change were asked: What is it that is holding you back from being even *more* successful in your transformational change efforts? Their responses described something quite different from the focus of most change efforts. Take the example of climate change, where the direct cause is emissions. Almost all change effort focuses on shifting such things as

Causes		
	Climate Change	Deforestation
Direct Cause	Emissions	Cutting of trees, climate change
Proximate Cause (Traditional focus)	Issue systems of: Policy, technology, finance, production/distribution systems, consumers	
Deep Cause (SDG Transformations Forum focus)	Societal sets of: Meta-narratives, organizing approaches, change capacity, evaluation approaches, innovation processes, financing, etc.	

policies, inventing new technologies, raising more money for investment in sustainable energy, changing the production system, and influencing consumers. These activities address what can be called **proximate** causes, in contrast to the **deep** causes described by transformations change agents. These are causes imbedded in our very societal structures and our ways of acting and thinking, and goals. For example, meta-narratives and the stories we tell about how the way the world works and

our goals – basically in economic terms; the way we organize power and governance; the inadequate capacity for transformations, evaluation approaches with input-output models, innovation processes held separate from concerns about environmental and ecological impact, and the logic of the finance system that determines where money goes. So the transformations agents told us that to speed up and make transformation effort more effective, we've got to address these deep causes.

Attachment 3: The Network Agenda

Following are excerpts from two recent documents with ideas relevant to the work of the proposed Transformations Funders Community.

The Next Step in Impact Investing: Breaking the Shackles of Extractive Thinking

From Fram, Stu. 2018. **The Next Step in Impact Investing: Breaking the Shackles of Extractive Thinking**. Stanford Social Innovation Review (July 13).

The article opens with the question: Can we finance mission-driven enterprises in a way that shifts the core emphasis to regenerative environmental and social benefits?

Questions:

- How do our loans and investments affect community wealth and well-being?
- How do investors and lenders ensure that we add more value to communities than we remove?
- How can capital serve people and not the other way around?

And embedded in these questions are deeper ones:

- What does it mean to earn a return?
- What is our shared understanding of risk?
- How much money is enough?

Issues:

1. Financing transformations-driven enterprises in a way that shifts the core emphasis to regenerative environmental and social benefits.
2. Developing regenerative finance practice.
3. Producing investment deals.
4. Democratizing investment.
5. Scaling impact.
6. Developing leading measures that integrate *transformation-oriented* goals, leading *organizational-system impact* goals, and *triple bottom line* goals.

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Philanthropy Transforming Finance: Building an Impact Economy

From: Rockefeller Philanthropy Advisors, and Impact Entrepreneur. 2018. "**Philanthropy Transforming Finance: Building an Impact Economy**."

<https://impactentrepreneur.squarespace.com/press-release-icrpa-summit-report>: Rockefeller Philanthropy Advisors and Impact Entrepreneur.

The Summit at Race Brook brought together July 10-12, 2018 about four dozen individuals from three continents who are leaders across the themes of systems thinking, philanthropy, impact investing and 'new economy' models. The participants concluded the need for:

A. A Manifesto for the Philanthropy Sector

A main call to action from the Summit was specifically aimed at philanthropic organizations to: 1) use their capital in a manner more directly supporting the investments described in this report, and 2) align their investments and actions overall with the underlying values inherent in an impact

economy. Key elements of a manifesto were discussed as a roadmap for philanthropic organizations to use in understanding how to get involved in this process.

The participants challenge philanthropists and philanthropic organizations to:

- Commit a minimum of 1% of total assets (grants and investments) towards building the coordinated infrastructure, scaffolding and architecture of the impact economy.
- Use an integrated finance model via grants or social impact investing, among other mechanisms, to expand the capital raised.
- Support and follow a roadmap of how to deploy philanthropic dollars, including de-risking investment, thought leadership, education and training, policy and infrastructure, internal talent and culture, data and industry mapping, and building a pre-investment pipeline of early stage social enterprises.
- ☑ Use donor advised funds as a source of capital for these efforts.
- ☑ Supply more risk-tolerant funding for early stage initiatives, and embrace a spirit of experimentation and innovation – the institutions and individuals in philanthropy should become more entrepreneurial, which constitutes a radical change in the culture of many organizations and individuals in the sector.

This was viewed as a *minimum floor* to create sustained support for philanthropic transformation from the bottom-up.

B. Social Movements and Politics: Organizing to Create Change

This working group focused on calling the group and the broader movement to view investments from a deeper lens—as a relationship between power and control. As such, it is essential to be conscious of what we are investing in, who is investing, and how they are investing in order to understand how the flow of capital is reshaping our societies. Clean tech was given as an example of good investment in multiple domains, but which does not translate into a strategy for building power for disadvantaged or oppressed communities. Investors must be mindful of their investments on a more granular level—how they shape all members of a community. A challenge was raised for creating opportunities within our own spaces for mobilized political action, leveraging resources ranging from engaging social enterprises, to high net-worth individuals in order to democratize markets and communities.

C. Building a Social Movement: Coordinating to Create the New Economy

Many of the participants worked together to create a shared plan and strategies for building a broad-based movement for an impact economy. Such a broad-based movement is necessary to provide the scaffolding for the diverse activities described above, including on-the-ground opportunities for impact investment, drawing out and cultivating business ventures that can lead to an authentic transformation of the economy. The impact investments do not exist in isolation; they are fostered and grown by community groups working in their own locales. Furthermore, when these groups connect and work with others to create inspiring new narratives and to form power bases capable of changing the rules of the game, then transformation becomes possible. The starting point for this session, therefore, was movement organizing, not finance. Philanthropy, we realized, is essential, to support a deliberate coordination and amplification of existing new economy efforts to bring them to scale and so enable the level of transformation demanded by the times – a transformation that will affect not only our economies, but our societies, cultures and environment as well.