

State of the Field: Financing Systemic Transformation

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Abstract

The current finance system is not addressing the need for financing systemic transformation required by today's multifaceted crises. In this State of the Field session at the Transformations 2023 Conference, a panel of thought leaders in the field of systems finance discusses the limitations of dominant financial systems and the opportunities for their transformation. Key factors such as radical collaboration, an experimental mindset, and stakeholder inclusivity are identified as essential drivers to catalyze transformative finance. A new initiative called "[*Financing Ecosystems for Systemic Transformation*](#)" (FEST) is described that offers a new approach to applying these drivers to transform the finance system.

Introduction

This "*State of the Field*" session at the Transformations 2023 Conference addressed the challenges of financing systemic transformation. Panelists agreed that the core values, structures, and objectives of the current financial system require transformation because they are driving environmental destruction and social inequity. Intermediate incremental objectives such as triple bottom line ones (economic, social, and ecological) must be understood as being accountable to this higher need to change basic power structures and values. As the urgency for a sustainable, just, and inclusive society intensifies, the dialogue must shift towards finance that catalyzes genuine and systemic change.

Panelists shared their perspectives on financial practices, investment strategies, and collaborative efforts for sustainability transformations. They highlighted existing misalignments of conventional financial institutions with transformative goals. Emphasizing stakeholder inclusivity, collaborative risk management, and radical collaboration, the panel identified conditions and methods for cultivating transformative finance ecosystems.

The Panel

Steve Waddell is a leader in the field of transformation, as well as a consultant, researcher, and facilitator with decades of experience with innovation networks and systems change. Besides co-founding Catalyst2030, Steve is the founder of Bounce Beyond, a collective dedicated to accelerating systemic transformation. Steve currently focuses on developing financial practices, tools, and initiatives as the founder and lead steward of Financing Ecosystems for Systemic Transformation (FEST).

Magdalena J. Schneider co-founded several companies and associations and has extensive experience in the European banking and non-profit sector. She currently co-leads the Swiss Net-Zero Mobility prototype at the TransCap Initiative (TCI), a collaborative multi-stakeholder initiative that develops the conceptual underpinnings of systemic investing, tests these in real-world settings, and builds a community of practice.

Johan Schot is Professor of Global History and Sustainability Transitions at Utrecht University and founded the Centre for Global Challenges. He regularly collaborates with policy-makers, funders, and investors to develop concepts for transformative investment and their implementation. Johan is dedicated to redefining actors, rules, and system structures in the investment arena to enable sustainability transformations.

Bruce Evan Goldstein serves as the Lead Weaver of the Transformations Community and Associate Professor at the University of Colorado Boulder in the Program in Environmental Design. He deeply values the TC and is dedicated to nurturing it. His research and practice focus on supporting transformative networks and communities.

The Transformations Community and Conference

The Transformations Community is a global network of action-oriented researchers and reflective practitioners who support transformations to just, sustainable, and regenerative futures. The community consists of experienced researchers and professionals from diverse backgrounds, including sustainability-oriented academic programs, government, intergovernmental agencies, research institutes, non-profit organizations, consulting firms, and foundations. The Transformations Community organizes dialogues, workshops, and communities of practice to enable practitioners to bring desirable transformations to life. Since 2013, the Transformations Community has hosted biennial conferences in Norway, Sweden, Scotland, Chile, and online during the pandemic in 2021. These events are deliberately transdisciplinary and seek to provide a creative and welcoming space for transformation researchers and professionals to come together in dialogue and practice. The 2023 conference was in Sydney, Australia, with a simultaneous online conference and a European Hub Conference in Prague, Czechia, followed by the North American Hub Workshop in Portland, Maine. The global theme was “Partnerships for a better future.” the 2023 conference program offered 250+ sessions, participation from 40+ countries, 700+ attendees, and insights shared by 400+ speakers. The panel on Systems Education was part of an open-access “State of the Field” series, which aimed to explore core ideas and practices in the field of sustainability transformations.

Dialogue About the State of the Field of Financing Systemic Transformation

Call for Transformative Investment

Summary:

- *The shift towards transformational finance is essential for successful funding initiatives aligned with the SDGs.*
- *Transformative investment requires a transformation in financing system goals, values, and structures beyond traditional ESG investments and other incremental change approaches.*

After introductions, the panelists dove right into identifying the existing roadblocks to transformation processes and the necessity to overhaul the dominant financial systems. Steve underscored the urgency of moving beyond minor reforms to more radical changes. He explained that *"Our current financial systems are not structured to fund transformations,"* referring to the shortcomings in meeting the financial needs of initiatives aligned with the Sustainable Development Goals (SDGs). To this end, he pointed out the emergence of new economic models such as circular, regenerative, and doughnut economics and underscored that we are beginning a shift towards transformational finance. Steve explained, *"While traditional finance emphasizes bottom-line returns, transformational finance prioritizes multi-stakeholder decision-making processes,"* promoting entirely new power dynamics and logic behind investment.

Johan, having worked with investors and public entities, introduced a novel finance approach called transformative investment. This concept goes beyond traditional impact and Environmental, Social, and Governance (ESG) investments and targets systemic change. He elaborated, *"In defining systems change, we emphasize the need to alter the actors involved, the rules guiding behavior, and the very structure of systems. To invest in system change, we focus on transformative outcomes and processes."* It is, therefore, crucial that investors understand the interconnectedness of the systems at hand and move away from merely investing in technological fixes that do not lead to broad systemic changes. In his work, Johan urges investors to thoroughly assess their investments according to transformative metrics.

A Financial Paradigm Shift

Summary:

- *The limitations of traditional finance necessitate a shift to capital exploration methods focusing on systemic change rather than incremental changes.*
- *Transforming the finance sector involves moving beyond single projects and embracing multi-stakeholder alliances.*

The conversation shifted to the limitations of traditional financial models and the need for transformative approaches to catalyze systemic change. Steve highlighted the challenge posed by entrenched mental models and emphasized the need for those with financial resources to see

themselves as part of a broader system. He suggested that a shift in perception is essential for addressing transformative questions and contributing to substantial change.

Magdalena, drawing from her experience with institutional investors and capital markets, critiqued the incremental impact of Environmental, Social, and Governance (ESG) investing. She stated, "*We need different capital exploration methods, focusing on real economies where genuine change can occur, rather than secondary capital markets that bring incremental change.*" She argued that the conventional approach, which often emphasizes single projects, is insufficient for bringing about the large-scale change required to address current challenges. Magdalena elaborated, "*Traditional finance often focuses on single projects, but for systemic change, we need broader, multi-stakeholder alliances. The key is to deploy different kinds of capital from different types of funders to enable interventions in multiple system nodes in a highly strategic and synergistic manner.*" These insights underscored the importance of involving all stakeholders in the transformation process and the need to deploy capital systemically to generate deep and structural change in society.

The speakers suggested that the finance sector needs transformation to fully support and drive systemic change. They stressed that breaking away from old paradigms is necessary for creating a resilient, inclusive, and just society.

Shaping a Just Transition

Summary:

- *Ensuring a just transition requires giving stakeholders a voice and addressing unintended consequences in transformative investments.*
- *Close interaction with investors is essential to identify transformative objectives and navigate risks and opportunities.*

Addressing the question of who decides what desirable futures transformative investments should support, Johan emphasized the importance of inclusiveness and active stakeholder participation. He shared that his team's approach involves crowdsourcing feedback on envisioned futures and facilitating introspection among investors to align objectives with investments. "*It is crucial to touch upon unintended consequences and secondary consequences to ensure a just transition.*" Johan pointed out. The focus lies in avoiding unexamined biases and fostering dialogue about potential unintended effects of investment strategies and decisions.

Connecting to this, Johan highlighted the challenge of balancing returns on investments with transformative goals. This is particularly relevant considering that pensions are often tied to institutional investments. The panelists then turned their attention toward how to support collaboration among investors to navigate these challenges.

Radical Collaboration for Transformative Finance

Summary:

- *Transformative finance emphasizes radical collaboration, an inclusive approach that unites diverse groups to innovatively solve complex challenges together.*
- *Despite the challenges, systemic transformation is more rewarding when pursued collaboratively, leveraging shared learning and experimental mindsets.*

The panelists underscored the significance of collective efforts and strategic alliances in driving transformation and building the field of transformative finance. Steve noted that his new initiative, FEST (Financial Ecosystems for Systemic Transformation), draws inspiration from Buckminster Fuller's quote, "*You never change things by fighting the existing reality. To change something, build a new model that makes the existing model obsolete.*" Steve described the way that FEST focuses on accelerating transformative finance toward an equitable future. This involves developing ecosystems, supporting experimental projects, and radical collaboration, which is a holistic partnership approach that integrates diverse stakeholders, seeking to break down conventional silos to solve complex problems through transparency, shared goals, and inclusive participation.

Johan pointed out the importance of critically assessing what stakeholders should be involved in transformative finance, stating, "*We need to consider whether the right type of actors are involved and if additional actors are necessary.*" Furthermore, he emphasized that initiating multiple experiments with a broader learning purpose can enhance impact.

Magdalena echoed this sentiment, highlighting the principle of adopting an experimental mindset, learning from others, and embracing diverse perspectives. Developing case studies and methodologies that engage both investors and experts was noted as being highly beneficial. She acknowledged, "*System transformation is a colossal task beyond the power of a single organization, and building new financial practices does not have a blueprint. This journey is more rewarding and enjoyable when undertaken together.*" The panelists concurred that radical collaboration is vital for navigating the complexities of system transformation and developing new financial practices.

Conclusion

The discussion underscored the urgent need for a paradigm shift in the dominant financial system to address the polycrisis. Traditional financial systems, as well as more recent approaches such as ESG investing, were criticized as insufficient in addressing society's multifaceted challenges. As an alternative, panelists described their work to develop the field of transformative finance, which prioritizes multi-stakeholder decision-making and focuses on real economies where impactful change can occur.

By developing new economic models, such as circular and regenerative economics, transformative finance can transcend the narrow bottom-line focus of traditional finance. The

importance of including multiple stakeholders was highlighted as a way to address unintended consequences and enable a just transition. Strategies for collaborative risk management were proposed as necessary to facilitate investments in transformative initiatives. Breaking away from old financial paradigms requires collaborative efforts and the adoption of an experimental mindset.

In conclusion, radical collaboration, an experimental mindset, and the active involvement of diverse actors were named as essential factors to enable transformative investment. The journey towards transformative financial systems, while challenging, is one way toward an equitable and resilient future.

Next Steps and Ways to Connect

The **FEST** (Financial Ecosystems for Systemic Transformation) community is accelerating the development of the field of financing systemic transformation to address today's poly-crises. View opportunities to fund, collaborate, and learn more here: <https://www.festfield.finance/>

The **TransCap Initiative** (TCI) is a multi-stakeholder, non-profit open innovation initiative for building the field of systemic investing. Learn more: [White paper](#) and [website](#).

Utrecht University is an educational institution in the Netherlands and hosts the [Centre for Global Challenges](#) for research, education, and impact addressing complex global issues.

If you are not a member of the **Transformations Community** and wish to be part of this global network of reflective practitioners and action researchers, join the community at <https://www.transformationscommunity.org/>.

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