SYSTEMS CHANGE: AN EMERGING PRACTICE IN IMPACT INVESTING

Enclude
A PALLADIUM COMPANY

Preface

It has been a rewarding journey to produce 'Systems Change: An Emerging Practice in Impact Investing' that captures collective experience by investors and investees. Enclude authored this research report to more broadly introduce systems practice to investing by showcasing how investors are implementing this practice to address root problems to social and environmental issues globally. We deeply appreciate the increasing urgency to direct financial and human capital towards social inclusion and justice, and environmental regeneration. Deploying capital with the aspiration of chipping away at global urgent threats requires open exchange of information and deep collaboration among partners. The aim of this Report is to stimulate thought and encourage action.

The Report was commissioned by the Economic Justice Program of the Open Society Foundations. As part of this engagement, Enclude facilitated roundtables in London and New York, and interviewed various experts and leading practitioners. Additionally, Enclude gained valuable insights and support from the Economic Justice Program team at Open Society Foundations, with great support from Daan Besamusca. We want to thank all contributors for their generous and thoughtful input.

About Enclude

Enclude is a leading impact investment bank creating solutions and mobilising capital to address the world's most pressing challenges. We strive to co-design innovative ways towards achieving positive systems change alongside our partners. Enclude is part of Palladium, a global impact firm working at the intersection of social progress and commercial growth. With a global network operating in over 90 countries, Palladium has spent the past 50 years helping its clients to see the world as interconnected – by formulating strategies, building partnerships, and implementing programs that have a lasting social and financial impact.

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About the Open Society Foundations

The Open Society Foundations, founded by George Soros, are the world's largest private funder of independent groups working for justice, democratic governance, and human rights. Today, Open Society supports a vast array of projects in more than 120 countries, providing hundreds of grants every year through a network of national and regional foundations and offices. It pursues social impact investments through the Soros Economic Development Fund, part of its Economic Justice Program.

Glossary

The terms below are used throughout this Report and the terms' definitions below are intended to help guide the reader. Please note that there are various published definitions of these terms that have changed over time; we have drawn from those definitions and incorporated words used by practitioners during the interview process. We recognise these definitions, like the concepts they endeavour to describe, will continue to evolve. As a result, do not hesitate to share feedback for improvement and refinement.

Introduction to the impact economy

Traditional economy: an economy where institutions, investors, enterprises, households and individuals optimise for (short-term) financial risk and return when making decisions on how to allocate resources.

Net positive impact: with the recognition that all investments have positive and negative social and environmental impacts, the positive impacts outweigh the negative impacts.[1]

Impact economy (or new economy): an economy where institutions, investors, enterprises, households, and individuals optimise for total risk (i.e. financial and impact risk) and total return (i.e. financial and impact return) when making decisions about how to allocate resources.[2]

Spectrum of impact: a framework that highlights the financial goals, impact goals, and intentions of each investment approach within the impact economy, and how each compares to the traditional investment approach.[3]

Traditional investing approach: investment approach that allocates resources based on financial risk and return; this approach does not integrate impact risk and return as a consideration in making investment decisions, even though it is acknowledged that every investment has positive and negative impact.[3]

Responsible investing approach (or negative screening): investment approach that intentionally considers financial and impact risk and return of an investment, and as such, contributes to the impact economy; this approach integrates impact by screening out negative impacts.[3]

Sustainable investing approach (or ESG investing): investment approach that intentionally considers financial and impact risk and return of an investment, and as such, contributes to the impact economy; this approach integrates impact by seeking to benefit relevant stakeholders.[3]

Impact investing approach: investment approach that intentionally considers financial and impact risk and return of an investment, and as such, contributes to the impact economy; this approach integrates impact by seeking to actively contribute to solutions.[3]

Introduction to systems practice

System: a collection of parts that interact together to produce some sort of behaviour of the whole. A system takes on additional, emergent properties that its parts alone do not have.[4]

Reductionist thinking: a linear approach to analysis that breaks down complex wholes into their component parts and analyses the parts.[5]

Systems thinking: a holistic approach to analysis that looks at how and why systems behave the way that they do by examining their parts, relationships, and resulting behaviours, and how those elements change over time.[6]

Systems practice: a practice that integrates systems thinking with processes and tools.[7]

Guiding star: a vision that is framed as the desired future system towards which the investor is working.[8]

Guiding principles: fundamental norms, rules, or values that represent what is desirable.

Theory of change: a description of how a desired change is expected to happen in a particular context or system, and what an organisation aims to contribute to achieve that change.

System map: a graphical depiction of a system that highlights the parts of the system, and the connections and forces between those parts.

Feedback loops: circles of cause and effect between parts of a system. There are two types of feedback loops: reinforcing loops and balancing loops.[9]

Reinforcing loops (or positive feedback loops): circles of cause and effect between parts of a system that reinforce a change with a push in the same direction.[10]

Balancing loops (or negative feedback loops): circles of cause and effect between parts of a system that counter a change with a push in the opposite direction.[10]

Leverage point: a place in a system where a particular solution can be introduced and applied; a high leverage point is a place in a system where a small amount of force can cause a significant change in the system.[10]

Total returns: financial returns and impact returns.

Total risks: financial risks and impact risks.

Foreword: Sean Hinton, Open Society Foundations

As we face unprecedented levels of inequality, persistent and widespread discrimination, and unsustainable exploitation of the earth's resources, it is no longer a choice—it is imperative that we find ways to bend economic power in service of social justice. Any attempt to do this must acknowledge up front that the private sector, and the investors who supply its capital, bear our share of responsibility for creating the very problems we seek to solve.

We must also acknowledge that while no solution can come from investment alone, business is a critical pillar of a larger economic system in crisis. In addressing the contribution that business can make to the Sustainable Development Goals, George Soros wrote: "Business must play its part. Governments and multilateral institutions who steward resources on behalf of us all, must play their part. Regulators at local, national and international levels must play their part. Collectively we can mobilise financial resources at historic scales to implement a wide range of development efforts. But sustainable global progress cannot be achieved through monetary means and investment alone. It is vital that capacity is strengthened in individuals and in the institutions of civil society to play a vigorous part in carrying out such a transformation, including the thoughtful regulation of business activity."[11]

We can't simply invest our way out of deep-seated structural problems. We must be modest about the claims we make for investment as a solution. If the role of the private sector is not matched with significant policy interventions from governments and supported by active civil society involvement, then no amounts of additional capital will yield results. At the same time, real change also cannot happen until the private sector, and investors, start playing their part, and at a scale unlike anything the world has seen to date, and doing so fully cognizant of the complex systems in which they are investing.

As stewards of the impact investment funds of the Open Society Foundations, we struggle with the challenge of playing our small part in this movement for economic justice every day. Our strategy seeks to increase accountability and expand equity in economic and business systems, and to stimulate meaningful participation of marginalised communities in the economy. We try to do this in ways that are realistic about the impact that investment capital can have; that recognise the vital role of government and policy to shape the environment in which we work; that support and collaborate with civil-society; that seek to cooperate with the many other investors and socially-oriented actors in any system; and that engage ordinary citizens in actively shaping development solutions.

For us, investment capital is just one tool among others such as grant-making and advocacy that need to be combined to create lasting impact, and we therefore believe it is crucial to take a “whole-system” view of any issue we seek to address. While it’s too soon to say whether we are helping achieve the positive systemic changes we seek for marginalised populations, we do believe that our work to date has benefitted tremendously from incorporating systems thinking. Not only have we been able to avoid some potentially devastating unintended negative consequences, but we have also been able to identify investments we would not otherwise have made, or make investments in different ways, as a result of this systemic thinking.

Through supporting the distribution of this report, we aim to highlight some pioneering investors that have incorporated systems thinking into their practice, as a source of learning and inspiration for ourselves and others in addressing core economic justice challenges of our time. We hope that their work will invite reflection more broadly among investors on how they might also incorporate systems thinking in their work. As an investment community, we are far from having all the answers about how best to create positive systems change. Nevertheless, we don’t have the luxury of time in waiting to tackle the urgent global challenges confronting us, and importantly, the underlying systemic dysfunctions that are fuelling economic inequality and exclusion along with a climate crisis. We hope that you will respond to our invitation to engage with us on this collective undertaking, whether you are an investor, a philanthropist, an entrepreneur, a concerned citizen, or policy maker. We thank you in advance for your partnership.

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Introduction

Are investors with positive social and environmental impact goals fundamentally improving the very system that produced the problems in the first place, or merely treating symptoms? How can investors identify solutions that are likely to catalyse significant, long-term positive change, without triggering negative unintended consequences elsewhere in the system? Fuelled by such questions, investors are increasingly engaging in systems practice to better understand the underlying causes to social and environmental problems and to identify high leverage solutions to advance positive systems change.[12] The purpose of this Report is to highlight how these investors are engaging in this emerging practice, to arouse interest among investors to reflect on their investment practices, and to galvanise more investors towards coordinated action.

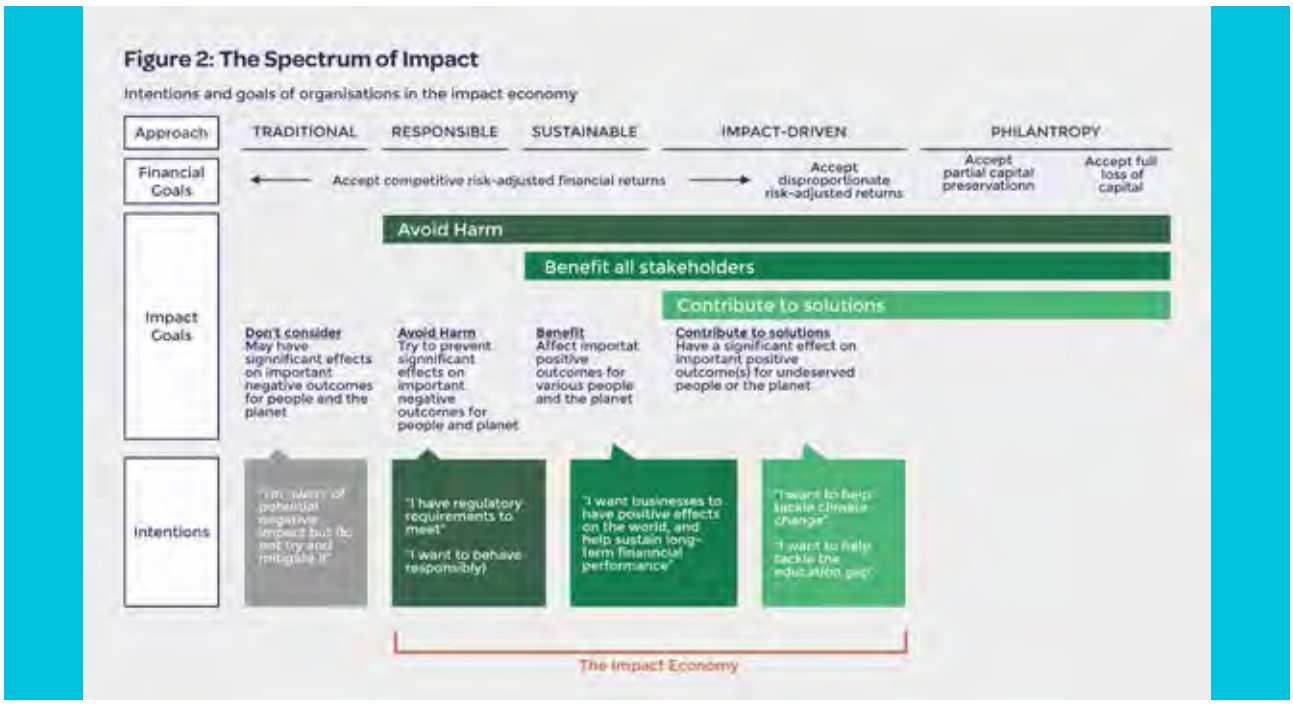
Action is spurred by real and current challenges confronting people and planet in every community across the globe. The world's leading climate scientists have warned that we have 12 years to limit the climate change catastrophe, and that urgent changes are needed to cut the risk of extreme heat, drought, floods, and poverty.[13] At the same time, we live in a world of extreme social inequality, with the eight wealthiest individuals in the world owning as much as half the world's population.[14] Climate change and inequality are highly interdependent and locked in a vicious cycle. Existing inequalities result in disadvantaged people facing disproportionate exposure to the adverse effects of climate change; the consequences of climate change on poor and vulnerable communities in turn reinforces greater inequality.[15]

These challenges are accelerated (and often caused) by a failed economic system and a flawed 'traditional finance' paradigm.[16]

Social and environmental costs and benefits – 'externalities' in current economic theory – are not adequately priced in the economy's market of products and services, leading to 'sub-optimal pricing'. Similarly, traditional finance, which allocates financial resources to households and businesses in the current economic system, distributes capital based on financial risk and return, without consideration of related social and environmental costs and benefits. The result is capital allocations to businesses that maximise near-term financial return based on a certain level of perceived risk, at material cost to people and planet. The environmental cost of doing business as usual is estimated at USD 4.7 trillion a year.[17]

The good news is that a growing number of investors across the globe recognise that all investments have positive and negative social and environmental impact; the relevant inquiry is whether that impact is 'net positive', i.e. the positive impact outweighs the negative impact. These investors believe that they can lower risk, and create more long-term value, by integrating social and environmental factors in their investment decisions. Through these combined efforts, more and more investors are updating the traditional finance paradigm of risk and return to include considerations of impact.

These investors are taking different approaches to integrating impact into their investment decisions. As highlighted in 'the spectrum of impact' figure below, some investors are seeking to avoid harm by screening out negative impacts (i.e. 'responsible investing'), some are seeking to benefit all stakeholders by investing in positive social and environmental impacts (i.e. 'sustainable investing') and others are aiming to actively contribute to solutions (i.e. 'impact investing').[18]



The Rise of Impact. Report of the UK National Advisory Board on Impact Investing. October 2017.

These three investment approaches are gaining real momentum. In 2018, global assets under management (AUM) with responsible, sustainable, and impact investing approaches reached USD 30.7 trillion. This represents a significant increase (34%) from USD 23 trillion in 2016 and a dramatic increase (71%) from USD 18 trillion in 2014.[19] Investors and other stakeholders around the world expect this trend to further increase in the years and decades to come. Together these three investment approaches are financing the emerging 'impact economy': an economy where institutions, investors, enterprises, households, and individuals optimise for total risk (i.e. financial and impact risk) and total return (i.e. financial and impact return) when making decisions about how to allocate resources.[20]

While the impact economy has achieved material growth and captivated the imagination and interest of many, it is still enabling only a fraction of the positive impact required to address urgent global challenges facing people and planet.[21] For example, using the United Nation's Sustainable Development Goals (SDGs) as a guide, experts estimate a USD 2.5 trillion gap between current funding levels and what it will take to accomplish the SDGs; this estimate is already considered conservative, under-representing the actual funding needed. Within this context, there is a small but increasing number of investors questioning whether these three investment approaches – responsible, sustainable, and impact investing – are ultimately addressing root causes of social and environmental issues, or merely treating their symptoms. This emerging group of investors is increasingly adopting what we will refer to as 'systems practice' – a practice with processes and tools that incorporates systems thinking.[22] These investors seek to understand the whole system in which the social and environmental issues are occurring, identify causes and effects within the system, find high leverage points to catalyse significant, long-lasting, positive change, and invest capital to yield positive results within the mapped system.

For instance, Aqua-Spark is an investment collaborative dedicated to sustainable aquaculture. In their initial research for investment solutions that would make meaningful long-lasting change, they realised it is not possible to change the way we farm fish without also looking at the inputs and all other parts of the supply chain. Their strategy evolved into what it is today: an open-ended, innovative fund that identifies leverage points within the aquaculture industry to make a meaningful, catalytic change – from solutions in genetics and feed ingredients, to farm management technologies and farming operations, to traceability, consumer products, and distribution – while generating a high economic return. The portfolio works as an ecosystem, with the

companies agreeing to collaborate on optimal solutions, share knowledge and networks, and work together toward a shared vision of a healthy, sustainable, accessible global aquaculture industry. Their portfolio sits inside a much larger ecosystem of partners, co-investors, strategics, NGOs, universities, and stakeholder groups working toward a shared vision of a healthier, more sustainable, and accessible global aquaculture industry. This systemic approach recognises that industry-wide change requires organised solutions that bring together disparate components of the aquaculture value chain in a coordinated and synergistic way.[23]

Through this practice of mapping and analysing the system – its parts, relationships, and resulting behaviours – investors also seek to avoid unintended negative consequences. Open Society Foundations was interested in investing in a sustainable fish farm in Kenya in an effort to contribute to more sustainable and inclusive food systems in Africa. As part of its systems practice, Open Society Foundations' Economic Justice Program analysed and mapped the food system in the target region, including relevant stakeholders and relationships between them. What became clear through this analysis is that all fisheries in that region were owned by men, and all traders were women. More importantly, the way in which these stakeholders interacted was that the men would only sell the fish to the women in exchange for sex. In this current system construct, if the Economic Justice Program would use its financial resources to grow the sustainable fish farm with investment capital, it would unintentionally also help grow the sex trade in that region. In response, the Economic Justice Program did not exit the situation and seek a new opportunity. Rather, it is currently seeking to develop partnerships to support a more complete set of changes across the fishing industry, trading market, and civic rights protection in that region.

As highlighted in the above two examples, systems practice allowed Aqua-Spark and Open Society Foundations not only to identify leverage points for the highest potential impact within a larger system, but also to avoid negative unintended consequences. In this Report, we present a framework for systems practice – building on existing frameworks such as those introduced by The Omidyar Group[24], FSG[25], and New Philanthropy Capital[26] – and highlight how investors have implemented such practice across various issue domains. While each investor discussed in this Report has a distinct approach and area of focus, they share common characteristics in the way that they think about systems, design their investment processes, and distribute resources.

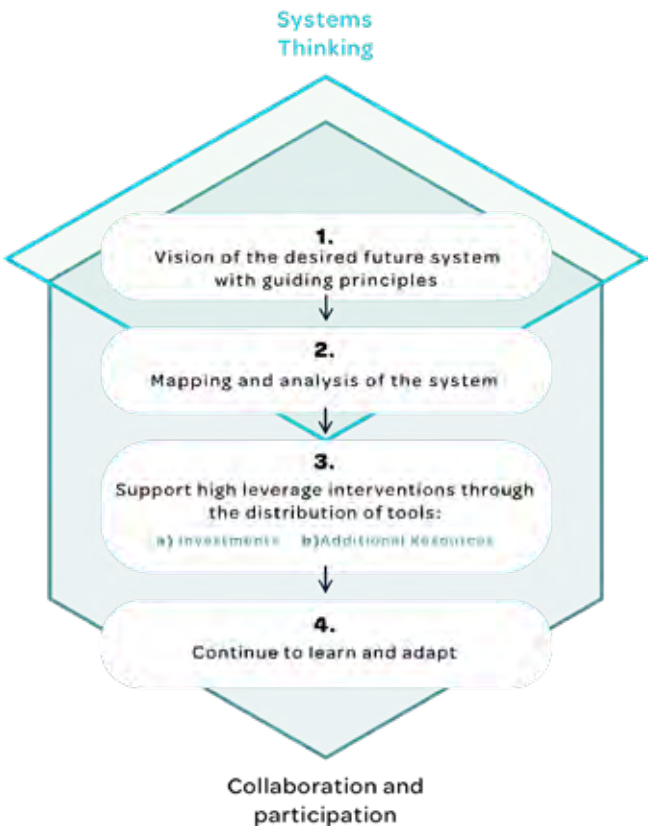
We hope this Report will provide a starting point for conversation and reflection within your respective organisations, whichever issue area you are currently focused on and wherever you currently find yourself on the 'spectrum of impact'. We appreciate there is no simple way to catalyse positive systems change, whether through investment capital or other inputs. The systems practice of investors presented in this Report is not a static activity; it is a work-in-progress contribution to on-going conversation and iterative pursuit. We welcome your engagement, feedback, and learnings.

Systems Practice

Systems practice involves (i) a holistic mindset or way of thinking, along with distinct (ii) processes and (iii) tools.[27] When such a practice is applied by investors to support positive social and environmental impact, we found that they tend to share some common characteristics across these three areas, as highlighted briefly below.

Systems Thinking

First and foremost, these investors use systems thinking – a holistic approach to analysis that looks at how and why systems behave the way that they do by examining their parts, relationships, and resulting behaviours, and how those elements change over time.



Processes

1. Vision of the desired future system with guiding principles: These investors often start by defining a 'guiding star', which is a vision that is framed as the desired future system towards which the investor is working.[28] Appreciating that systems have many interdependent and dynamic elements, investors may define guiding principles – fundamental norms, rules, or values that represent what is desirable – to help them navigate their way through the current system towards the desired future system. Guiding principles tend to take the shape of fundamental behavioural concepts such as (re)building trust in local and/or global communities, ensuring equity and justice, seeking participation of all stakeholders, exercising empathy and humility, listening and learning, ensuring accountability and transparency, exercising courage and risk-taking, and questioning the status quo.

2. Mapping and analysis of the system: Before deciding on the specific interventions to support in alignment with the identified vision, many investors that have adopted systems practice will map and analyse their target system – through engagement with relevant stakeholders. The purpose of this mapping and analysis is to better understand the various parts at play, with an inventory of causes and effects that form feedback loops. Understanding feedback loops at play supports the investor to identify the highest leverage points for intervention, and to align their organisations' unique skills, knowledge, and networks to mobilise for constructive intervention and influence. This exercise can help investors define their theory of change – a description of how their desired change is expected to happen in a particular context or system and what their contribution may be.

3. Support high leverage interventions through the distribution of tools: Once high-leverage points have been identified, these investors will support targeted solutions through the use of one or more tools that they are capable of deploying, such as investment capital, grants, policy engagement, and/or human capital capacity building.

a) Investments: Investors following systems level considerations typically seek to structure an investment in a way that benefits all stakeholders, including entrepreneurs, employees, and local communities. They do so through active engagement with those relevant stakeholders throughout the investment process. When setting their target total returns for the investment, these investors are guided by the solution that they are targeting to support, rather than adhering to an external benchmark such as 'market rate of return'; they believe that commonly used benchmarks have been derived without relevance to the problem being solved. These investors define their investment activity by asking 'what problem are we solving with this capital?'. Similarly, the expected timeframe of their investments is typically solution-driven, and thereby flexible, depending on the particular context and intervention.

b) Additional resources: These investors believe that investments alone are not going to change the target system. Additional resources need to be deployed, either simultaneously or sequentially, to bring about the desired change. Some investors may have a flexible structure with multiple available resources, such as grants, policy engagement, and human capital support, while others may only have investment capital available and will need to collaborate with others to provide additional resources. Regardless of whether they have additional resources available under their direction, systems practice investors tend to have a 'multi-resource mindset' when evaluating solutions.

4. Continue to learn and adapt: Investors that have adopted systems practice realise that complex systems are difficult to fully understand and highly dynamic, and will continue to evolve. As a result, investors need to learn and adapt their underlying assumptions, mapping and analysis, high leverage points, best tools to support interventions, and best partnerships to influence the desired change. While measurement of systems change is not easy, practicing investors typically seek to develop a few key performance indicators to assess whether they are on track to moving towards the desired future system. Even these indictors may need to be adapted over time.

For investors that have adopted systems practice, collaboration with – and meaningful participation by – key stakeholders in the targeted system is essential during each part of the process, from setting the vision and mapping the system to the distribution of tools and extrapolation of learnings. As systems are highly complex and dynamic, systems practice investors believe that such collaboration and participation will drive towards better outcomes for all, not just the individual investor.

In the following Chapters, we delve a bit deeper into systems thinking, and the above described defining aspects of systems practice investors' processes and tools.

Systems Thinking

Finance practitioners have predominantly adhered to a reductionist approach to analysis, where complex problems are broken down into component parts and those parts are analysed to understand how best to intervene. This type of analysis generally leads to linear solutions. While this is a useful approach of analysis for developing a concrete action plan, it ignores a critical element – the fundamental relationships between and among component parts of a system, and how those parts and relationships change over time.[29]

To create sustained positive change, one must identify entrenched patterns in the system: Whether explicitly included in formal analysis or not, each of us is part of a network of systems (i.e. social, political, economic systems). So too are the interventions where finance is directed. A system is characterised by having component parts that together take on additional, emergent properties that its parts alone do not have. This is because there are relationships and forces between and among the system's parts that are powerful and dynamic. To create and sustain positive systems change, entrenched patterns that are driving and supporting functionality of the system need to be changed. Only by analysing and mapping the system can investors identify these entrenched patterns. Disrupting embedded patterns is an essential step on the path to creating sustained, positive systems change.[30] Additionally, through mapping and analysis of the system, investors can strive to avoid (to the extent possible) unintended negative consequences, as highlighted in the Kenyan fish farm example.

When defining a system, it is important to identify all component parts within the system, as well as parts that are outside a defined system (i.e. the boundaries): There are always larger systems that can be taken into consideration, but system boundaries need to be set in order to design realistic and practical interventions. Every fish farm is part of a larger system – local, regional, and global – but inclusion in a defined system should be based on their relevance to the context and planned intervention. In the case of the Kenyan fish farm, including the local supply chain in the system helped to identify potentially unintended negative consequences; although inclusion of the global supply chain might be excluded from the defined system it remains relevant to acknowledge that the local supply chain is part of the larger global commercial fishing system.

> *Systems-level thinking requires us to acknowledge the limitations of reductionist thinking and to start thinking holistically, while being cognisant that we need to apply reductionist methods to execute an action plan within the holistic frame.*
>
> *- John Fullerton, Capital Institute*

When seeking to make change in a complex system, it is important to understand that change is often non-linear: Complex systems have forces between parts in the system that come together in feedback loops – reinforcing loops and balancing loops – which can result in disproportionate effects. A reinforcing loop is where one change causes more of the same change within the system; for instance, the fish farm in Kenya starts buying more sustainable fish feed, other fish farms in the area see that buying decision and start doing the same, leading to wider adoption of sustainable fish feed in the broader region. A balancing loop is where one change causes a push in the opposite direction; for instance, if one food producer becomes too big and assumes a monopolistic position in the industry, the government might enforce restrictions to break

it up. Balancing loops can either inhibit change by maintaining the status quo of the 'non desired system'; or, if brought to a more positive equilibrium through a successful intervention, balancing loops can bring the system to a more desired future state. Feedback loops that trigger non-linear change are important to identify and understand when seeking to influence systems change, as they can be powerful forces to be leveraged to bring about the desired, larger scale, positive change.

Complex systems are ever-changing, and there is no perfect, static state of that system waiting at the end of an intervention: Similarly, there is no such thing as a perfect solution within a system, as the choices we make today will impact the state of the system tomorrow. Addressing the sex trade linked to fish sales today will inevitably change dynamics in fishing communities and the broader food system; future interventions need to consider changes actively underway. There is an agile, real-time probative perspective that these investors need to display. Investors embracing systems practice need to accept with great humility that there will always be new parts and forces affecting the system that they must learn about and take into consideration. Having various system stakeholders participate in analysis, design, and execution of interventions is usually the best path to ensuring that all relevant system components and relations have been considered and the intervention is designed to evolve together with the system.

In the following Chapter, we discuss further how systems thinking has influenced the investment process of investors that have adopted systems practice.

Processes of Systems Practice

Develop a Vision of the Desired Future System with Guiding Principles

While almost every investor or organisation in the world will define its vision, mission, and values, these statements are not always used actively to guide the day-to-day work and behaviours of that investor or organisation. For investors that have adopted systems practice, the defined vision and guiding principles actively guide what they do, how they do it, with whom they do it. The defined vision and guiding principles are a driving force to direct their daily undertakings. As systems are highly complex and dynamic, having a clear vision and guiding principles can help the investor navigate the system more easily and make effective decisions, while the parts, relationships, and resulting behaviours of the system constantly evolve and change.

The investor's 'guiding star' is a vision that is framed as the desired future system towards which the investor is working.[31] Small Giants, for instance, has put forward a desired future vision of an economy that creates sustainable human prosperity in a flourishing web of life. To help navigate towards that vision or guiding star, investors that have adopted systems practice will often define guiding principles – fundamental norms, rules, or values that represent what is desirable. For example, the guiding principle that is core to the work of Small Giants is 'empathy', as the organisation and its founders believe that it allows people to put themselves in other people's shoes and experience life through their eyes. It challenges everyone to look beyond the immediate benefit to 'me' and consider what's best for 'us'.[32] This vision with principles guides all that the organisation does, and how they do it, every day.

When the guiding star and principles are developed through a participatory process with key stakeholders, these can be very powerful as relevant stakeholders are brought into the undertaking from the outset. Moreover, a participatory process avoids the typical dynamics where the investor comes in and directs what needs to be done, without consulting local communities. As systems are typically highly complex, it also means that the investor doesn't necessarily need to understand everything about the target system, as it can benefit from the wealth of knowledge of others. As systems continue to evolve, it is important to continually revisit the guiding star and principles – through the participatory process – to ensure that they remain relevant and useful.

Development and use of universal principles (when applied appropriately to the context), such as empowered participation, can help anchor and guide the pursuit of systems change without necessarily understanding all complexities of the given system.

- John Fullerton, Capital Institute

A review of guiding principles of over 40 identified investors that have adopted systems practice, offers some common elements:

Transform Finance is a non-profit organisation working at the intersection of social justice and finance to use capital as a tool for the advancement of real, transformative social change. To help assess what capital interventions hold transformative potential, the organisation has defined three 'transformative finance principles':

- Projects are primarily designed, governed, and where feasible owned by communities.
- Investments add more value than they extract.
- The financial relationship fairly balances risks and returns among all stakeholders.

Candide Group, an investment advisor to family offices and foundations that prioritises systemic change approaches amongst their portfolio and within specific investments, has also adopted these same transformative finance principles.

Ecotrust is a non-profit organisation, with both for-profit and non-profit entities focused on its mission to inspire fresh thinking that creates economic opportunity, social equity, and environmental well-being. The organisation's values drive their decision-making, inform their strategy, set expectations for how they work together and with others, and guide their employment practices. They are an interconnected set of beliefs that work together as a foundation for their culture and operations.

Drive radical, practical change

- *We believe that radical, practical change is both possible and necessary.*
- We act on this belief by questioning the status quo and relentlessly pushing fresh thinking that drives social, economic, and environmental change. We pursue systemic versus singular impacts, and we seek to inspire others to be a part of the change that we all want to create in the world.

Collaborate with humility

- *We believe that change is most durable when it is driven by humble, respectful collaboration.*
- We know that our work rests on the relationship we build and the communities we work within. How we show up in partnerships matters: We listen, we are open to others' needs, and we seek to play a role that is both effective and appropriate. Collaboration begins here with our team, we respect the time, talents, and contributions each of us brings, knowing that open and honest feedback is essential to our success.

Place matters

- *We believe that place matters, and that change starts here at home.*
- Understanding the unique characteristics of the places we live, work, and play is critical to progress. While we pursue place-based solutions specific to our region, we believe that our work here will inspire change in other regions and beyond.

Put equity at the center

- *We believe that equity must be central to our work.*
- We honour other ways of being and thinking, we recognise that we are on land that is not our own, and we respect the fundamental sovereignty of American Indian Tribes, First Nations, and Alaskan Natives. We work to shift power, resources, and privilege to disenfranchised communities, which is fundamental to the change we seek. We are committed to examining the roles of race and class in defining opportunities, and we place a priority on dismantling systems of oppression. We are committed to building cultural awareness and facility through discussion, education, and accountability to the diverse communities in which we work.

Enable others

- *We enable others to create the change they want in their communities.*
- We value our role as capacity builders, and we work to support informed decision-making with knowledge, technology, convening power, and creative capital. We share our point of view, but we do not create an agenda or show up with one-size-fits all solutions for others.

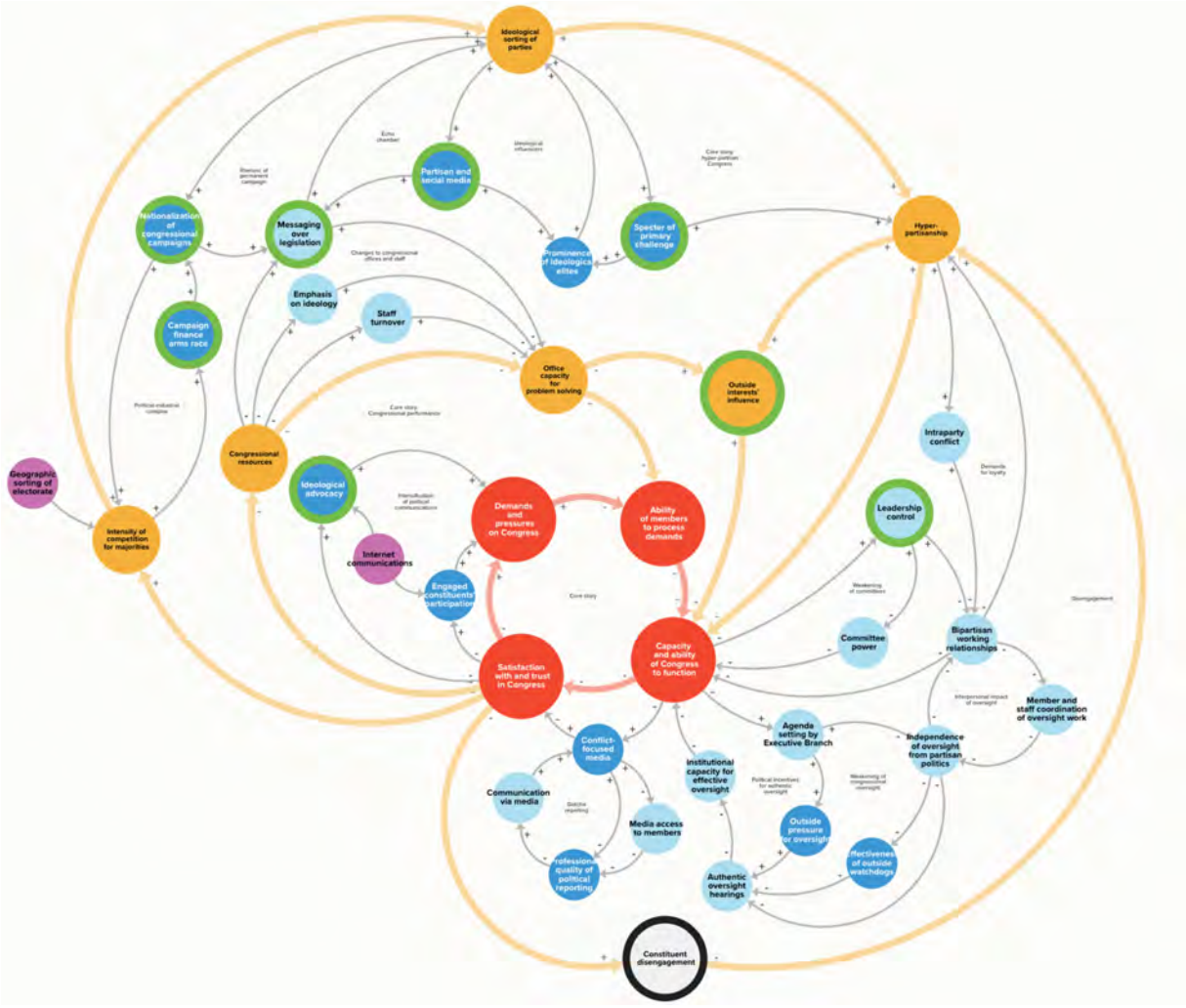
Build business as a force for good

- *We know that business can be a powerful force — one that has too often retained power for the few at the expense of the many.*
- Rather than adopting a for-profit or non-profit mindset, we see building responsible, for-purpose businesses as core to our work. We help build both supply of and demand for goods and services with social and environmental value through research, consulting, and investment.

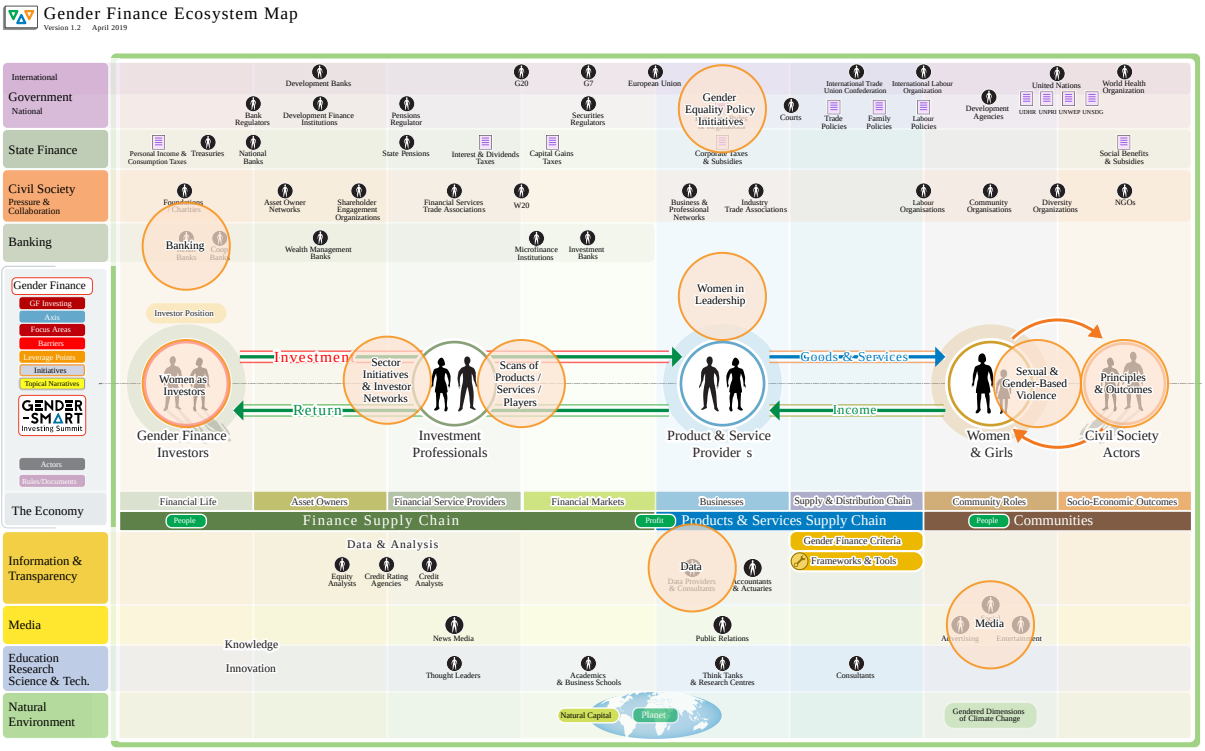
Conduct Mapping and Analysis of the System

Once the vision of the desired future system has been defined along with accompanying guiding principles, it is important for the investor that has adopted systems practice to define what is within the scope of the system it is targeting and what is outside (i.e. its boundaries). Systems can be defined in different ways, and can be distinct in dimension and scope. For instance, the KL Felicitas Foundation seeks to influence the traditional finance system globally by demonstrating it is possible to build a 100% impact portfolio with market-rate returns.[33] Encourage Capital, on the other hand, has launched a new fund to specifically target the energy system in India with the goal of making that domestic energy system more accessible, affordable, and sustainable. Once the system and its boundaries have been defined, these investors will typically map and analyse the system they seek to change – identifying key parts, relationships, and resulting behaviours.

The Democracy Fund, an organisation founded by The Omidyar Group, invests in organisations working to ensure that the United States' political system is able to withstand new challenges and deliver on its promise to the American people. With that mission in mind, the organisation developed a system map that shows the dynamic patterns (or feedback loops) that occur between all key players in that system. With the mapping and analysis of the feedback loops, they found Congress was increasingly unable to fulfil its role and identified two key sets of dynamics that reinforced this state of dysfunction. With this insight, they were better able to strategise in targeting their interventions in support of democracy in the United States.[34]



Congress and Public Trust Systems Mapping. The Democracy Fund. Accessed 17 March 2018.



Gender Finance Systems Map: https://nexial.co/gf/

The Gender Finance Ecosystem Map, co-created by Catalyst at Large, Tara Health Foundation, and Nexial, is another example of a system map. Focused on the system of gender-smart investing, it highlights who the various stakeholders are and where they fit in the system, as highlighted above.[35]

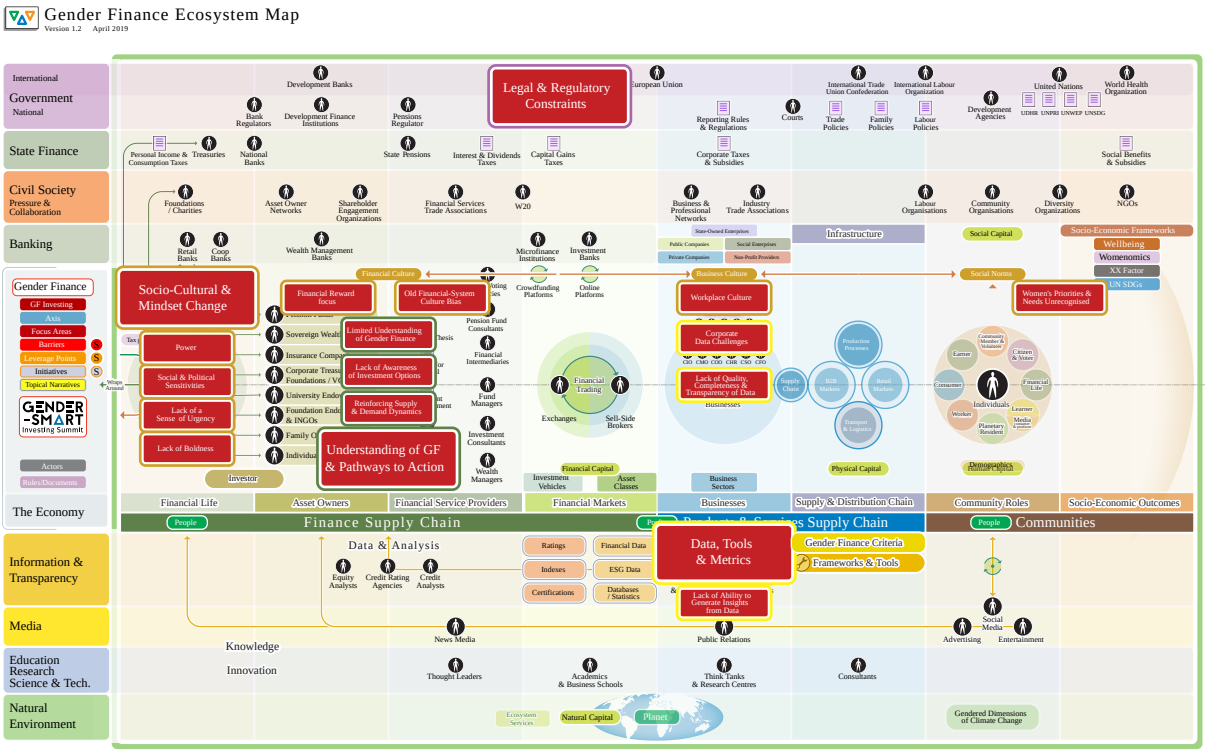
Analysing parts, forces, and feedback loops, they identified the biggest barriers (i.e. inhibitors of change) requiring attention, and then the high potential leverage points for entry and engagement. While many barriers are at work within a single system, some are larger or more critical than others. Thus, it is not just about identifying barriers, but also about understanding the gravity of those barriers in the context of the contemplated vision. Looking at the Gender Finance Ecosystem Map on the next page, there are many identified barriers, which have then been grouped under four larger categories that are deemed most critical within the current system: (i) socio-cultural and mindset change, (ii) understanding of gender-finance initiatives and pathways towards action, (iii) data, tools, and metrics, and (iv) legal and regulatory.[36]

It is important to understand where leverage points are located. A leverage point is a place in a system where a particular solution can be introduced and applied. Where there is a low leverage point, a small amount of force can cause a small change in the system; where there is a high leverage point, a small amount of force can cause a significant change in the system. Systems practice investors seek to target high leverage points where they are able to use their resources in the most effective way.[37]

> *We not only want to believe that there are leverage points, we want to know where they are and how to get our hands on them. Leverage points are points of power.*
>
> *- Donella Meadows*

Further exploring the system of gender-smart investing, some of the high leverage points that have been identified include changing government policy, changing the concept (and interpretation) of fiduciary duty, and developing investment products and services, as highlighted on page 23.[38]

Additionally, it is important to consider where a particular investor is uniquely qualified to intervene and influence. Each investor will have specific networks, skills, and knowledge that allow her or him to better focus on certain



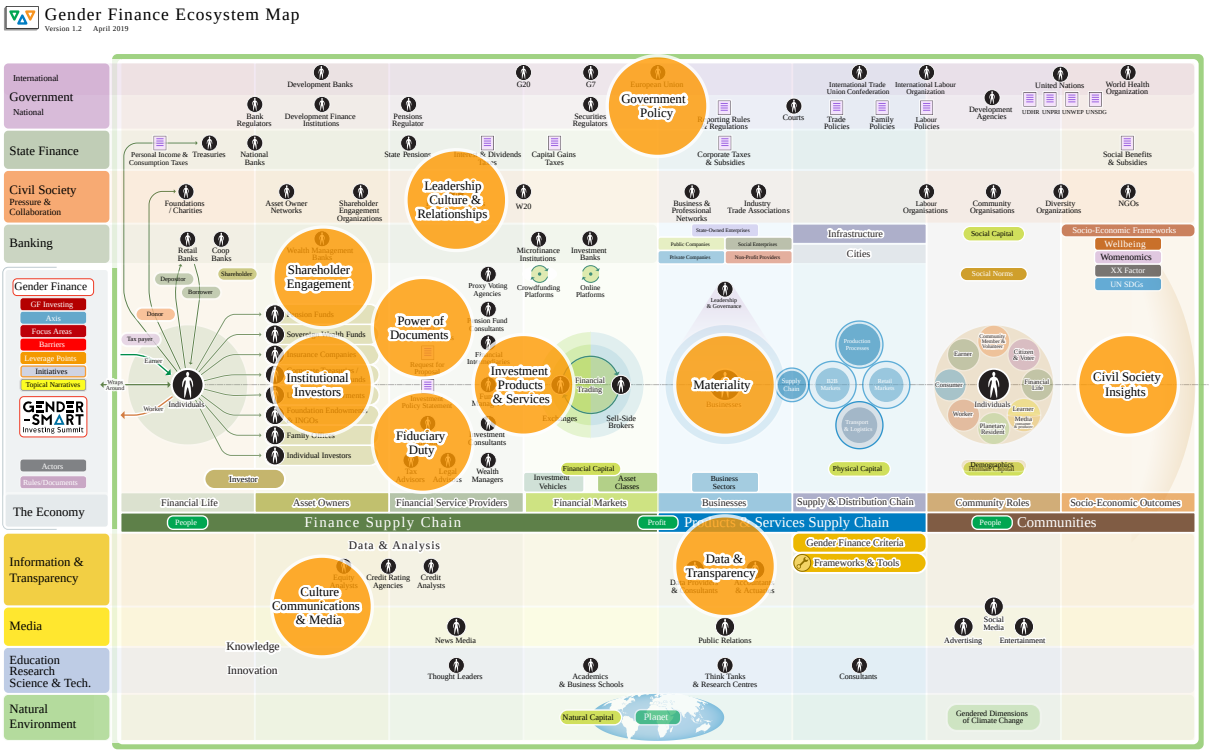
Gender Finance Systems Map: https://nexial.co/gf/

high leverage points than others. For instance, some investors offer strong political acumen that put them in a position to influence government policy, whereas others contribute strong networks amongst financial institutions, and are therefore better suited to support the development of new investment products and services. Skillsets and knowledge are also important factors when identifying unique strengths. Some investors or organisations have strong skills and knowledge in communications and media and may be uniquely positioned to create a new narrative through writing stories and creating media footage of the desired future system, a communications effort that can inform and potentially influence the mindset of key stakeholders.

Investors that have adopted systems practice are not typically interested in solutions where other sustainable, responsible, or impact investors are already active, even if those solutions can drive high positive impact. Rather, they tend to focus on solutions that are receiving little interest, and where increased interest could drive positive change within the system. As such, their mapping and analysis will often also include some assessment of where others are already active and where not.

Through targeted mapping and analysis, including the identification of high leverage points and investor's highest and best use to intervene and influence, a 'theory of change' will emerge. This is essentially a description of how a desired change is expected to happen in a particular context or system. It might read along the lines of: "To achieve V vision of a desired future system, we believe that W inputs, will lead to X outputs and Y outcomes, and ultimately lead to Z results (contributing to V vision)."

While a system map can be a powerful tool for an investor that has adopted systems practice, those maps will likely have limited effect if not shared with others within that system. As an example, Catalyst at Large, Tara Health Foundation, and Nexial have published their gender finance map on an interactive platform for all to explore through an array of different layers; they hope that through feedback from and engagement with other stakeholders this map will continue to evolve and be further refined. Similarly, Encourage Capital begins every activity with a systems mapping and analysis exercise and widely shares the findings amongst stakeholders with the aim to activate all relevant actors towards the desired vision. As one of their areas of focus is sustainable seafood, Encourage Capital received grant support from Bloomberg Philanthropies' Vibrant Oceans Initiative, and The Rockefeller



Gender Finance Systems Map: https://nexial.co/gf/

Foundation, to map interventions on global fisheries, which culminated in six published investment blueprints, each intended to serve as a roadmap for investors, entrepreneurs, and other stakeholders seeking to scale and accelerate fisheries reform through private capital deployment.[39]

There are a few caveats to system maps. As system maps need to be continually updated to reflect new realities, this exercise can be very time consuming, especially if conducted manually. Additionally, it must be noted that these maps are never perfect, even when completely up to date, as certain elements are nearly impossible to map.

> *When mapping a system, there is a danger in confusing the map with reality; the system map may be inherently wrong if it excludes elements such as culture and norms, which are difficult to map.*
>
> *- Sean Hinton, Open Society Foundations*

While recognising these limitations, the mapping and analysis exercise can be useful in identifying the entrenched patterns and feedback loops, high leverage points for intervention, serve as a great learning tool, and help facilitate collaboration amongst various stakeholders working towards the desired vision.

Support High Leverage Interventions through the Distribution of Tools

Investments with Solution-Driven Total Return Expectations and a Flexible Timeframe

Once a high-leverage intervention has been identified that fits their theory of change, systems practice investors will first consider – through engagement with relevant stakeholders – what type of resource(s) is best suited to make that specific intervention a success. While investment capital may be best suited in certain contexts, they appreciate that it is not always the best instrument to achieve the desired results. Much depends on the stage of solution being advanced and the context in which it is working. If investment capital is deemed to be the best resource at that point in time – either by itself or in combination with other resources – the investor will consider how best to structure the investment so that it works for all stakeholders, including local communities, entrepreneur(s), employees, and others whose efforts are contributing to making the target intervention a success.

From a financial return perspective, they will typically indicate at the outset that they are seeking 'variable returns' at a portfolio level rather than a specific target range. They tend

to reject the term 'market rate returns' as they do not believe that this is an appropriate benchmark. Market rate for investors is generally derived solely from the perspective of the investor's investment opportunity and cost of capital. This supply-driven approach does not consider the appropriate level of financial return that can be generated by the underlying business based on the problem it is seeking to solve in that particular context (the demand-side approach). Variable returns allow investors to look at each intervention independently, ask questions linking the investee to the problem it is solving, weigh the financial returns against real and perceived risk, and purposely assess the impact that investment may have on the targeted system, in order to determine the appropriate total return.

There is no benchmark for alleviating poverty for the base of the pyramid; and nobody knows the market-rate return for providing health care services for the poorest of the poor.

- Charly Kleissner, Ph.D., KL Felicitas Foundation, Toniic, Impact Assets

Influencing a system may take a long time. If traditional investors focus on short-term financial gain and impact investors' patient capital adopts a longer-term perspective, investors that have embraced systems practice have an even longer time horizon. Not only does it take longer to change systems, but also the dynamic nature of systems requires on-going engagement. There is no perfect state of a system waiting at the end of an intervention, as new circumstances emerge at every point in time. While the overarching time horizon may be long, specific supported interventions may have a range of different timeframes. For instance, an investor could invest in a shorter-term intervention that provides an immediately available product or service to underserved communities, while at the same time engaging in a medium-term awareness campaign, and a longer-term policy change initiative. It is not that all investments pursued by systems practice investors are long-term; rather, it is the vision of the desired future system motivating the investor that is framed by a long-term perspective.

The mission of the **F.B. Heron Foundation (Heron)** is to help people and communities help themselves out of poverty. In 2016, Heron reached its goal of screening 100% of its investable assets for impact, and aims to continuously optimise its endowment for mission over time. Heron recognises that values-based financial institutions have a role in shaping capital markets to better serve people and communities.

In 2015, Heron invested in **Sustainability, Finance, and Real Economies (SFRE)** to provide flexible capital for financial institutions that positively impact their communities. SFRE is structured as an open-ended vehicle, domiciled in Luxembourg, and provides mission-aligned Tier 1 and Tier 2 equity to values-based, real-economy-focused regulated financial institutions across emerging and developed markets. SFRE can invest both equity and subordinated debt over the long-term in eligible financial institutions. This flexibility allows SFRE to provide financing that is 'fit for purpose.' To date, SFRE has invested over USD 40 million in six institutions.

One of SFRE's investments is **Southern Bancorp (Southern)**. Southern combines a regulated bank, holding company and tax-exempt entity working together to provide responsive products and services to rural, chronically impoverished communities in Arkansas and Mississippi in the United States. Since 1988, Southern has originated over USD 4 billion in loans, contributing to increases in individuals' net worth through home ownership, jobs, and savings. As a growing financial institution serving markets with significant need and opportunity, Southern is regularly seeking mission-aligned, long-term capital. Consistently profitable, Southern has developed a capital strategy that supports its continued growth while catering for liquidity needs of its shareholders. Southern's 'total return' is generated by the combined performance of the bank, holding company, and tax-exempt entity that together deliver the solutions tailored to the markets it serves. Southern needs investors that understand its solution-driven approach and that recognise the long-term horizon of effective community investment. SFRE has been catalytic as an anchor investor in Southern's most recent capital campaign, which will allow Southern to deliver on its capital and business strategies.

Through its investment in SFRE, Heron was able to indirectly support an effort aimed at making capital markets (in this case, the region's financial infrastructure) better equipped to serve the best interests of the Mississippi Delta.

While traditional equity or debt instruments are often used as basic building blocks of an investment, investors that have adopted systems practice often introduce innovative features in structuring the deal so that transaction terms are 'fit for purpose'. These investors endeavour to avoid typical dynamics of investing where power is directly linked to the amount of capital invested and where economic benefit among stakeholders is distributed to the providers of capital. For example, an investor might want to avoid traditional exits, and instead transfer the enterprise back to founders (and/or employees of the enterprise) after a specified period or a particular milestone has been reached. To achieve this, the systems practice investor may introduce a structure that provides for the sale of shares back to the company at fair market value or based on a pre-determined formula at the end of the investment period, rather than selling that stake to the highest external bidder.[40] Alternatively, upon exit to an external investor, the investor may structure into the sale distribution of economic benefit to all those who contributed to creating economic value.

Engaging communities in a meaningful way means going beyond co-design and being willing to share governance and ownership. This helps ensure deep impact and create agency in communities.

- Andrea Armeni, Transform Finance

Fenix International is a next-generation energy company based in Uganda. Its flagship product is ReadyPay Power, an expandable, lease-to-own solar home system providing lighting, phone charging, TV, and radio, financed through affordable instalments over mobile money. As the enterprise started to scale, Fenix' leadership team believed that all the employees should share in the success of the business. Also, the leadership team believed that a program for employee ownership would ensure alignment of incentives across the entire team. In response, they designed the Fenix Flames programme.

'Flames' were introduced as the internal economic unit to allocate value to employees. Each quarter, Flames would be distributed to all employees, with the number of Flames dependent on the level of responsibility of the individual. As Flames were issued, issuances of stock options were approved by the Board. The number of Flames of each individual, divided by the total number of Flames outstanding, determined her or his proportionate share of the stock options set aside for this purpose. This ownership program worked well in jurisdictions where Fenix was present, as share ownership was not widespread and traditional stock options would be legally complex to introduce.

As predicted, the Fenix Flames programme helped develop a sense of common ownership, collaboration, and excitement among all employees, driving further business success. In 2017, when Fenix was sold to one of the largest energy companies, ENGIE, all employees benefitted financially from that sale, making a large impact on the lives of the employees who worked hard every day to make the business a success.

Post-sale, Flames continue to be issued to employees of Fenix, illustrating the inherent benefit of this type of ownership participation to all stakeholders.[41]

Deployment of Additional Resources

Investment capital alone is not going to change a system. Investors that have adopted systems practice understand that other resources need to be deployed, either simultaneously or sequentially, to bring about desired change. Some investors may have a flexible structure with multiple available resources – such as grants, policy engagement, and human capital support – at their fingertips, whereas others might only have investment capital available and will need to collaborate with others to make available additional resources. Regardless of whether multiple resources are available directly or indirectly, systems practice investors tend to have a 'multi-resource mindset' when evaluating solutions.

When deploying resources sequentially, an investor may commence by providing the intervention with grant funding to collect relevant data or bring stakeholders together around a common vision. Subsequently, the intervention may be ready for targeted investment. Once up and running, this intervention may encounter policy hurdles, and need a change of policy to succeed. As indicated, it is the 'multi-resource mindset' and integration of resources that is fundamental – whether assembled in sequence or at the same time.

(i) Grants

Grant funding can be instrumental and catalytic at multiple levels, from direct support of specific interventions, to supporting market infrastructure.

With respect to direct support for specific interventions, as a single opportunity or portfolio of opportunities, grant funding can be particularly helpful for early-stage, innovative ideas – from enterprises to aggregated vehicles – to test feasibility and viability for scale. Rockefeller Foundation and DFID, for example, have provided significant support to develop and explore ideas at the aggregated-level designed to catalyse retail investment to participate in positive impact interventions. By supporting several initiatives at an early stage of development, the funders hope that

The Bill and Melinda Gates Foundation (Gates Foundation) had a deep interest in financial inclusion for the poor in Bangladesh, and BRAC Bank, a leading development institution with a mission to serve small and medium enterprises in Bangladesh and beyond, had an idea for a mobile money company that could be a powerful platform to serve millions of unbanked people in the country.

To gain a better sense of the viability of the proposed intervention, the Gates Foundation initially supported a USD 5.5 million grant to Enclude to assist BRAC Bank with developing a business plan. After learning more about the business case, the Gates Foundation understood that this new venture – which is a low-margin, high-volume type business – would likely accumulate millions of dollars in losses before breaking even. BRAC Bank, a publicly trading SME bank that was required for regulatory reasons to hold a majority of the mobile money platform company – named bKash – was unlikely to support all these losses. In 2010, Money in Motion LLC, a US investment firm led by telecom entrepreneurs, Kamal Quadir and Iqbal Quadir, stepped in with the seed capital of USD 5 million; they entered into an agreement with BRAC Bank for bKash to obtain the license to operate as a subsidiary of the bank.

In November 2010, the Gates Foundation made a second grant to Enclude, this time of USD 10 million, to support the growth of bKash. By the end of July 2013, bKash was serving more than 4.2 million customers and had built a network of more than 60,000 mobile money agents, many of them assisting the poor in making use of the technology.

While the grants were essential to get the venture started, bKash now needed investments. It closed a USD 10 million equity investment from the International Finance Corporation (IFC), but it needed another USD 15 million to fund the further growth towards breakeven. bKash approached the Gates Foundation for direct support. The Gates Foundation considered how to structure this investment, as it wanted to make sure the company would ultimately be commercially viable while retaining its focus on low income users; in order to achieve the scale required for viability without compromising its segment focus, the Gates Foundation believed the company would need further subsidy to get there. The Gates Foundation ultimately decided on a combination of a USD 11 million equity investment and a USD 4 million grant.

In addition to financial resources, the Gates Foundation worked to support the policy framework of mobile wallets targeting central bank regulators around the world by engaging directly with regulators in specific country environments, and by connecting regulators across different environments.

By 2017, bKash was the largest provider of mobile financial services globally, with 5.2 million wallets opened in 2017 alone, and over 30 million cumulative wallet holders. In the same 12 months, it facilitated 1.6 billion transactions, which accounts for 4.3 million transactions per day. The company was also listed on Fortune Magazine's Change the World 2017 list for having a significant positive impact on the lives of those account holders and their families.[45]

at least one of these ideas will come to market, achieve significant scale, and unlock billions of dollars of capital for positive impact. These funders typically share lessons learned through the design process to reduce the innovation gestation period for subsequent initiatives that may respond to structural or other features that did not work in the prior attempt.

The John D. and Catherine T. MacArthur Foundation, Lemelson Foundation, and Shell Foundation, among others, have regularly provided grant support to test the viability of direct enterprise innovations, as well as aggregated vehicle ideas, across focus issue areas. In these cases the funder anticipates that at least several of the ideas will take off and grow to material scale. For those that demonstrate success at a small scale, there is replication potential.

Such grant funding is not only catalytic at the early-stage of development of an enterprise or investment vehicle; grant funding can also be very helpful in supporting existing (successful) organisations test new markets, products, or services, and/or provide bridge support until those organisations become self-sustainable. One might also consider providing grant funding to organisations that are currently not focused on creating positive impact to support them in developing a targeted impact proposition.

In addition to direct support for interventions, grant funding is also very much needed in support of building market infrastructure of the impact economy. Market infrastructure for a vibrant impact economy will include dynamic and inclusive networks and alliances, quality professional intermediation, impact management and measurement standards and tools, publicly accessible databases and information portals, educational resources at multiple levels, and much more. When market infrastructure is not well developed, it can hamper the growth of many interventions and actors working towards solving a similar problem. Unfortunately, there are not enough organisations supporting market infrastructure for the impact economy. The consequence is constrained success and acceleration of building block actors currently operating in the impact economy, and those seeking to join.

(ii) Policy

Policy change is often a critical ingredient in the mix of interventions for systems change. A change in one policy can influence a system significantly, but at the same time, changing that one policy can take a long time. As such, investors that have adopted systems practice will typically seek to influence policy alongside other interventions. Through their direct support for enterprises and aggregated vehicles, they may support enterprises and funds that are challenging the current system. These enterprises and vehicles will be proof points to demonstrate that the desired change is happening on the ground. These proof points offer tangible evidence for systems practice investors to engage with policy makers to make the case for needed policy change that will enable similar interventions to succeed at scale.

One way through which stakeholders can engage is by organising communities of practice, which promote cohesive and collective action. Such communities of practice can help knowledge exchange between stakeholders but also increase their credibility when it comes to making policy change requests. For example, the formation of the Alliance for Finance Inclusion (AFI) was founded to provide a global knowledge exchange platform in order to improve financial inclusion policy.[42] AFI counts members from more than 90 countries rallied around a shared goal to stimulate policy environments more conducive to financial inclusion and to make financial services more accessible to the world's unbanked. Members set AFI's agenda by choosing the policy solutions to focus on, which they then implement in their respective countries. AFI also reports on progress annually to keep members accountable on their commitments.

One note of caution when engaging in policy change is that such engagement can be extremely sensitive in certain contexts. This may occur particularly when nations are in transition or when nations are experiencing divisive domestic politics. For example, certain environmental interventions that put coal mines out of business in rural America may be politically sensitive in the current climate. Similarly, certain interventions for refugees and host communities in the Middle East may trigger heightened sensitivity. As a result, investors that have adopted systems practice may decide to engage in issues with high political sensitivity by way of a separate organisation or entity. Other investors may decide not to engage in politically sensitive matters in certain contexts (or not at all) to be able to engage with a wide community of stakeholders and build a common vision, without running the risk of alienating certain groups. Thus, whether investors will want to use policy engagement as a tool for pursuing systems change depends on the context and targeted intervention.

(iii) Human Capital

In addition to financial resources – investment and grant capital – and policy interventions, human capital is also a powerful resource that should not be underestimated. Investors that have adopted systems practice may provide

this in the form of capacity building support or technical assistance, a board seat, as well as connections to partners or funders within their network. As systems practice investors typically try to engage with a broad set of relevant stakeholders, human capital support is often targeted to build the capacity of these stakeholders to be able to engage in a meaningful way.

It is important to highlight that it is not just about human capital that can be provided to support interventions, but also about human capital within the investor's organisation to be able to deliver that value. Ideally, the investor's staff are 'multilingual', not only literally but in their conceptual curiosity and intellectual engagement. As such, they can speak from the perspective of many stakeholder groups, different resources (i.e. investments, grants, policy engagement), and distinct issue areas, as interventions often cut across multiple areas. The founders of ShoreBank, for example, would often note that a successful organisation is able to 'hold the tension' around a senior management table. Encouraging and supporting open debate and dialogue among respected professionals who reflect different backgrounds and skillsets can, if done well, lead to more creative and robust outcomes.

Intellectual capital is an important subset of human capital; it is a tool in which many systems practice investors purposely invest. This can be in the form of publishing frameworks they have developed, system maps they have created, lessons learned from their interventions to date, or an updated narrative they want to introduce about a specific issue area or solution-set. To be effective in engaging diverse stakeholders with different perspectives, a compelling narrative can be very effective as a communication and engagement tool.

Continue to Learn and Adapt

Investors engaged in systems practice are convinced that continuous learning and adapting is a critical part of the process. As systems are highly complex and dynamic, they understand that they will never fully understand the complete system – its parts, relationships, and resulting behaviours – and that there will always be more to learn about the current system; and as the system continues to evolve and adapt, there will be more to learn about the future system they are driving towards.

Similar to measuring and managing impact, there is currently no 'golden standard' for measuring systems change. Each investor will typically develop its own framework and indicators, and then sometimes retro-fit these efforts to existing frameworks. Examples of frequently utilized frameworks and indicators include the United Nations' Sustainable Development Goals' (SDGs) and the Impact Management Project (IMP). These are two very distinct frameworks, with the SDG framework offering a way to describe pathways for equitable and sustainable development across the globe and the IMP offering a coherent approach to setting objectives and managing performance along five dimensions of impact.

Existing frameworks can also be helpful from the outset for endeavouring to measure systems change. The two referenced above offer some useful inputs in order to reflect systems level relationships and dynamics. For example, there are many investments that cut across multiple SDGs. An investment in affordable housing can contribute to SDG 11 – Sustainable Cities and Communities – and align with SDGs 5, 6, 7, 9, 10, and 13 if done with a focus on using environmentally hospitable materials, sustainable energy infrastructure and making the units affordable particularly for low-income female-headed households in a community. These linkages will inform partnership selection as well as deal structuring. The interconnected analysis that underpins such an investment reinforces the opportunity for the investor to look at affordable housing through a more systemic set of considerations. Why is there a need for affordable housing in this community? What can be done to chip away at the root causes of the need if we focus on what is curtailing the ability of people to afford housing in their local communities? How can real estate development with the incentives, policies, and financing linkages driving gentrification and exclusion be altered to address systemic level dysfunction?

A word of caution has been shared by systems practice investors about the concept of attribution. This challenge comes up explicitly in the IMP framework and perhaps implicitly

in the SDG framework. Systems change is all about the 'we' rather than the 'I', and as a result, the question of attribution must be considered with caution and humility. There needs to be a fundamental appreciation and respect for the collective – actions and contributions – rather than the individual.[43]

While there is no set impact management and measurement standard for systems practice, investors that have adopted systems practice will typically try to find time on a regular basis to reflect on the system they are seeking to address. This exercise of reflection is often more experiential than systematic. The objective of the exercise is to explore and assess whether the vision that was defined at the outset remains desirable, whether the articulated guiding principles are actually driving their day to day activities, and to what extent the process that was embarked upon to achieve the initial articulated vision is working. Continuous learning and adapting invites non-defensive modification as part of systems practice. Investors engaged in systems practice will also regularly update and refresh the system map they are using as current guidance in plotting their interventions. As part of systems mapping and analysis, investors make assumptions – based on the information that they have collected from a broad set of stakeholders – about the important parts within the system, the forces between those parts, how those come together in feedback loops, and how those feedback loops result in patterns of behaviour. Systems practice investors frame a hypothesis of high leverage points for interventions and test that hypothesis by supporting interventions aligned to identified leverage points. It is critical that practicing investors then evaluate whether those assumptions hold true, and if they are achieving any change to existing patterns within the system. Investors can do this by defining key performance indicators from the outset that capture desired behaviour within the system, and then track these indicators over time to see if they are indeed behaving in the way anticipated. Similarly, they might seek to understand if there are any unintended behaviours within the system, and incorporate those newly discovered forces within the system map.

In the quest for performance indicators, those that surfaced during several interviews with investors that have adopted systems practice include the breadth and depth of stakeholder alignment and engagement, the extent of replication of a particular solution, and a decline in demand for a service or product that was identified with a certain negative issue.[44] For instance, if there is robust stakeholder alignment around a vision or solution, it can be seen as an indication that stakeholders are going to be moving in the same direction. Similarly, if the intervention is being replicated by others, it can be seen as an indication that the intervention is gaining traction amongst stakeholders for addressing a relevant issue. On the other hand, if demand is declining for a 'negative' product or service, the downward trend can indicate there is another viable product or service that is more desirable amongst stakeholders. While none of the practitioners interviewed claim that these indicators are perfect, they confirmed the utility of framing a working hypothesis at the outset and testing whether that hypothesis can be validated during the life of the intervention. In practice, the indicators themselves are also often adapted over time, underscoring the dynamic nature of systems change considerations.

There is much to be learned and adapted across all aspects of systems practice as applied by investors to drive positive systems change. There is a strong desire amongst these investors to leverage existing frameworks so that we can collaborate and communicate more easily. There is also an open push to share learnings – the good, the bad, and the ugly – for the benefit of all members of the practicing community and beyond.

Concluding Thoughts

Putting money to work for more than making money is gaining interest and traction. It is also inviting temptation to celebrate individual transactions. We must remain cautious not to overclaim the results arising from 'good deals'. We must engage with one another and with stakeholders affected by individual deals in order to achieve more with our money – more impact, more tangible and lasting results, more positive outcomes for more people and the planet. We will only achieve material impact on a scale that moves the dial on issues of inequality, environmental degradation, social dislocation, community prosperity, and more if we expand our perspective beyond the execution of individual deals and at least ask ourselves questions that touch upon the dynamics of the system in which the individual deal lives.

No investor alone can achieve positive impact on a 'system'; however, every investor can move from doing good individual deals to achieving significant positive impact results by 'stretching' her aperture of commitment and putting her decisions about capital into a systems perspective. What we are discovering, and what this Report will share, is that this process of 'stretching' comes with support from others. It is a more powerful, more meaningful, and, ultimately, more effective process for making decisions about how to invest our capital.

Only through collaboration amongst a broad set of stakeholders – investors, civil society, policy makers, and more – will we be able to have any chance at making lasting progress in tackling these problems. We appreciate the move from pursuing positive impact at a transactional level to considering systems level questions may seem like a daunting undertaking. Each of us tends to doubt our ability to make this transition. What this Report will demonstrate is that we are all learning by doing, that we can tap resources and expertise around us, and that we cannot afford to refuse to ask questions about what is really happening as a result of our invested capital.

Looking forward, there are critical considerations that demand immediate and collective action:

Create a vision of the desired future system with guiding principles:

- How can we set a vision that is truly reflective of all relevant stakeholders?
- How can we inspire others to adopt and adapt the vision to spark individualised and collective change?

Map and analyse the system we are seeking to improve:

- How can we build dynamic and complex system maps that can be regularly and reliably updated to reflect changing realities?

Support high leverage interventions through the distribution of tools:

- How do we structure deals that would lead to participation of system actors both on design of a solution and on its impact and financial returns?
- Can we find new ways to build and train teams that can use multiple resources, either simultaneously or consecutively? How can we incentivise teams if the success can only be achieved in the long-term?

Continue to learn and adapt:

- How do we measure progress and contribution towards systems change?
- How can we balance 'learning by doing' and 'being deliberative from the outset' when it comes to systems change?
- How do we monitor and identify unintended consequences transpiring within the system following one or more interventions?

We hope that you will join us in this further exploration – whether or not you are new to systems practice. Our global urgent threats confronting people and planet demand purposeful consideration. Let's endeavour to align visions, coordinate actions, and create a future for all life on this planet that is positive and resilient.

Please be in touch with us with any feedback you may have on the framework and findings presented in this Report, and any examples you may have of investments in support of systems change. We hope you will join us as we host convenings and roundtables to spur more thoughtful, coordinated action as we continue this this conversation into 2020 and beyond.

Appendix

Appendix 1

Overview of Investors adopting Systems Practice

There is a variety of investors and organisations actively deploying resources using systems practice. To give a sense of the breadth of organisations, we share a list of organisations below. Please note that this list is not exhaustive. Also, not all of them have investment capital as one of their tools, but all organisations listed are engaging with and/or enabling investing using systems practice.

- Acumen Fund
- Aqua-Spark
- Ashoka
- BMW Foundation
- Bill and Melinda Gates Foundation
- Blue Haven Initiative
- Candide Group
- Capital Institute
- Catalyst at Large
- CDC
- Co-Impact
- Commonland Foundation
- Cordes Foundation
- CREO
- Dasra
- David and Lucile Packard Foundation
- DFID
- Ecotrust
- Ecotrust Forest Management
- Ellen MacArthur Foundation
- Emerson Collective
- Encourage Capital
- Enviu
- F.B. Heron Foundation
- FSG
- Ford Foundation
- Global Alliance for Banking with Values
- Guerrilla Foundation
- Impact Assets
- John D. and Catherine T. MacArthur Foundation
- KL Felicitas Foundation
- Kois Invest
- Lemelson Foundation
- New Philanthropy Capital
- Omidyar Network
- Open Society Foundations
- Oxfam
- Prudential
- Purpose Foundation
- PYMWYMIC
- Renewal Partners
- Rockefeller Foundation
- Root Capital
- Shell Foundation
- Small Giants
- Swift Foundation
- Tara Health Foundation
- The Finance Innovation Lab
- The ImPact
- The Nature Conservancy
- The Omidyar Group
- TIIP
- Toniic
- Transform Finance
- Volans
- Walton Family Foundation

To provide a bit more detail on these investors, we share a select few profiles on the following pages, showing how this approach can be applied to different systems.

Appendix 2

Profiles of Investors adopting Systems Practice

Cordes Foundation

Overview

Founded in 2006, the Cordes Foundation is a family owned and run foundation, focused on alleviating global poverty and empowering women to fully participate in the development of their communities. The Foundation works to connect social entrepreneurs with the resources they need, convene events to strengthen the ecosystems of impact investing, and catalyse 100% of their balance sheet for impact.

Total disbursements: USD 10 million
Legal structure: 501(c)(3)
Focus areas: Financial inclusion, education, gender, ethical fashion
Geographies: Global

Systems Practice

Vision of the desired future system with guiding principles

The Foundation has a vision of a world where women fully participate in the development of their communities. The Foundation's '3Cs Approach' outlines its three main approaches to achieving its vision:

1. Connect social entrepreneurs to investors, advisors, and potential stakeholders to help their ideas take flight.
2. Convening events, salons, and summits that foster knowledge sharing, collaboration, and field building for impact investing and social entrepreneurship.
3. Catalysing mission-aligned social enterprises with philanthropic and investment capital to advance innovative, scalable, and sustainable market-based solutions.

This multi-dimensional approach highlights the Foundation's appreciation for the complexity behind the task of systems change.

Mapping and analysis of the system

The Foundation created a comprehensive system map of the ethical fashion sector, highlighting the key stakeholders, barriers within the system, and existing interventions to solve those barriers. It has

used this map to guide its interventions.

High leverage interventions through the distribution of tools

The Foundation activates 100% of its balance sheet for impact, investing in mission-aligned opportunities across multiple asset classes with a gender lens investment strategy that seeks to deliver strong risk-adjusted, market-rate financial returns. The Foundation's gender focus is drawn from its belief that women's economic empowerment across all sectors is essential to building stronger economies and improving quality of life. To this end, the Foundation looks at an organisation's ability to include women throughout the entire supply chain, as well as leadership positions and on boards. They believe that conducting such a gender screen can uncover organisations that have the potential to be more effective.

Public investments are allocated among debt and equity managers, with a focus on those managers that can demonstrate expertise in analysing environmental, social, and governance factors. Private investments are allocated across both direct and indirect opportunities, with capital allocated indirectly using funds, funds of funds, and also directly through investments in early-stage social ventures. On some occasions, the Foundation's employees also take positions on the boards of these social ventures.

The Foundation does not provide a hard time horizon for its investments; it generally deploys patient capital and is mindful of the often volatile nature of markets and business cycles.

Cordes Foundation also offers a biannual grant program and invites prospective partners with scalable, revenue-generating, and sustainable business models to apply for grants of USD 10,000 - 50,000. In addition to its investments and grants, the Foundation leverages its reputation and good standing to work as a loan guarantor for emerging market small- and medium-enterprises, and microfinance institutions.

Perhaps more important than its financial support, the Foundation endeavours to 'go beyond the dollar' for its partners and looks for ways to connect them to its larger network. By leveraging this network, supported social businesses are introduced to other investors, opportunities, business partners, advisors, and mentors. This combined approach of financial and business support can help catalyse an entity's growth and enhance its ability to attract follow-on investment capital.

Learn and adapt

Cordes Foundation monitors its portfolio of investments and grants on an ongoing basis. Internally, investments in the public and private markets have a quarterly reporting schedule, while grantee partners report to the Foundation annually. The investment committee meets quarterly to review the current portfolio and prospective opportunities, while the board of directors is engaged approximately every six months to review and approve allocation recommendations.

Decisions to adapt or rebalance the portfolio are not made lightly, but rather with as much thought and care as possible; balancing a mission to support best-in-class social entrepreneurs, managers, and organisations, with the understanding that it takes time to let these organizations reach their full potential. In Q4 of each fiscal year, the Foundation assesses the year's performance and investments (financially, operationally, and where the team's time is spent) to effectively plan for the year ahead, all in an effort to support its partners beyond the dollar.

Collaboration with other actors and stakeholders

As Vice Chair, Steph Cordes, who joined the Foundation in 2014, brings her expertise and experience from the fashion industry to the forefront of the Foundation's investment strategy. As an

active member of NEXUS, Steph co-chairs the NEXUS Impact Investing Working Group and the NEXUS Ethical Fashion Lab.

Annually, the Foundation allocates a portion of its assets to convene and build partnerships with social enterprises and provide support to organisations working on gender equality and the economic advancement of women.

In addition, since 2010 the Cordes Fellowship program has provided 500+ scholarships for the world's most promising emerging social entrepreneurs to participate as full delegates in Opportunity Collaboration, an annual gathering of 400+ impact professionals. This gathering brings together social entrepreneurs, innovative non-profit executives, grant makers, impact investors, and others from around the world to solve common challenges and spark new opportunities.

Example

In 2016, the Foundation invested in Soko, an ethical jewellery company based in Nairobi, Kenya. The company addresses the problem that many talented artisans within the country are limited to local sales, trapped in micro-economies, and locked out of global demand by inaccessible supply chains. By leveraging a global technology platform, Soko works to connect these artisans to global markets and larger retailers. As a result, artisans can produce more products, grow their incomes and reach new markets with greater scale.

Keeping true to its goal of 'going beyond the dollar', the Foundation also put Soko in touch with stores across the United States interested in selling its artisanal jewellery. In addition, it organised a roundtable between Soko and its contacts in the fashion industry to discuss the challenges of operating in developing countries. A key takeaway from the discussion was that artisans often struggled to access the working capital needed to buy the raw materials for their products. As a result, the Foundation structured a working capital facility, leveraging capital from other values-aligned investors, to provide USD 300,000 seed funding to Soko. This investment had a catalytic effect, with another local institution contributing USD 750,000 in follow-on capital.

With the support of the Foundation and other close partners, Soko reports it has created the first reliable production and capacity models within an informal and previously invisible sector.

Encourage Capital

Overview

Encourage Capital is a research-driven, solutions-focused asset management firm specializing in private investments that seek to generate a market rate financial return, as well as systemic social and environmental impact. Encourage is developing thematic investment products that address climate change mitigation, financial inclusion, sustainable seafood, and resource conservation through conventional pooled vehicles and customized solutions for a diverse group of mission-aligned investors. Encourage was formed in 2014 through the combination of Wolfensohn Fund Management and EKO Asset Management Partners.

Total disbursements: > USD 200 million
Legal structure: Asset management firm with conventional pooled vehicles and customized solutions
Focus areas: Climate change, financial inclusion, sustainable infrastructure, sustainable seafood, ocean plastics, water
Geographies: Global

Systems Practice

Vision of the desired future system with guiding principles

Encourage Capital believes that systemic problems require systemic, scalable, and replicable solutions. To achieve this, Encourage designs and executes investment strategies that link profit with impact. In addition, the firm's investment strategies aim to build a community of investors, foundations, non-profits, and other stakeholders to deploy private capital into those systemic solutions to tackle the world's most pressing problems.

Mapping and analysis of the system

Encourage's engagement starts with deep and systemic research of a particular problem, typically in partnership with large foundations, family offices, and NGO's. This research enables Encourage to understand the problem at its core, engage with stakeholders, and identify critical leverage points for private capital. This research ultimately helps Encourage create a theory of change, formulate an investment thesis, and build investment pipeline.

For example, supported by Bloomberg Philanthropies and The Rockefeller Foundation, Encourage published the 'Investing For Sustainable Global Fisheries' report in 2016. The report presents six hypothetical investment blueprints intended to serve as a roadmap for the growing number of investors, entrepreneurs, and fishery stakeholders seeking to attract and deploy private capital to scale and accelerate fisheries reform.

Given the complexity and dynamism of each problem, Encourage has a customized approach to building its theory of change and investment thesis. With a thesis in place, Encourage builds an investment strategy and adopts a structure that fits the strategy. By way of illustration, within their fisheries report, while the specifics of each sustainable seafood blueprint may differ, the fundamental thesis behind them all is the vertical integration of diffuse, inefficient supply chains in order to improve efficiencies and generate higher product values. In addition, whilst being

conscious of the need to offer a sufficient risk-adjusted return, each blueprint considers the critical need for investment in high-quality commercialization infrastructure.

The blueprints proposed by Encourage exhibit the necessary complexity and holistic approach to affect real systems change. Whilst hypothetical, they present a mindful, country-specific analysis of the relevant value chains and the role of each stakeholder within them. Considering these blueprints have the potential to be replicable across many species and geographies, the successful implementation of a single one could catalyse and unlock larger pools of private capital for subsequent marine conservation projects.

High leverage interventions through the distribution of tools

Encourage typically seeks to make private equity and real assets investments. Central to Encourage's strategy is an appreciation that to affect sector-level change, a longer-term mindset is required when deploying capital.

This is particularly true in Encourage's work in sustainable seafood. The return profile of each blueprint is intrinsically linked to the fish stock recovery process and expected higher product values. The longer time frame allows these fishery assets, such as fishing quotas and vessels, the necessary time to increase in value as stocks recover.

Indeed, when designing the structure for its sustainable seafood strategy, Encourage chose to use a permanent capital vehicle to more fully realise the value inherent in a recovering fishery, as well as to maintain flexibility to time exits appropriately given market and biological cycles.

The investments are often paired with grants and other tools, as part of a blended finance approach. These tools include grant funding for capacity building and ecosystem development, risk mitigation tools, and funding for project preparation. Such as in their project to expand rooftop solar to micro, small and medium-sized enterprises (MSMEs) in India, they have utilized grant funding for research, a technical assistance facility for portfolio company training and are in discussions for a guarantee facility to accelerate loan deployment.

Learn and adapt

Encourage's research-driven approach, combined with its focus on solutions, provides the foundation for continuous learning and adaptation. Encourage continuously engages with other market participants to provide complementary solutions to these issues. Such as in its rooftop solar initiative, Encourage and its partners identified that linking technical standards to financing will be critical to achieving sound system performance for MSME customers. Encourage built upon existing technical standards in the market and conducted a peer review to adapt to the MSME scenario. Encourage will update this exercise regularly to ensure that the standards are appropriate.

Collaboration with other actors and stakeholders

In order to deliver on its theory of change and realise its economic goals, Encourage believes it is critical to foster wider collaboration amongst stakeholders (for-profit/ non-profit, private sector/ public sector). The basis for this collaboration is set through the research phase of Encourage's work and continues through the life-cycle of an investment.

For instance, the seafood investment blueprints were developed using a 10-step process, engaging in dialogue with a wide range of fishery stakeholders, advisors, and consultants, to develop and evaluate the challenges, opportunities, and risks profiled within each blueprint. This wider collaboration was crucial in understanding the viability of each investment strategy and

whether a sufficient financial return could be achieved alongside the collective buy-in from all stakeholders.

Example

One example of Encourage's investment made using systems practice is its rooftop solar finance strategy in India. India is the third largest emitter of greenhouse gases globally. The energy sector contributes 71% of India's total greenhouse gas emissions, and industrial companies are the largest consumers of fossil fuel sourced energy in India. MSMEs account for nearly 50% of this industrial energy consumption in India.

As a result of increasing energy demand, high electricity prices, decreasing costs of solar, and a favourable regulatory environment, rooftop solar has become an attractive solution for the electricity needs of MSMEs. However, despite attractive unit economics, MSMEs have been excluded from the rooftop solar market due to a lack of financing. The rooftop solar market itself is in a nascent stage, with only 4 GW of solar panels installed across primarily larger projects and not MSMEs. However, the Indian government has set a bold nationally determined contribution of 40 GW of rooftop solar to the Paris Climate Accord by 2022 given the vast solar resources in the country.

In 2017, Encourage began researching this problem in partnership with the ClimateWorks Foundation and the Growald Family Fund. Encourage's research validated a 15 GW market opportunity that is currently unaddressed. Through its interviews of MSMEs customers across industrial clusters in India, Encourage received critical insights into the financing products, market awareness strategies, and strategic relationships needed to catalyse this market.

Encourage is now focused on investing into the most systemically important, and also the most profitable element of the rooftop solar value chain – financing. This approach fits well with Encourage's experience of private equity investments in financial institutions in India. Encourage aims to create value through these investments by providing these institutions with a comprehensive approach to solar finance, including: (i) growth equity capital, (ii) support in strategy and product development, (iii) linkages to high-quality solar installers, (iv) support in debt fundraising, and (v) access to capacity building funds and risk management tools. Encourage also intends to partner with stakeholders that are already active in the broader rooftop solar market, including development finance institutions, solar installers, solar equipment manufacturers, non-profits, and training institutes. Encourage has completed a first closing of USD 40 million for this strategy with strong mission-aligned partners.

With this approach, Encourage believes that there is a unique opportunity to reduce the carbon footprint of India's industrialization through clean energy financing solutions for MSMEs. In addition, Encourage believes that this approach is replicable across many emerging markets, thus having the potential to drive even greater systemic impact.

Omidyar Network

Overview

Founded by Pierre and Pam Omidyar in 2004, Omidyar Network is a philanthropic investment firm dedicated to harnessing the power of markets to create opportunity for people to improve their lives. The organisation has committed more than USD 1 billion to innovative for-profit companies and non-profit organisations to catalyse economic and social change. Omidyar Network employs a diverse set of tools to address unified strategic imperatives that allow the organisation to engage on today's most salient threats and opportunities.

The organisation seeks to move beyond the symptoms and focus on the root causes that define society's underlying architecture, assumptions and institutions, and its social contract. More specifically, the organisation works to create a more equitable economy, promote responsible technology that improves lives, expand human capability, and discover the emergent issues that will shape our future.

Omidyar Network is part of The Omidyar Group, a diverse collection of companies, organisations and initiatives, each guided by its own approach, but all united by a common desire to catalyse social impact. Some of the organisations included in this group are Democracy Fund, Flourish, Luminate, and Omidyar Network India.

Total disbursements: USD 1.58 billion (53% grants, 47% investments)
Legal structure: Hybrid structure: 501(c)(3) for grant-making, and LLC for investments
Focus areas: Reimagining capitalism, beneficial technology, discovering emergent issues, education
Geographies: Global

Systems practice

Vision of the desired future system with guiding principles

Omidyar Network seeks to create a more equitable economy, responsible technology, and expanded human capability. To build towards that vision, Omidyar Network is guided by five values: respect, impact, collaboration, in service and humility.

Mapping and analysis of the system

When evaluating an investment, Omidyar Network considers both the direct impact and the sector-level impact of that venture. At the sector-level, it has identified three distinct categories of interventions: (i) market infrastructure, (ii) market innovators, and (iii) market scalers.

High leverage interventions through the distribution of tools

Omidyar Network has a flexible structure, allowing it to deploy capital across the returns continuum, from commercial investment on the one hand to zero-return grants on the other.

Omidyar Network appreciates that innovators can take many years to become commercially viable, and as such, the organisation has a flexible timeframe when deploying resources to support them. Omidyar Network has also supported building market infrastructure, and has advocated for policy changes that encourage healthy market competition and establish appropriate regulations, creating an environment where entrepreneurship and innovation can thrive.

Learn and adapt

Omidyar Network aims to incentivise and foster deliberate experimentation, reflection, and adaption in order to achieve impact goals in a complex environment. To do this, the organisation is making explicit hypotheses around achieving a clear goal the heart of how they work, and connecting this with new evidence and data so as to inform decision-making, action, and iteration.

Collaboration with other actors and stakeholders

There is a strong culture of collaboration amongst the various organisations and initiatives of Omidyar Network, The Omidyar Group, and partner organisations. In order to effect change at the scale and pace the world needs, collaboration is required, and Omidyar Network often partners with mission-aligned start-ups, non-profit organisations, other funders, think tanks, and NGOs to advance its work.

Example

Omidyar Network believes that markets and technology can be forces for good, but only as part of a broader social contract. As part of its analysis on the topic of responsible technology, Omidyar Network began actively exploring issues in Digital Identity in 2015. Since then, the organisation has built a portfolio in this issue area, and seen how well-designed ID systems can truly empower individuals. The organisation is making significant investments in support of the Good ID vision by (i) strengthening the knowledge, capacity and incentives of ID issuers to deliver Good ID, while also holding them accountable; and (ii) supporting Good ID technology and business models innovations.

For instance, in support of strengthening the knowledge on Good ID, Omidyar Network invested heavily in learning more about India's experience in creating more than a billion digital IDs. With Omidyar Network's support, Digital Identify Research Institute, Data Governance Network, Centre for Policy Research, National Institute of Public Finance and Policy, State of Aadhaar, and others are actively researching ways to reduce exclusion and privacy risks; build and innovative ecosystem; and share learnings from India.

In support of technology and business models innovations, Omidyar Network has supported

several institutions to create tools, trainings, and networks, such as a modular, open-source ID platform that institutions can use to deploy national ID systems and embed default privacy settings into its code, led by IIIT-B.

Also, it has co-invested with OSF on a few strategic projects, such as the multi-country research by The Engine Room on vulnerable populations and their experiences with digital ID systems, and the ID4Africa movement to transfer Good ID norms into practice and establish a network of data protection authorities.

Open Society Foundations: Economic Justice Program

Overview

The Open Society Foundations (OSF), founded by George Soros, works in over 100 countries around the world to build vibrant and tolerant democracies with governments that are accountable and open to the participation of all people. The Soros Economic Development Fund initially operated independently as an investment vehicle for economic development, but was brought inside OSF in 2016 as the impact investment arm of the global OSF network. To facilitate this, it was incorporated into a newly launched thematic program that deploys grants and advocacy alongside investments - now the Economic Justice Program (EJP).

EJP is consistent with OSF's belief that political and social justice cannot be separated from the need for economic justice. Ultimately, a just economy is one that serves all of society. Whether considering workplace rights, basic income, inequality, or corruption— EJP believes that economic justice can only be achieved through the advancement of open society objectives.

Total disbursements: > USD 220 million[47]
Legal structure: 501(c)3 for program-related investments, and a UK-based not for profit company for grants
Focus areas: Refugees and host communities; smallholder farmers; women's economic empowerment; alternative business ownership models; innovations for extreme economic insecurity; governance and accountability; anti-corruption
Geographies: Global, with focus on the Middle East, Africa and Asia

Systems Practice

Vision of the desired future system with guiding principles

In early 2019, OSF established EJP through combining the work of the Economic Advancement Program and the Fiscal Governance Program.

The new program's guiding principles include promoting economic and social justice and increasing of openness and equity throughout global economic systems. Current priority focus areas include promoting transparency and accountability; combatting corruption; supporting the economic integration of migrants and host communities; magnifying the power of women in the economy; and, promoting structural developments in the agricultural sector benefiting smallholder farmers. It also supports the growth of shared business ownership models and the emergence of rights-respecting innovations in social protections and insurance. New combined streams of work will be formed as the program further develops.

Mapping and analysis of the system

These issue areas are inherently complex and require interventions that take account of the broader systemic context. EJP conducts systems mapping for all its areas of focus, and continues to update these maps to reflect learnings from the field in order to understand these complex relationships and manage knowledge about them; promote a healthier system by altering interactions; identify leverage points in order to do so; and institutionalize adaptation to

changing relationships.

High leverage interventions through the distribution of tools

The new initiative deploys a mix of interventions including grants to civil society groups working on economic justice issues, investments aimed at yielding positive social change, directly advocating for progressive economic policies, and building coalitions with other organisations and individuals working in this field. EJP has also provided technical assistance to governments and policymakers on freedom of information, transparency, and broader economic policy issues.

EJP's investments are deployed through the Soros Economic Development Fund. These investments are predominantly structured as Program-Related Investments, and as such, seek to advance EJP's issue areas first and foremost; EJP also considers investments that do not classify as PRIs in the support of economic advancement in its focus areas. EJP has a broad spectrum of risk-return expectations that need to be proportionate to the impact potential each investment generates. EJP is prepared to be a patient investor in the companies it supports to increase their prospect for impact and long-term market sustainability.

Direct grant support for organisations within the focus areas are coupled with grants to support the 'enabling environment' or market infrastructure in the following ways: investigations and research to create knowledge as a public good in areas critical to economic advancement; support to the OSF network; and seeding of investment platforms which contribute to economic advancement.

Policy advocacy to influence government, and stakeholder engagement to build coalitions, is also seen as critical to the success of the long-term targeted change. Specialized professionals within EJP provide such interventions, alongside the investment and grant team professionals.

Learn and adapt

EJP's systems practice is closely wedded to its efforts to support social learning, knowledge management and adaptive programming.

The program's systems practice is a cornerstone of its approach to social learning. Designed to be both collective and practical, it is designed to support collective action and emphasizes coordination between different perspectives born of different functions and joint reflection. It is not a fixed-term process but rather a dynamic, ongoing one that connects different streams of activity. It forms the basis of the program's knowledge management, which focuses on developing, circulating, harmonizing and leveraging knowledge among different team members and stakeholders.

Perhaps above all, its systems practice is intended to help EJP adapt its practice in an ongoing way in order to adjust to dynamic systems. As any of the complex contexts in which EJP works changes, so too must its practices. EJP's hope is that system practice helps them remain flexible and ready to respond to uncertainty.

Collaboration with other actors and stakeholders

Through its work on systems mapping, EJP identifies the key stakeholders in each system, and uses that to identify potential partnerships from the outset. These partnerships continue to evolve, as do partnerships with new organisations, as EJP identifies new challenges within each system, or new ways of tackling challenges.

Example

Through the mapping of systems related to refugees and migrants, one of EJP's focus areas, EJP identified transparency and accountability in corporate supply chains as a high leverage intervention for positive change. Lack of transparency and accountability can often lead to the most severe forms of labour exploitation. To address this issue, EJP invested alongside partners in Working Capital, an early stage investment vehicle with the primary objective to catalyse rapid change in the way multinational corporations understand and react to labour-related risk in their supply chains, thereby reducing the space for the most severe forms of labour exploitation to occur.

This 10-year investment fund, managed by Humanity United, brings EJP together with partners such as Walmart Foundation, C&A Foundation, and the Children's Investment Fund Foundation, to improve conditions for the vulnerable workers. Some investments to date through this fund include:

- Ulula – a software and data analytics platform which allows organisations to engage with workers in real-time to measure and monitor labour-related risks, creating more responsible global supply chains
- QuizRR – which offers innovative training solutions to advance corporate responsibility and to build knowledge of rights, safety, health, workplace, dialogue and wage management for workers in global supply chains
- Provenance – a technology platform which uses block-chain to enable brands, suppliers, and stakeholders to trace produces along their journey from producer to consumer

Importantly, the Sidecar Innovation Fund, a philanthropic fund supported by DFID that was launched alongside Working Capital, will enable the managing partner Humanity United to also support interventions that are pre-investment and seed-stage, so that these earlier stage innovations can reach the proof of concept stage, and ultimately also come to market.

Tara Health Foundation

Overview

Founded in 2014 by Dr. Ruth Shaber, the Tara Health Foundation aims to improve the health and well-being of women and girls through the creative use of philanthropic capital. To achieve this mission, the Foundation conducts the following activities:

1. Leveraging 100% of the Foundation's assets (financial and human capital) in service of its mission
2. Measuring and demonstrating social and financial returns on its grant making and investment activities
3. Influencing a sector-wide shift in philanthropy toward 100% mission-aligned assets

Total disbursements: >USD 80 million
Legal structure: 501(c)(3)
Focus areas: Domestic reproductive health, global health, gender lens investing, impact investing, other women and girls initiatives
Geographies: Focus on the United States with some exceptions

Systems practice

Vision of the desired future system with guiding principles

The Foundation believes that improving a woman's opportunity to have autonomy over her reproductive choices will optimise both the economic and social aspects of her life. The Foundation is dedicated to identifying and supporting innovative solutions that improve the health and well-being of women and girls.

Mapping and analysis of the system

The Foundation conducted a comprehensive mapping of the highest level needs in reproductive health in the United States. The Foundation's strategy is to address some of the most pressing needs that emerged from this landscape analysis.

The analysis revealed that by looking at improving access to reproductive health care, the Foundation can deliver on its mission in many different ways. For example, by funding grants to improve clinic access or by investing in companies that are creating new products for contraceptive use.

Additionally, it has thought more deeply about how it can use its public investing strategy to improve the lives of women and girls. This is the driving force behind the Foundation's commitment to unlock 100% of its assets in service of its mission. Taking this a step further, Dr. Shaber believes that the traditional paradigm for how foundations invest for social change should shift to follow a similar approach.

High leverage interventions through the distribution of tools

It has committed 100% of its assets to this mission and believes that other foundations should follow suit if they wish to unlock their full potential for impact. To this end, the Foundation advocates for other foundations to utilise their full endowments and investment strategies as the primary engine of social change, rather than their grant programs alone.

The Foundation is on a 20-year spend-down. This structure allows it the flexibility to make some strategic private investments now, and to be able to realise any exits before the Foundation fully spends down. The majority of its assets are invested in public markets, enabling the team to have the liquidity it needs to increase grant spending over time.

The Foundation's investment policy is driven by the concept of integrated capital. Integrated capital is the coordinated use of different forms of financial capital and non-financial resources to support an enterprise that's working to solve complex social and environmental problems.

Therefore, for each investment, the Foundation works closely with its partners to ask: "What is the change we hope to see?" The appropriate form of capital is then deployed to support that change. That disbursement may exist as multiple forms of capital, such as grants and debt refinancing, at various different times.

Most importantly, the Foundation seeks to take an active venture philanthropy approach with its partners, combining financial capital alongside human capital, and tailoring its support to the unique needs of each partner. This additional support can include mentorship, taking a board seat, or connecting partners to other resources and funding opportunities.

In addition, the Foundation utilises a portion of its grant capital to fund research that aims to discover and understand the most effective investing strategies for social change.

Learn and adapt

The Foundation measures the organisational health of the companies with which they chose to partner. They strive to use the same measures of organisational health (such as leadership, sustainability, co-funders) for companies that are receiving grants and those that are receiving investments. When necessary, the Foundation utilises its human capital to coach, problem solve, and collaborate in order to support the long-term health of its partner organisations.

Collaboration with other actors and stakeholders

Above all, the Foundation believes in transparency and collaboration. It is committed to continuous learning alongside its partners and peers, prioritising co-grant making and co-investing opportunities that have the opportunity to amplify their collective impact.

The Tara Health Foundation is now taking this commitment to the next level, by engaging peers to join in piloting and demonstrating the use of creative philanthropic capital to drive social and financial returns. In addition, the Foundation collaborates with others in commissioning reports and supporting the research efforts behind them. For example, Tara Health and a collaborative of leading reproductive health foundations and investors engaged the Camber Collective to map the landscape of the United States reproductive health market. The report enabled the Foundation to better understand the sector's most pressing needs and to identify areas for investment across asset classes that have a high potential to improve access to and quality of reproductive health products and services.

Example

Whole Woman's Health (WWH) provides cutting-edge, high-quality health care, including abortion services, to women around the United States. Founded in 2003, the organisation has become a leader in improving and expanding quality abortion care through service delivery, advocacy, and education.

Due to predatory legislation targeting abortion providers in Texas, WWH has been forced to repeatedly open and close clinics since 2013. This legislation has included hospital admitting privileges, restrictions on the use of medication abortion, mandatory waiting periods between counselling and procedures, and more. In 2016, WWH challenged the hospital admitting privilege law in the U.S. Supreme Court. In order to cover the costs of opening and closing their doors, WWH was forced to take out high-interest loans.

Tara Health's intervention allowed WWH to:

1. Refinance the organisation's debt, reducing interest rates from as much as 25% to as low as 3%, and
2. Accept an unrestricted grant for their non-profit sister organisation, Whole Woman's Health Alliance, so they could reopen their flagship clinic in Austin, Texas.

The Foundation's investment approach enabled WWH to redeploy capital that would otherwise have been spent on high-interest debt financing. Instead, after winning its U.S. Supreme Court case, WWH was able to use the capital provided to keep their existing clinics open and finally reopen their Austin clinic.

Appendix 3

Interviews and Roundtables Conducted

Interviews

- Acumen Fund, Sasha Dichter and Ashley Speyer
- Aspada, Thomas Hyland
- Capital Institute, John Fullerton and Stuart Cowan
- Co-Impact, Silvia Bastante de Unverhau
- Cordes Foundation, Eric Stephenson
- Emerson Collective, Anne Marie Burgoyne
- F.B. Heron Foundation, Clara Miller
- Luminate, Nishant Lalwani
- Omidyar Network, Yasemin Lamy
- Root Capital, Willy Foote
- Tara Health Foundation, Ruth Shaber
- TIIP Project, William Burckart
- Transform Finance, Andrea Armeni

NYC Roundtable Participants and Key Takeaways

Participants:

- Encourage Capital, Adam Wolfensohn
- F.B. Heron Foundation, Clara Miller
- Open Society Foundations, Maria Santos Valentin, Kate Murphy, and Anuradha Shetty
- Transform Finance, Andrea Armeni

Facilitated by:

- Capital Institute, John Fullerton
- Enclude, Laurie Spengler and Alexandra Korijn

Some of the key takeaways included:

- Systems-level thinking requires us to acknowledge the limitations of reductionist thinking and to start thinking holistically (i.e. a system is more than the sum of its parts), while being cognisant that we need to apply reductionist methods to execute an action plan within the holistic frame;
- Development and use of universal principles (when applied appropriately to the context), such as empowered participation, can help anchor and guide the pursuit of systems change without necessarily understanding all complexities of the given system;
- It is important to regularly ask ourselves whether we are not, in the interest of 'winning battles', settling for a modest change that puts at risk the larger change that is needed (i.e. settling for 'domestic partnership' rather than 'marriage' or 'greening' of coal energy plants instead of investing in renewables);
- To make material change, it is necessary to move away from thinking about individual investments, analysing each as a potential 'star' (or 'A' as Clara Miller described); rather think of the pursuit of systems change as supporting an ecosystem of enterprises where they are all (or nearly all) moving along a positive trajectory as the more appropriate unit of impact is at an aggregated level;
- Think more creatively about the tools needed to create real change (i.e. 'philanthropic equity', 'self-liquidating equity'); agility and improvisation to ensure relevance is a critical principle of any business model seeking systemic level impact with regular scrutiny as to whether the model(s) being used is 'fit for purpose';
- Given the long-term time horizon to have systemic level impact what are possible kite-markers / indicators that give guidance as to whether the course plotted is on track or not? Suggestions ranged from signs of replication and stakeholder alignment to a reduction of the need for the service/product as the issue that creates the need for the product/service is being addressed;
- Attribution, as an impact indicator, should stay separate from monitoring / measuring /

managing systems change; attribution in any form should be considered with caution and humility, and probative questioning should be regular and robust;
- Consider the human aspect, as a key barrier to change is a deficiency of trust in society; we need to show up differently, as our whole selves;
- Ultimately, to change a system, one needs to change the paradigm in which the system lives.

London Roundtable Participants and Key Takeaways

Participants:

- Catalyst at Large, Suzanne Biegel
- Independent Consultant, David Carrington
- Omidyar Network, Yasemin Lamy
- Open Society Foundations, Sean Hinton
- Oxfam, Caroline Ashley

Facilitated by:

- Enclude, Laurie Spengler and Alexandra Korijn

Some of the key takeaways included:

- It is important to think about the 'altitude' at which to take on systemic issues (i.e. global vs. local); to be effective, the initiative needs to be grounded in the local and have a certain level of specificity, but at the same time, it needs to be global in outlook to influence the national level (i.e. 'double impact');
- Need to acknowledge that not all systems change is good; there are many 'bad system drivers' (i.e. bad incentive structures) that reinforce terrible behaviour; in order to create positive systems change, one should also think about dismantling the bad;
- When mapping a system, there is a danger in confusing the map with reality; the system map may be inherently wrong if it excludes elements such as culture and norms, which are difficult to map;
- The complexity of systemic problems makes it difficult to be responsive to immediate needs; the systems view necessitates the need for a slower, more deliberate approach;
- There needs to be a certain level of acceptance of the solution, even if it's not the 'ultimate solution'; it can be okay to deploy resources for something less than the 'ideal' provided it is a conscious and deliberate decision, and there is a game plan for more action in line with the overall objective;
- Engaging citizens in a meaningful way, where citizens become the protagonist in their own change, is a key element to make sure that you are not missing the mark; however, it is not perfect because of capacity challenges to create meaningful engagement with citizens;
- Measuring systems change, and incentivising the team accordingly, is difficult as such change is not going to manifest itself in the lifetime of people's careers; can develop 'markers' though to see if the initiative is on track;
- To get others involved in systems change thinking, there is a need to develop an 'easy package' that does not rely on the systems change jargon; rather, need to show a picture of something meaningful and tangible.

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