Impact Investing & Systemic Change:

Funding Bottlenecks ~ Social Innovations Pipeline ~ Sourcing Talent for Venture Labs

A Collective Narrative

A group of impact investors, social entrepreneurs, and systemic change experts gathered on August 16th, 2017 in San Francisco to discuss a case study on social innovation localization and education in Latin America. After Nicolas Demeilliers of Connovo presented his case, participants self-organized around conversation on funding bottlenecks, social innovations pipeline, and sourcing of new talent for venture labs. This collective narrative is based on the reports outs from these three conversations as well as on the reflections that some of the participants submitted after the event. This event was co-sponsored by CrowdDoing, a joint initiative of Advance Social Innovation (www.advancesocialinnovation.org/crowddoing) and Reframe It (www.reframeit.com) and Impact Investing and Systemic Change, and a group of amazing co-hosts. This collective narrative is harvested by the Institute for Evolutionary Leadership (https://www.evoleadinstitute.com/) Please [see the original invitation for this event here](here).

Financing The Core Organisation:
Funding Bottlenecks/Challenges For Venture Labs

The first key challenge that was raised by Connovo is funding venture builders. In our conversations, we discussed the evolution of funding for social impact projects - what used to be called development projects. We acknowledged that the evolution of this field is ongoing and the changes that have been happening are significant, which brings an immediate need to innovate funding mechanisms.

Foundations Align Assets with Mission

One example of recent changes is how foundations - like, for example, the Heron Foundation - are reorienting their staff, their systems, their assets, their endowment dollars as well as their grantmaking dollars to be fully aligned with their mission. These changes in the world of philanthropy definitely generate a lot of interest, but they also create a lot of confusion and reticence.

Private Investors Moving Over

Another trend we clearly see is the growing interest of private investors in social innovation. In the past, actors like development banks, non-profits, and other organizations interested in the economic development of a certain area dominated the field, and now for-profit investors start to play a significant role. Among these new players are family offices and individual investors who recognize the potential for actual for-profit return on investments in social innovation. One classic example of profitable social innovation is microfinance - it is a very profitable industry that has attracted a lot of private money into it. Such examples prompt more and more private investors to move over. This dynamic is certainly taking shape, and we are still going to see how it all will play out.

Inclusion Is Key to Real Systemic Change

These changes raise the question of how we can make innovation for impact more broadly inclusive. As long as impact investing is an exclusive sandbox in which only the wealthy can play, the effect is to maintain the status quo. When we open up impact investing to everyone, we can solve several big problems at once.

First and foremost, we can reverse the trend toward ever-increasing concentration of wealth in the hands of the already wealthy. When profitable investment opportunities are open to everyone of any economic class, we have a level playing field in which everyone has the same ability to build wealth.

Second, when a community can invest in and own its own problems (at least to some extent), the solutions are more likely to be effective, because typically no one knows better what is needed to solve a problem than the people personally affected by the problem.

Third, opening up investment opportunities to investors of all economic classes will tap into untapped sources of capital. It’s no secret, of course, that “accredited” (i.e. wealthy) investors have most of the capital, but they also have unlimited investment options. The mass affluent, who have from $250,000 to $1,000,000 and are thus not accredited, control some 27% of all wealth in America; and these people have extremely limited investment options. They may also be the demographic most likely to invest in the improvement of their own communities.

Opening up investment opportunities to everyone takes a little more work, but the payoff in problem-solving makes it well worth the extra effort. It is a myth that only the wealthy are allowed to invest under securities laws, so there are no legal barriers to inclusion in this field, however, cultural barriers are still significant. Overcoming these barriers should be a natural priority if we want real systemic change rather than more of the same social reality.

Rapid Change Creates Language Barriers

An important cultural aspect of the evolution of the field is language barriers. As a different landscape of social innovation funding is taking shape, it seems like foundations, development banks, governments, private investors, philanthropists, non-profits, and social enterprises are still learning how to dance and walk with each other in this space. Because they are doing this new dance there are a lot of different languages that are going on, and when a lot of different countries are also doing work together, this obviously creates a lot of language barriers. Therefore there is a need for a commonly understood language which is crucial for being able to identify potential funding sources.

One example of such potential for terminological confusion is the use of the terms “impact venture lab”, “social innovation replicator”, and “venture builder”. If we examine these terms closely, it will become clear that there are significant differences among them and that they usually emerge from describing specific organizations such as Enviu or Connovo. However accurate these terms might be for a particular case, perhaps, more established categories such as social business incubators or accelerators are more useful at this stage in guiding organizations like Enviu and Connovo on potential sources of funding. If the general public does not understand the terms, more traditional investors beyond the philanthropic and semi-philanthropic landscape may not understand them either.

Interestingly, even what we call the type of funding we need can make a difference. When it comes to the term impact investing, the sources of funding range from philanthropic organizations that are moving from grants to investments all the way to more traditional angel investors who are interested in making a difference with their investments. Consequently, the range of potential sources of funding is likely to be equally wide.

There Is Plenty of Money Out There

Discussing specific sources of funding we mentioned large foundations such as Gates, Argidius, DOEN, Rockefeller, Ford, Kaufmann, etc., wealthy individuals and family foundations, impact investors who are looking for deal flow, NGOs who look for innovation such as Cordaid, Hivos, WWF, etc., bilateral organizations with specific programs such as USAID PACE, as well as corporate foundations such as Paypal Foundation, MasterCard Foundation, etc. A shared directory of funding types and specific funders might be very helpful especially if collectively and continuously updated by various actors.

When considering all the different sources of funding, it is important to understand the difference between transactional and relational investors. Transactional or "passive” investors just want to contribute with money and they do not want to participate in managing the organization they invest in. Social entrepreneurs who do not appreciate investors telling them how to run their business should probably prefer this type. Those who take money from the other type of investors - the relational ones - should expect the investors to get into their business and play an active role. That can be a bad thing sometimes, but it also can be a very good thing because such investors might know others who invest in similar projects.

In general, we all agreed that there is plenty of money out there, so it is not so much that capital does not exist, it is that organizations need to find the right way to approach these different forms of capital, to explore different ways to gather and leverage these dollars better.

Pipeline of Social Innovations Which Can Be Replicated Into Mexico (Best Methodologies For Contextualisation)

The “value builder” approach provides a useful template for an alternative model that prevents reinventing the famous wheel. There are known discussions in the context of social entrepreneurship that too many models are too similar and that market forces do not work in selecting the “best” models as with traditional entrepreneurship.

Improving Connovo’s Five-Step Pipeline: Go Beyond Social Enterprises, Automate Sourcing, Combine Inbound & Outbound Strategies

Looking at Connovo’s approach to finding the pipeline for the next ventures to build, we discussed the following five steps: (1) identifying the challenge through a laboratory of learning; (2) considering potential solutions through a laboratory of learning; (3) building a list of possible ventures that could replicate that solution; (4) narrowing this list down based on whether they are having the intended impact, are financially sustainable, and adaptable to the Mexico case study; (5) finally choosing one.

Considering this five-step pipeline, there are three ideas that we discussed. The first idea was to expand the range of replicable solutions and related ventures to include different options beyond social enterprises. Another idea was to look at the referral section and think about how to build a more automatized systemic process of bringing various options and venture possibilities that can address the challenges that have been identified. Finally, we discussed the distinction between inbound and outbound strategies for identifying this kind of venture: there is an inbound approach where you attract them to you and an outbound approach where you go and find them. We agreed that using both approaches simultaneously can be strategically empowering to the effort if done well.

Social Enterprises Need Not Shy Away From Adjacent Social Innovations

We thought it was very interesting that during the Connovo presentation, the idea of what other social innovation is needed for a specific social enterprise to reach its full potential can be discovered in phase two of social innovation. For example, for an established venture like Hippocampus, what are the adjacent social innovations that are needed? Each social enterprise should be able to target this blind spot and say "What are all the other things that are needed for me to be successful, what are the dependencies that are relevant?"

What Is New Social Innovation?

Another thread in our conversation was about the ethical aspects of bringing solutions to a new context. Connovo works with idea originators on licensing agreements while German incubator Rocket Internet is known for copying business ideas from other regions and implementing them under a different name in Europe. Which way is preferable and under what conditions? When social entrepreneurs are trying to bring exactly the same kind of approach that existed elsewhere, that is clearly a social innovation replication. However, what if the founders are inspired by a social innovation that exists somewhere, but they bring it to a new field or a new context?

It is true that if someone is really leveraging the whole of what others are doing then it should be done in the form of licensing, but it is also true that a totally new context that was not even relevant to the original solution can eliminate barriers that are normally created by intellectual property rights. If we are not replicating exactly what was done, but instead engage in social innovation contextualization, integration, and instigation, it is important to consider how much we are re-imagining and identify the point at which it becomes a new social innovation. Just like the ship of Theseus that was entirely replaced, piece by piece in a famous thought experiment, when we bring new context, new problems, new communities, new disciplines, and new dimensionalities to the solution space, we should determine at what point it becomes a new social innovation.

Attracting Talent To The Work Of Systemic Change Through Training People Into Social Entrepreneurship

Our conversation was centered around the sourcing of ideal candidates as well as being very clear about what sort of profile to look for based on the value set of both the organization and the candidate. Besides being very clear about the desired profile, there is a need to work on changing the narrative little by little to make being a founder of a venture lab just as sexy as being a founder of a venture based on one’s own idea.

Follow the Values & Know Where To Find Them

The first thread was about following the values. It is often much easier to build the desired hard skills than to find the ideal soft skills. A good strategy to find talent with those soft skills is to constantly tap related networks and get referrals. Other ways of sourcing include using artificial intelligence, sending recruiters to events that attract people who are passionate about the particular topic, constantly looking for talent pools like Team Academy, Net Impact, etc., as well as engaging financially comfortable seasoned entrepreneurs that are freer to be in this type of position.

Screen - Test - Interview - Assess

It was also interesting to explore Connovo's interview process: after the screening, top candidates are tested on how they solve the particular problem as well as how much time and energy they put into that whole process; at that point, the candidate goes through an interview and later through a work style or personality assessment.

Select Stage-Appropriate Candidates

When selecting a candidate, it is helpful to recognize that certain people are only appropriate for the launch phase of the organization while others are great for running established ventures. This requires being comfortable with the idea that a candidate may leave in a few years and that you would need to replace them with a new CEO who is more interested in that next phase of the organization.

Change The Narrative & Provide Safety Net

Finally, we talked about making the venture lab field sexier. We discussed the need to build a new narrative to generate stories about the Director (vs Founder) that highlight the need to be fun, the ability to follow intuition, and the want to be part of something small and nimble. One very practical approach that was mentioned is the idea of a Venture Bootcamp that implies working in the bootcamp setting for two years to get a certain venture, and if the candidate does well, then this might satisfy their itch with the safety net of a salary.