Building an Impact Economy

A Call to Action for the Philanthropy Sector

February 7, 2019

Introduction

This call to action arose from a convening of the same name in mid-2018 organized by **Impact Entrepreneur** and **Rockefeller Philanthropy Advisors**. About 40 participants, listed at the end, came together to create a shared vision and set of actions to generate transformative change in how our finance, investment and broader economies serve the social and environmental needs of people and planet.

Reorienting Toward Transformation

A growing number of organizations are demonstrating how to move beyond incremental change to real transformation. But their success rests in their ability to shift the complex systems in which those problems exist—and that is influenced by how they are funded, the strength and efficacy of their networks, and whether collectively organizations are intervening in different ways that *together* add up to a meaningful transition to new paradigms and structures.

Inequality, resource degradation, climate change and a host of other contemporary challenges raise the question of how business, financial markets and investment can and should play a positive, rather than a negative or neutral, role in tackling them.

Institutional philanthropy—different types of foundations, family offices, donor-advised funds and other organized routes to giving and impact investing by those with significant resources—sits at the nexus of wealth and purpose. What is the responsibility of this sector to help create economic, financial and investment systems that serve people and planet, not the other way around? About 40 leaders in systems thinking, philanthropy, impact investing and new economy models came together for a "Building an Impact Economy" summit at Race Brook Lodge, Massachusetts in 2018 to explore this question further, as a collaboration between the Scaling Solutions initiative of Rockefeller Philanthropy Advisors and the Impact Entrepreneur Center.[1]

One of the working groups within the Summit, including philanthropic funders, crafted a "manifesto" for the philanthropy sector to urge its members to deploy far more, longer-term resources to support social finance and impact investing. Described here, and adding to a growing chorus of voices, the idea is to encourage a more ambitious and courageous agenda, a systemic perspective, and an emphasis on transformation. In this way the philanthropy sector can do much more to build an impact economy.

We recognized that financial capital has an absolutely key role to play in enabling change to occur at scale, for two reasons. First, financial capital has played a critical role in creating the very inequity we see in the system today. Second, if provided with the right incentives and guardrails, financial capital will facilitate economic systems oriented toward positive social and environmental transformations. Institutions and ideas, including those represented at Race Brook, are leading this shift, but they face a profound lack of financial resources. Too often, philanthropy doesn't understand how important its role can be, from using grant resources to support organizations changing systems, to using endowment capital, which otherwise can perpetuate the problematic aspects of systems we see today.

To date, efforts to create an impact economy have been piecemeal. The organizations, networks, and movement-building processes can't create a meaningful transition to a new equilibrium in large part because too few funders support the infrastructure required to scale the growth of alternatives to the mainstream. Following the two days of discussions, a main call to action was for philanthropic organizations to use their capital in a way that more directly supports the development of an impact economy; and to align their investments and actions overall with the underlying values inherent in an impact economy.

Shifting the Philanthropy System toward an Impact Economy

Summit participants challenge philanthropists and all types of philanthropic organizations whose values align with the perspectives above to:

1. Commit at least 1% of total assets (grants and investments) towards building the coordinated infrastructure, scaffolding, and architecture of the impact economy, as described in more detail below.

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[1] The Scaling Solutions initiative of Rockefeller Philanthropy Advisors is guided by a Steering Group from the Skoll Foundation, Ford Foundation, Porticus, and Draper Richards Kaplan Foundation. For more information see https://www.rockpa.org/scaling-solutions/

2. Use an integrated finance strategy that brings philanthropy and philanthropic instruments under the same strategic umbrella with debt and equity capital to expand available capital, and create a more sophisticated funding continuum better suited to the evolutionary cycle and needs of revenue-generating organizations and social enterprises.

3. Create and follow a roadmap of how to deploy philanthropic dollars, including thought leadership, education and training, improving policy and infrastructure, internal talent and culture, data and industry mapping, de-risking investment, and building a pre-investment pipeline of early-stage social enterprises. While too much for most single funders to do, clarifying who is doing what, and investing in gaps, will make an enormous difference.

4. Shift organizational culture and governance to take a different approach to concepts like responsibility to stakeholders, risk, and innovation.

Participants believe that together, these four steps can be seen as *a minimum floor* for the sector to create sustained support for bottom-up philanthropic transformation. For interested funders, the way forward could be an agenda for multiple organizations to sign on to, or the creation of a joint fund to move forward in a collective approach. Either approach would help address the "free rider" syndrome: not enough funders supporting the infrastructure required to scale growth of alternatives to the mainstream, even as they make individual investments that are a modest part of the change. Instead of trying to solve the problems that the system creates (such as climate change and inequality), philanthropy can work further upstream to shift the systems that perpetuate the problems. What follows expands each of these four points and offers funders examples of actions that they can take.

1. Commit at least 1% of total assets (grants and investments) towards building the coordinated infrastructure, scaffolding, and architecture of the impact economy.

Building the field will require many philanthropic organizations to engage in a wide variety of activities, many of which are noted below.

- **Create a new narrative.** Telling a new story is a fundamental and early task. We need a narrative for a new impact economy that is positive, motivating, and inspiring. We need to showcase proven practices that tell a different story of what's possible, weaving together inspiring personal stories and storytelling by filmmakers, artists, and others. This narrative will recognize the primacy of the local: at the end of the day, outcomes take effect at the local level. It will have two audiences, philanthropic organizations and the general public. Through this approach, we can make investments in Sustainable Development Goals priorities more obvious and attractive to private investors, and help the philanthropic sector understand the need for an R&D function in order to make capital flow towards solutions. We also need to shift society's collective understanding and expectations of the role of business in society, to challenge the notions of what money is and what return it must make, and to create an alternative to the unchecked individualism at the core of aged and diseased economic models.

- **Support thinking about a new economy.** At present there is no connected, accessible, and coherent body of thought that provides the theoretical basis for new economy thinking and acting. People don't realize that there are other alternatives out there. To change this, we can:

    - research and disseminate pluralist economic ideas;
    - reform economics and business school education, and create new academic programs to shape 21st Century leaders;
    - bring together talented new economy thinkers (including economists, philosophers, system thinkers, sociologists and psychologists, and journalists) who can evangelize for change, particularly women and people of color; and
    - strengthen membership networks for thinkers and practitioners of the new economy.

    The aim is to support those who revolutionize thinking about the role of financial systems under a more egalitarian and sustainable development paradigm.[2]

- **Modernize the financial system.** We need to modernize the rules of the game that govern financial and capital markets in order to reduce systemic risks caused by threats like climate change and inequality by considering broader stakeholder interests, and by tying governance into these considerations. We need to support advocacy to influence policy. Durable returns will be driven by a more participatory economy, with a goal of this new type of investing becomes mainstream. This will mean:

[2] The principles discussed at Race Brook are not new or only representing fringe thinking. See for example The New Paradigm written on behalf of the International Business Council of the World Economic Forum by Martin Lipton, Lawyer, Wachtell, Lipton Rosen & Katz. https://corpgov.law.harvard.edu/2018/06/20/update-on-the-new-paradigm-the-evolution-of-stewardship-principles/

- reforming the monetary and bank lending systems;
- developing new standards and building new investment guidelines, metrics and investor education in order to accommodate the ideas behind sustainability and a triple-bottom line and regenerative economy;
- deepening transparency and information access laws and policies;
- finding ways to rebalance risk-reward profiles to accelerate investment in key areas; and
- developing public regulations and incentives.

- **Build the field of impact investing as a component of capital,** since this is most frequently used by the philanthropic community. More funders need to support development of the field. This will mean funding accelerators to provide impact businesses with management support and access to capital, and developing products for impact investors including blended finance mechanisms. The goal is to create an environment in which profit-seeking social investment can be more common and more successful. It will also mean inspiring traditional capital to become involved. Philanthropy can build compelling evidence that impact investing can be profitable *and* contribute to solving the world's biggest problems; and build an understanding of why these models are really the only sustainable way forward for our communities and the world at large. This will involve investing in education and media, including social media, to promote these ideas; and creating a massive campaign to redefine the narrative on different levels, backed by data on the viability of alternative models.

- **Develop impact reporting.** We need a "consensus convention" for net-impact reporting (positive minus negative impacts of a firm) that facilitates comparability. This will mean funding impact measurement, evaluation, and data collection, integrating data across countries, and using impact management tools aligned with the Sustainable Development Goals and Inclusive Economy principles.[3]

- **Map the field.** We need to understand the boundaries of the analysis of this work and to continue building the map of who is doing what in the areas mentioned above, defining the audiences, the geographical focus and issues, and the role played by each entity. We also need to highlight the opportunities for collaboration and identify the gaps – what is not being done.

[3] See as just one example the Carrots & Sticks series at https://www.carrotsandsticks.net/

- **Bring people together.** Transformational agents already exist but they need to be empowered and connected. We need to create an inventory of transformational agents, organizations and networks, showing what they need and what they have to offer. We also need to recruit, nurture and connect new people and organizations committed to transformation. This means creating multi-stakeholder communities that are co-creating/identifying new activities that address the fundamental challenges. The goal is to expand the global community of people who use business, finance, and investment as a force for good.

2. Use an integrated finance strategy that brings philanthropic instruments under the same strategic umbrella with debt and equity capital to create a more sophisticated funding continuum that expands available capital, and is better suited to the evolutionary cycle and needs of revenue-generating organizations and social enterprises.

Philanthropic money generally lacks interaction with markets and thus has a limited capacity for scaling and creating change. The general practice among foundations is that you make money first and then deploy it for good. This mentality can be found in foundations' typical bifurcated approach whereby they dispense grant funds towards social and environmental causes while investing their endowments in traditional investments on Wall Street. This separation of philanthropy from the market prevents philanthropy creating change from within capital markets in the service of social good. A capital strategy for real transformation will need:

- **Grants** to build community engagement, to provide financial intermediaries with the necessary support so they can do higher-risk, high-transaction-cost investment without passing all the capital costs on to the end user, and to assist in the construction of business capacity through incubators and other innovative models for supporting entrepreneurs.

- **Backstop capital** in the form of first loss money and guarantees, enabling community investors who are insulated from risk to provide the most secure tranches of capital (CDFI-like in risk profile). De-risking is especially important to allay the perceived risk of direct investment in emerging markets.

- **Long-term patient capital** provided at lower return and for longer rates than most community investors typically provide. We need to invest in entrepreneurs who are solving problems in a sustainable way, using a revenue-share basis, not just equity or debt. In general, there is a lack of mature, integrated impact financing vehicles to support early-stage impact businesses.

- **Improved sources of seed-stage capital for small businesses and start-ups.** Across the world, this sector provides significant innovation and employment opportunities, but venture capital is too limited, too specific and too discriminatory compared to most business needs, and banks are too risk-averse. Innovation in approaches is badly needed.[4]

- **Investment directly in enterprises** owned and controlled by women, communities of color, native communities, immigrant communities and working-class communities; and in worker-owned cooperatives, community land trusts and community-controlled capital funds. Building on the growing movement in philanthropy toward diversity, equity, and inclusion (DEI), we must recognize that the individuals who experience discrimination are best positioned to understand problems, identify potential solutions, and lead change. To achieve both fairness and efficacy, investment principals who represent communities of different perspectives and backgrounds deserve far more support.

- **A library of appropriate business plans**. Mondragon Bank (*Caja Laboral*), for example, does not wait passively for new businesses to appear asking for financing. Instead it plays the role of social entrepreneur and researches what new businesses could fit in the region given the mix of businesses already there. Thoroughly vetted business plans then wait in the bank's library for a new co-op team that wants to take them on. A national open-source library of best business plans could be funded by larger foundations and/or investors looking to fund the resulting projects.

- **Donor advised funds (DAFs)** that can be used to connect the impact side with the traditional side of investing, for example creating a new model for plastics packaging as an example of regenerative economics on a global scale, using new corporate legal structures (B Corps), or repurposing financial innovations with a social lens. These efforts can be amplified by creation of a national syndicate of impact investing DAFs. Common platforms like Impact Assets could be knitted together and then customized for DAFs, and in turn for broader participation from foundations and even individuals and corporations.

- **Technical toolkits** to repurpose financial investments for social change. Creative strategies such as short sales, swaps, and a hedge fund approach within a social movement strategy would create new wealth rather than just consolidating wealth for those who have it. Organizations like Transform Finance are in the forefront of thinking creatively about radical uses of mainstream instruments.

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[4] See for example https://www.nytimes.com/2019/01/11/technology/start-ups-rejecting-venture-capital.html?smid=nytcore-ios-share

3. Create and follow a roadmap of how to deploy philanthropic dollars toward an impact economy.

To meet the Race Brook vision, philanthropic organizations will need a long-term roadmap setting out how they will spend their funds in a more holistic way. There is a role for philanthropy in shaping a new economic paradigm: can foundations embrace this role? While most staff will not have received sufficient training in this area, how economies work cuts across virtually every issue they work on. We need more foundation staff and board members conversant with economic issues and capital deployment. We need to be more conscious of what we are investing in and how we are investing. Clean tech, for example, is a good investment in multiple domains, but it does not automatically translate into a strategy for building power for disadvantaged or oppressed communities. Investors must be mindful of how their investments affect members of a community on a more granular level. This goes beyond impact investing and mission-related investing to using grant funding and other mechanisms to create the conditions in which a different economic paradigm can thrive. Examples of this may include initiatives to:

- Create a common fund for field building across a range of foundations that share this mission, and expand investments into the networks and organizational hubs that carry on this work. Global Impact Investing Network (GIIN), Mission Investors Exchange, B Lab, Sistema B, Asian Venture Philanthropy Network, Confluence Philanthropy, and Impact Management Project are examples of the infrastructure and scaffolding that is crucial to transforming retail social finance investments into durable shifts in how economies work – grant funding and memberships in such organizations are an important complement to individual investments and funds.

- Support a global network of educational/innovation centers for systems change makers that can channel the best thinking and practices into active, interconnected, place-based impact economy development and business incubation initiatives.

- Invest more to scale up the expanding number of alternative economic and philanthropic models, and those doing the prototyping, like the Global Citizens Movement for a Wellbeing economy.[5]

- Build the capacity of local entrepreneurs in emerging markets, supporting the next generation of viable entrepreneurs who are willing to take on much of the risk inherent in an experimental, marginal transition to an inclusive economy.

[5] https://wellbeingeconomy.org/event/towards-a-wellbeing-economy-ten-years-on-from-the-financial-crash-is-it-time-for-system-change

Organizations like the Aspen Network of Development Entrepreneurs (ANDE) and the Sankalp Forum are enabling such change.

- Build pre-investment pipelines for funding early-stage social justice and climate impact initiatives or initiatives in hard-to-reach geographies. These are the lean operations that are going to solve the world's biggest problems; we just need to resource them better.
- Fund local organizing outside of capital cities, thus building the capacity for scaling of smaller organizations that are responsive to local communities.

4. Shift organizations culture and governance to take a different approach to concepts like responsibility to stakeholders, risk, and innovation.

Culture change happens in the philanthropy sector through peer-to-peer influencing and by adopting new practices on the basis of evidence or in the spirit of experimentation and innovation. Our hope is that more and more philanthropic institutions will actively understand and seek to participate in the transformation of the economy towards durable returns generated by stakeholder participation. At times this will require a greater appetite for risk, at other times, more patience.

It may be that family foundations and offices can move in these ways more easily than older, larger endowed foundations. But the urgent need for different capital deployment practices requires leaders in every type of philanthropy to:

- Support expansion of efforts like the President's Council of the US Impact Investing Alliance that galvanize foundations' top leadership to act.
- Put more emphasis on building local ecosystems for change, collaborating with existing efforts around cities and mayors across the world who are looking for programs that will support their citizens and broader communities.
- Consider a spend-down approach and return wealth to communities through resourcing activists, artists and cultural workers who are creating social, economic, political, and cultural change, learning from the work of the Christensen Fund.
- Create a prototype for systemic intervention and high-level collaboration (choosing one global problem in one area as an example), where different organizations take on different roles and all involved learn from implementation. An example might be hiring a full-time sustainability

coordinator with the goal of demonstrating a community model of an integral, regenerative economy. Visionary foundations and family offices could thus become the first *philanthropreneurs* to develop models of financially viable regenerative economies, which in turn will attract greater participation from impact investors and others.

This Call to Action was created in the interest of encouraging the broader philanthropic sector to examine these issues and to communicate what our Race Brook participants exchanged and learned in a few short days in 2018. To get involved, or for more information, please contact Laurie Lane-Zucker, Impact Entrepreneur at laurie@impactalchemist.com, Patrick Briaud, Rockefeller Philanthropy Advisors at pbriaud@rockpa.org, or any of the Race Brook participants listed below.

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