

Financial Backbones

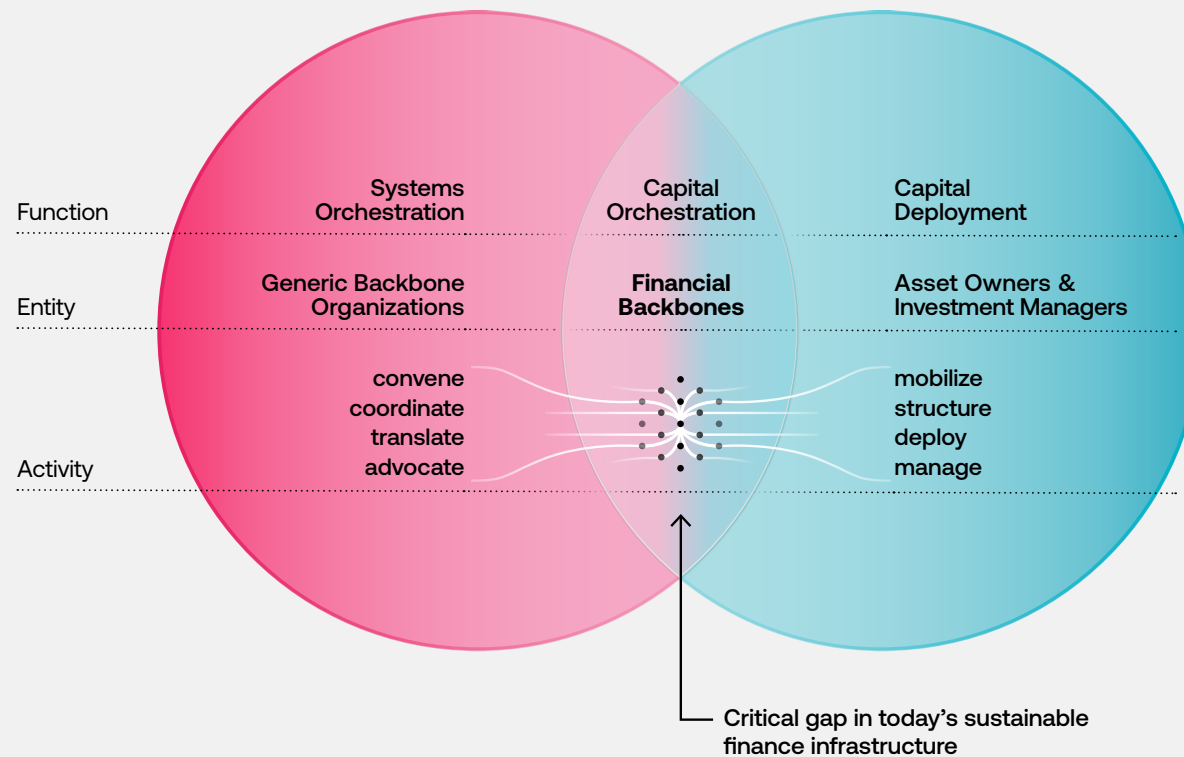
Capital Orchestration for Systems Transformation



TransCap Initiative
Systemic Investing for Sustainability

September 2025

Financial Backbones at a Glance



What

Financial backbones are entities dedicated to strategically mobilizing, coordinating, and deploying financial capital for catalyzing the transformation of systems. They are a new element in the sustainable finance infrastructure, filling a gap between generic systems orchestration and purpose-driven capital deployment.

How

Financial backbones build and convene investor coalitions, guide the development of collective visions and strategies, generate systemic intelligence, support the construction of strategic investment portfolios, design and structure financial instruments, mobilize capital, shape deal pipelines, and broker investments. They also translate between stakeholders, disseminate new knowledge, build capacity across financial ecosystems, advocate with policymakers, measure impact, and steward collective learning.

Why

Transforming systems requires the strategic deployment of multiple types of financial capital held and managed by a diverse set of stakeholders. In the current sustainable finance ecosystem, nobody has the mandate, capabilities, and resources to play such a coordination role. The result is fragmented and disjointed capital allocation, which inhibits the financing of leverage points for change and the generation of synergies across different capital types.

Who

Financial backbones sit at the heart of long-term, strategic investor coalitions that span institutional asset owners, banks, asset managers, foundations, CDFIs, insurers, DFIs and MDBs, governments and public-sector strategic finance initiatives, high-net worth individuals and their family offices, as well as academic institutions, civil society organizations, and community representatives.

Preface

About us

The TransCap Initiative (TCI) is a nonprofit open innovation initiative working to develop, test, and scale systemic investing. We do this through research and conceptual development, prototyping, and field building. We are powered by a diverse, international, and ambitious community, and we collaborate with wealth owners, institutional investors, foundations, financial intermediaries, researchers, public-sector bodies, and other innovators. Learn more on our [website](#).

About systemic investing

Systemic investing is an approach to capital deployment designed for transforming real-economy systems such as food, energy, mobility, and the built environment. It leverages the mindsets, methods, and tools of systems thinking and complex systems science to analyze the root causes of environmental and social problems and develop investment strategies that act on leverage points for impact. These strategies typically work across different levers of change and asset classes and are often implemented by multi-stakeholder coalitions consisting of private-sector investors (including asset owners, investment managers, banks, insurance companies, corporations), governments, and foundations. Systemic investing is a growing field, increasingly seen as the next

evolution of conventional impact investing, philanthropy, and public-sector strategic investing.

For more information about what systemic investing is, read the publication “[Definition and Hallmarks of Systemic Investing](#)”. To learn more about the relevance of systemic investing and the contexts in which it promises to be most useful, see the primer “[Systemic Investing for Social Change](#)” published in the Stanford Social Innovation Review as well as the more comprehensive white paper “[Transformation Capital – Systemic Investing for Sustainability](#)”. For a practical example of what systemic investing can look like in the real world, have a look at the [case study](#) of Builders Vision’s ocean strategy.

The origins and purpose of this document

Between September 2024 and May 2025, TCI convened a group of 28 experts (see next page) from the fields of investment management, philanthropy, academia, and systems innovation to collectively explore and develop the concept of capital orchestration as a critical function in enabling systems transformation.

Using a [primer](#) on capital orchestration as a starting point, we investigated why the strategic coordination of financial capital is not being done routinely as part of systems transformation initiatives and how a new archetype of

financial actor—the financial backbone—could fill that gap. Most of the 11 sessions of this practice community started with presentations from members about their work, followed by joint brainstorming and sensemaking segments around specific issues.

This document presents the distilled and edited result of the practice community’s deliberations—a collective work shaped by the shared expertise and experience of its members. While it may not capture every nuance or contingency, and full consensus on every detail is neither expected nor implied, the content reflects the considered endorsement of the practice community as a whole.

That said, this document isn’t an attempt to codify or “lock things down” but rather to provide a starting point for further conceptual exploration and real-world experimentation. We hope that it augments the perceived relevance of capital orchestration amongst funders and investors so that financial backbones become a standard element in the sustainable finance infrastructure.

Members of TCI's practice community on capital orchestration

NAME	AFFILIATION	COUNTRY
Bone Dodds, Gemma (PhD)	Scottish National Investment Bank	United Kingdom
Burkett, Ingrid (PhD)	The Good Shift	Australia
Burrows, James	Better Society Capital	United Kingdom
Conway, Rowan	Just Transitions Finance Lab (LSE)	United Kingdom
Eccles, Toby	Social Finance UK	United Kingdom
Essl, Philipp	Better Society Capital	United Kingdom
Fabyanske, Jordan	Dalberg Catalyst	United States
Fumi, Alessandro	MIT Sloan Sustainability Initiative	United States
Gazibara, Ivana	TransCap Initiative	United Kingdom
Gimson, Ben	Gatsby Africa	Kenya
Hall, Mark	Impact Investing Institute	United Kingdom
Hannant, Alex	Pocketknife	New Zealand
Hofstetter, Dominic	TransCap Initiative	Switzerland
Imon Gavin, Erin	McKnight Foundation	United States

NAME	AFFILIATION	COUNTRY
Irby, Kevin	Funders for Regenerative Agriculture	United States
Lehan, Brendan	New Capitalism Project	United States
Leon, Claudia Alejandra	Prime Coalition	United States
Löfgren, Kaj	Regen Melbourne	Australia
Paterson, Hannah	TransCap Initiative	United Kingdom
Power, Samantha	The BioFi Project	United States
Rasul, Nicole	Rockefeller Foundation	United States
Rodriguez, Tania	CO_	Mexico
Shams, Nadir	Skoll Foundation	United States
Snyder, Morgan	Walton Family Foundation	United States
Vaccaro, James	Repattern	United Kingdom
Visser, Barbara	IDH Investment Management	The Netherlands
Wokke, Diederik	Wire Group	The Netherlands
Yau, Alban	Prime Coalition	United States

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Corresponding author

For questions or comments about this work, please reach out to:

Dominic Hofstetter

Executive Director, TransCap Initiative
dh@transformation.capital

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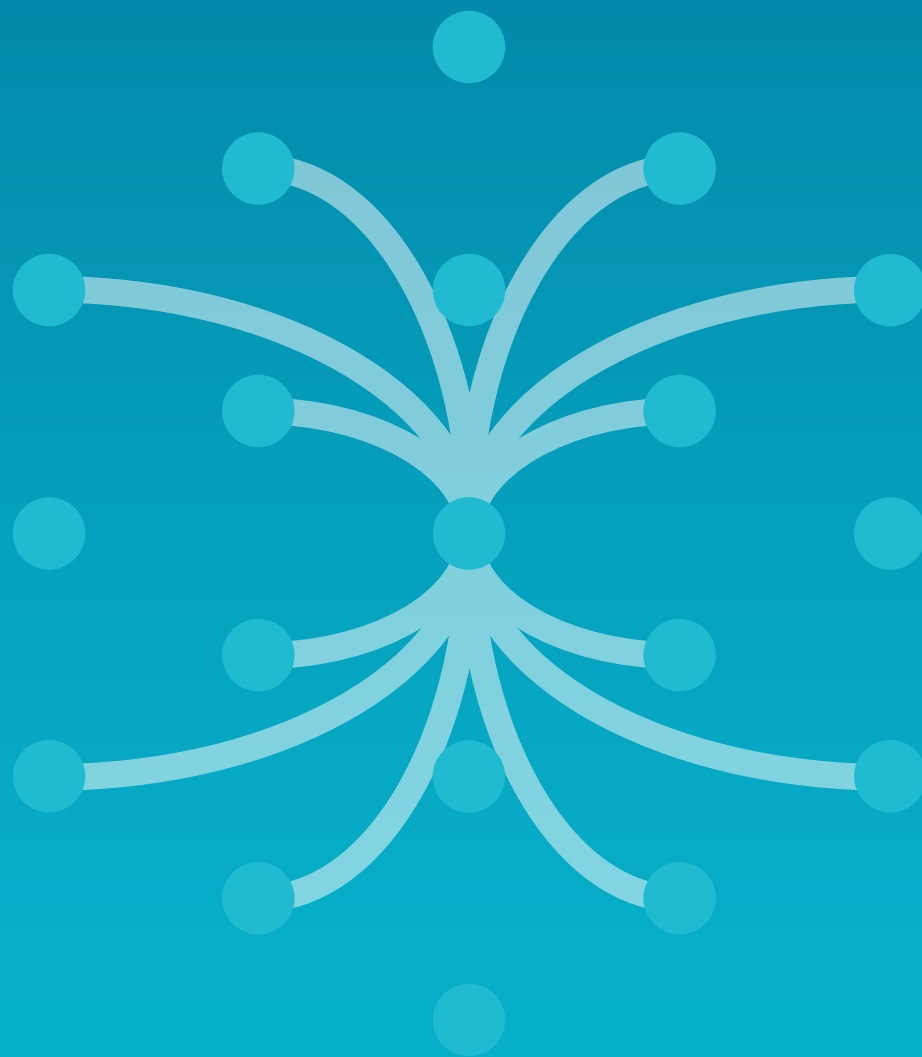
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1. Introduction

From theory to practice: operationalizing
systemic investing through capital orchestration



Overview

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“*The messiness of systems change doesn't line up with the way money moves.*”

KAJ LÖFGREN
REGEN MELBOURNE

1.1 The emergence of the financial backbone

Over the last 4-5 years, quietly and unnoticed by many, a new kind of financial actor has started to appear on the stage of social impact.

These organizations look at societal issues through a systems lens, identifying root causes and transition pathways. They are typically rooted in particular contexts and use the tools of systems thinking to map nodes, connections, and stakeholders of their system and identify leverage points for potential action and investment. Many develop theories of change and intervention strategies and try to understand how much capital of what kind is necessary to realize a particular vision. In so doing, they tend to begin with the societal or market challenge and work to identify appropriate interventions that best suit the system's needs.

To implement those interventions, they often convene multi-stakeholder coalitions that include foundations, asset owners, investment managers, banks, insurance companies, corporations, public-sector financial institutions, and civil society organizations. They then build investment architectures with multiple types of capital and channel these to strategic portfolios of companies, projects, and initiatives through both established and novel mechanisms. In short, they orchestrate financial capital for systems transformation.

Examples of entities doing aspects of this work include:

- [GroundBreak Coalition](#), which aims to close racial wealth gaps in Minneapolis-St. Paul (USA);
- [Hawai'i Investment Ready](#), which is dedicated to making Hawai'i's economy more resilient;
- [Tara Health Foundation](#), a “spend-down” philanthropic non-profit addressing health and economic injustice at the intersection of race and gender;
- [ReFED](#), a systems orchestrator seeking to drastically reduce food waste in the United States;
- [Regen Melbourne](#), a multi-stakeholder collaborative focused on three ambitious “Earthshots” in Greater Melbourne, Australia; and
- [Gatsby Africa](#), a foundation looking to catalyze sustainable aquaculture in East Africa.

As diverse as these examples are, there is one commonality among them: their capital orchestration work has been born out of necessity. That's because it has become apparent to the leaders behind them that the kind of disjointed capital deployment often seen in conventional sustainable finance and impact investing will not enable the deep and structural change needed to address the most pressing and tangible challenges of the 21st century.

To understand why, we need to look at how systems transformation tends to happen.¹

How do we know something is amiss?

Box 01

Here are some things we observe in the practice of both systems innovation and purpose-driven finance:

- Few capital deployers perform the required systems analytics to understand a system's financing needs (how much capital of what kind might be needed to transform, say, a city or food system).
- Governments tend to be focused on mobilizing private finance into particular sectors, suggesting that the problem is the availability of private-sector capital rather than, say, the availability of investable projects.
- Efforts to orchestrate different capital providers beyond single transactions are remarkably scarce.
- Many in the private and public sectors are quick to suggest launching a new fund as the best solution to a financing challenge, irrespective of whether or not there is indeed a dearth of capital.

- There is often a democracy and participation deficit. Many place-based initiatives suffer from top-down “engagement” from power holders (capital included) with poor process and follow through.

Catalyzing systems transformation requires an insight-driven, collaborative, and long-term approach to capital deployment. In contrast, the anecdotal patterns listed above point to a structural issue in the way we understand the role of financial capital in driving systems transformation.

“

In purpose-driven finance, the default reaction to a problem is often the launch of a new fund. But much can be achieved by better coordinating what already exists.

IVANA GAZIBARA
TRANSCAP INITIATIVE

In regenerative agriculture, capital more often than not doesn't flow strategically and isn't being coordinated well.

KEVIN IRBY
FUNDERS FOR REGENERATIVE AGRICULTURE

Capital comes into place in a siloed manner, e.g. as a housing-focused real estate fund. There is rarely coordination across asset classes.

MARK HALL
IMPACT INVESTING INSTITUTE

”

1.2 The need for capital orchestration

We live in the era of the polycrisis. Multiple forms of social inequality and ecological degradation combine to threaten lives, livelihoods, and the prosperity of humanity and nature. If we are to achieve an environmentally sustainable and socially just future, we need to fundamentally transform those systems that matter the most for society and the planet: energy, food, mobility, industrial supply chains, cities and the built environment, and landscapes and coastal zones.

Transformative change rarely results from a single technology, project, company, or social enterprise. Instead, it tends to emerge from a confluence of multiple developments occurring within a system simultaneously and with a high degree of shared directionality.² These developments might encompass new technologies, business models, and pieces of physical or digital infrastructure—the typical targets of traditional investors. But they could also include policies and regulations, shifts in social norms and behaviors, innovative educational solutions, and changes in institutional and governance frameworks.

Each of these developments results from an individual intervention, and each intervention tends to have its own financing requirements. Some are perfectly investable with market-rate investment capital, perhaps with a pinch of concessional capital for de-risking purposes. Some require grants from foundations or subsidies and tax incentives from governments. Others depend on new insurance products, supply chain finance, income from carbon credits, or advanced market commitments from corporations.

Funding systems transformation thus essentially boils down to a three-pronged orchestration challenge:

1. Systemic intelligence generation

Figuring out the nature of a societal issue and identifying the financial interventions needed to tackle it.

2. Capital matchmaking

Channeling the right kind of capital to the right kind of intervention at the right time.

3. Combinatorial effects

Creating the synergies that arise when two or more interventions are brought into deliberate strategic alignment with one another.

All three challenges can only be overcome with systemic insight, a sustained collaborative effort involving multiple types of capital providers and other key stakeholders in the system, and a long-term system-centric capital deployment mandate.

This is not how purpose-driven finance operates today. All too often, it is disjointed, moving as standardized venture capital into a start-up working on a single-point solution, as project finance to a single piece of physical infrastructure, or as a grant to a non-profit that does the much-needed work of treating symptoms but has limited ability to address root causes. As a result, standard approaches to purpose-driven finance often fail to catalyze systems transformation.³



The example of regenerative agriculture in the American Midwest

Box 02

Agriculture in the American Midwest—one of the world’s bread baskets—suffers from increasingly dire environmental and social issues, including soil erosion, biodiversity loss, weather-induced crop failure, decreasing farm income, and deteriorating economic resilience of farming communities—issues driven largely by current agricultural practices. A transition to regenerative practices would require a plethora of different interventions, including:

- Building more supply chain infrastructure for regeneratively produced crops;
- Introducing farm-level de-risking instruments;
- Building the market for regenerative product;
- Improving land access and affordability for farmers;
- Providing training and technical assistance to farmers;
- Strengthening consumer demand for regenerative products; and
- Shifting the cultural norms and dominant narratives that keep the system entrenched in the current agricultural context.

These interventions have different financing needs, spanning market-rate investment capital and concessional capital from private-sector investors, grants from foundations, subsidies and tax incentives from federal, state, and municipal governments, advanced market commitments and supply-chain finance from agri-food corporations, and de-risking instruments from insurance companies.

To strategically mobilize and facilitate these different instruments, a financial backbone needs to convene a multi-stakeholder coalition, generate and share systemic intelligence, coordinate capital deployment, and run a continuous learning and monitoring system, among other things. Without such a backbone, capital deployers would continue to look at the system through the narrow lens of their own capital, collaborate with others only sporadically, and forgo the benefits of creating synergies across a wider portfolio of interventions.⁴



1.3 Systemic investing as the guiding framework

The structural limitations of standard approaches to purpose-driven finance for catalyzing systems transformation is the driver of what Jason Jay, Director of the MIT Sloan Sustainability Initiative, calls a “systems turn in finance”: an inquiry into the relevance and applicability of systems thinking and complex systems science for the deployment of purpose-driven financial capital. One such inquiry is the emerging field of systemic investing, a new investment logic designed to fund systems transformation.⁵

In a nutshell, systemic investing is an investment approach designed to catalyze the transformation of real-economy systems at different levels of scale. It leverages the principles of systems thinking to deploy financial capital in a way that is:

- **Strategic** by being rooted in a transformative vision and an associated theory of change, informed by systemic intelligence, and guided by an impact measurement and learning approach based on systems and complexity thinking;
- **Integrated** in terms of working across the capital spectrum,⁶ in long-term strategic partnerships,⁷ and through investment portfolios that act upon multiple levers of change simultaneously; and

- **Contextualized** in specific places, supply chains, and communities so that local idiosyncrasies can be considered and social justice and equity goals can be defined in democratically legitimate ways.

Because this is not how purpose-driven finance tends to flow today, it raises the question of how, exactly, systemic investing can be operationalized. Who will generate the systemic intelligence that should underpin funding and investment decisions? Who will convene and coordinate these investment coalitions and translate between its members? And who will run learning and sensemaking sessions with coalition members, measure progress, and hold people accountable?

In the current sustainable finance ecosystem, nobody has a mandate—let alone the capabilities or resources—to play such a role. This is why we need a new archetype of system orchestrator: financial backbones.

“

While we highly appreciate the mandate given by our investors, we’ve learned that better-aligned capital could more effectively meet the needs on the ground. We must find ways to center those needs and work backwards to capital mobilization.

BARBARA VISSER
IDH INVESTMENT MANAGEMENT

If you get people to think about what the system should look like in the long run, you get a lot more agreement, which makes it easier to agree on what projects to fund today.

SAMANTHA POWER
BIOFI PROJECT

”

Definitions

Box 03

SYSTEMS TRANSFORMATION

Deep, meaningful, and lasting change in human and natural systems⁸

GENERIC BACKBONE ORGANIZATION⁹

An entity that provides support, coordination infrastructure, and leadership for a collective impact initiative, facilitating alignment, communication, and sustained momentum among multiple stakeholders engaged in addressing a complex societal challenge

CAPITAL ORCHESTRATION

Mobilizing, coordinating, and possibly deploying financial capital for catalyzing systems transformation

FINANCIAL BACKBONE

An entity orchestrating financial capital for catalyzing systems transformation

1.4 Financial backbones as infrastructure

Capital orchestration—based on the principles of systemic investing and operationalized through financial backbones—is a new kind of purpose-driven capital deployment function. It builds on best practices of systems orchestration while weaving together a set of emerging threads from the fields of impact investing, philanthropy, and purpose-driven public finance.

What we present in this document is not a radical reimagination of capitalism. We believe much can be accomplished by meeting different stakeholders where they are today simply by heeding a set of logical conclusions about the role of financial capital in driving systemic outcomes and the opportunities inherent in long-term strategic collaboration.

And yet the simplicity of this message shouldn't mask the fact that using the needs of a system as an entry point for capital deployment—rather than the interest of a specific asset class or capital deployer—has profound implications for how investors show up to the work. Today, capital deployment is characterized by investments in single projects and companies and one-off collaborations in co-investments and blended finance transactions. Moving to a strategic portfolio paradigm and long-term coalitions guided by systemic intelligence will feel radical to many.

That capital orchestration is not yet a widespread practice is partially a result of its difficulty. It's generally much

easier to work in traditional ways, deploying a single type of asset class into single-point solutions, which predisposes investors to collaborate occasionally and on a deal-by-deal basis. In contrast, capital orchestration is hard, requiring new mindsets, methods, and ways of working. It depends on skills and capabilities that are scarce, and it might be resource-intensive. Above all, capital orchestration requires an orchestrator, somebody to play an ecosystem function for the benefit of all, somebody who leads the charge and herds the cats.

We encourage readers to think about financial backbones as a new piece of critical infrastructure, complementing existing elements such as impact frameworks, asset managers, deal brokers, and reporting standards. If our assumptions hold true, every systems transformation effort—from cities implementing climate action plans to corporations seeking to transform their supply chains and philanthropies addressing complex systemic issues—will benefit, or indeed require, someone to play the role of capital orchestrator. As a result, financial backbones might one day become as ubiquitous as banks and foundations.

1.5 Analytical architecture of document

The major analytical architecture of this document differentiates between two aspects: (i) capital orchestration as a function; (ii) financial backbones as entities performing that function. This distinction is

important because the two aspects sit on two different levels of abstraction—while the former is concerned about roles and activities and the value proposition that emerges from them, the latter focuses on the structures and resources needed to perform that function. Engaging with both levels—function and form—yields valuable insights into the problem space and potential solutions.

1.6 Conceptual foundations

The work presented in this document is underpinned by several layers of conceptual foundations, comprising materials related to both function (capital orchestration) and form (financial backbones) in the general fields within which the work is situated. For an overview, see also [Figure 01](#).

Core disciplines

The first layer comprises a number of basic fields and practices—including social impact work, systems thinking, and purpose-driven finance (philanthropy, public finance, impact investing, development finance)—about which scores of volumes have been written and published, too many to list here.

Evolved practices

The second layer comprises a set of more specific fields that build on the first, have been explored for many years, and are thus relatively mature:

- **Collaborative impact work**
Including [collective impact strategies](#), [\(generic\) backbone organizations](#), [field catalysts](#), [impact networks](#), and [network weaving](#).
- **Collaborative capital deployment**
Including [collective philanthropy](#), [collaborative philanthropy](#), [pooled funds](#), [blended finance](#) (including [catalytic capital](#)), and [public-private-philanthropic partnerships](#).
- **Systemic approaches to change-making**
Including [systems innovation](#), [systems thinking for social change](#), [mission-oriented](#) or [challenge-led innovation](#), and [transformative innovation policies](#).
- **Traditional forms of strategic capital deployment**
Including [industrial policy](#) (e.g., [InvestEU](#) and the [U.S. Inflation Reduction Act](#)), [strategic philanthropy](#), [targeted sectoral investment initiatives](#) (e.g., [green banks](#)), and [place-based investment initiatives](#) (e.g., [community development financial institutions](#)).

Emerging innovations

The third layer is comprised of innovation inquiries that have emerged more recently, including:

- **New approaches to philanthropy**
E.g., [collectively owned strategies](#), [Pando Funds](#).
- **Portfolio-based systems innovations**
E.g., [Deep Demonstrations](#), [innovation portfolios for sustainable development](#).

A word on nomenclature

Box 04

Throughout this document, we primarily draw on the language of private-sector investing, often using terms like “capital” and “investing.” This is because systemic investing is a field anchored (for both strategic and operational reasons) in private-sector investing, but it should not be mistaken for a narrow focus.

Enabling systems transformation requires a broad array of financial instruments that span different domains. Some of these instruments originate in the private sector—such as market-rate or concessional capital. Others are rooted in philanthropy (e.g., grants), public-sector entities (e.g., government investments), or corporations (e.g., supply chain finance). Each of these domains uses its own vocabulary: “investing” is typically linked to the private sector, “financing” to public institutions, and “funding” to philanthropy. Although we occasionally use these terms interchangeably, our consistent meaning is the strategic deployment of financial capital, whether or not it seeks returns or repayment.

- **New approaches to impact investing**

E.g., impact-first investing, place-based impact investing, place-based transition funds, and bioregional financing facilities.

- **Community-based investment approaches**

E.g., financing community development, community wealth building.

- **Capital deployment approaches related to systemic investing**

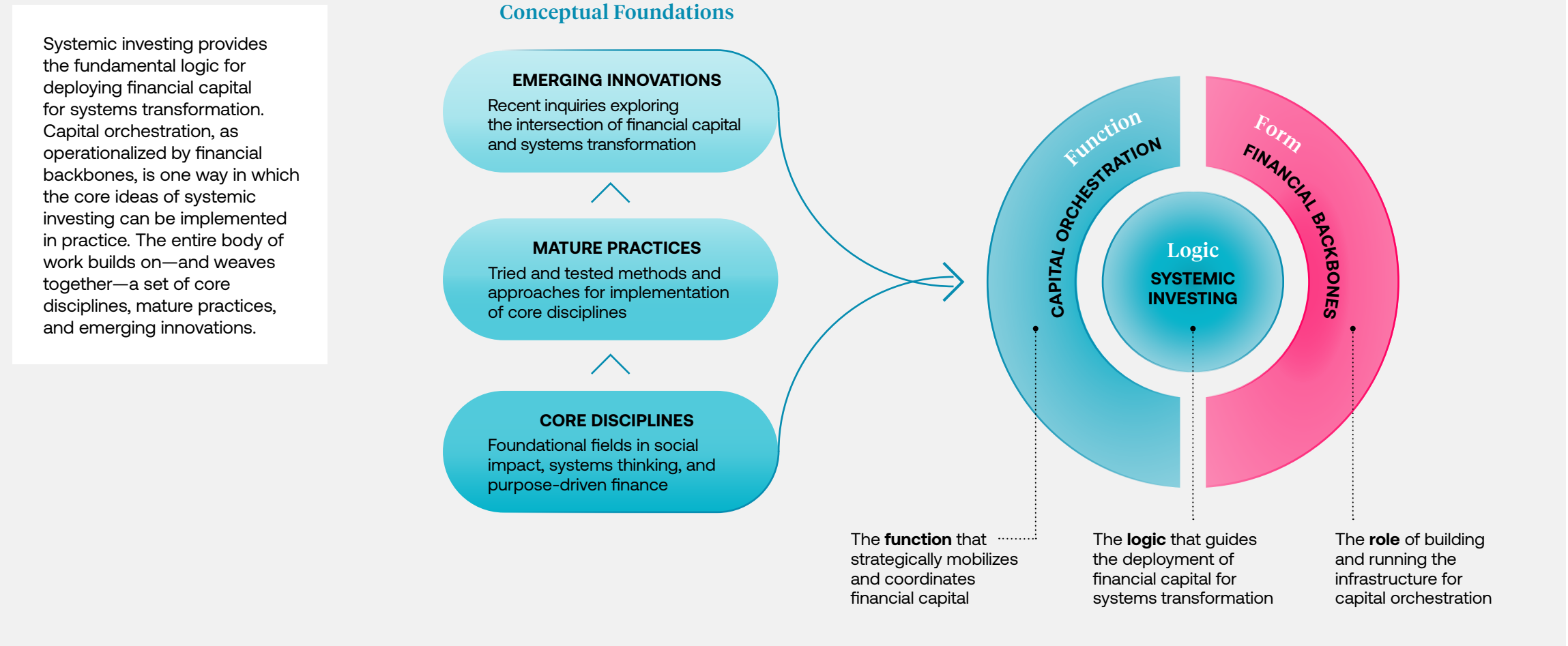
E.g., “system-level investing”, “systems-change investing”, transformative investment, and financial ecosystems for systemic transformation.

The content presented in this publication is inspired by, draws from, and builds on these concepts. The novel contribution it makes is that it weaves these strands together into a coherent model of capital orchestration for systems transformation. As a result, it articulates a blueprint of a new kind of financial actor that is critically needed and has not, to our knowledge, been proposed before.



The structure of capital orchestration and financial backbones

Figure 01

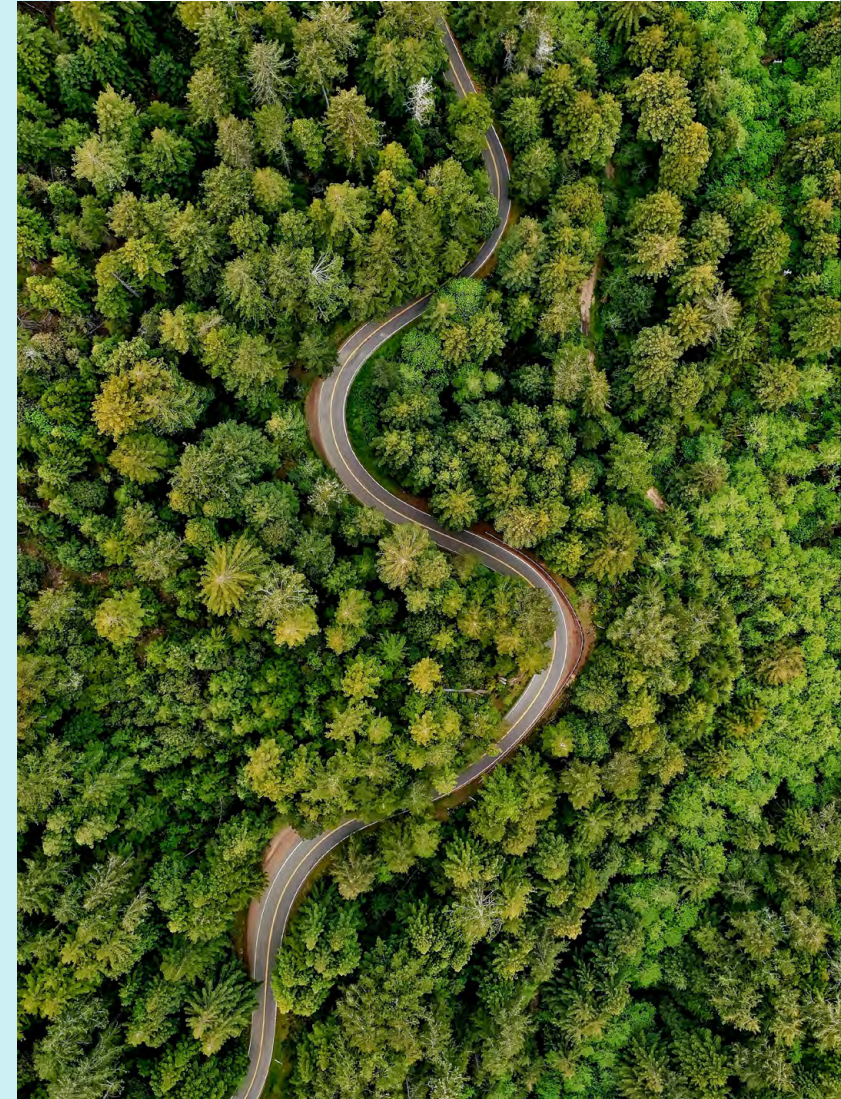


Backbone organizations as a foundational concept of financial backbones

Box 05

Systems orchestration is no new thing; there have always been efforts aimed at enabling collaboration between people. In more recent history, coordination of collective impact work has received a boost after the publication of a number of influential articles in the Stanford Social Innovation Review, particularly “Collective Impact” (Kania & Kramer 2011) and the four-part series “Understanding the Value of Backbone Organizations in Collective Impact” (Turner et al. 2012). These publications have provided compelling arguments for multi-stakeholder collaboration on societal issues and given structure to the concept of systems orchestration (though, arguably, being agnostic as to the level of ambition pursued in those collaborations). They have also provided useful guidance on activities, design principles and structures, and leadership of backbone organizations, much of which is relevant to financial backbones.

Yet what the conception of backbone organizations in those publications fails to entail is the engagement of diverse forms of financial capital in service of collective impact.¹⁰ In fact, most backbones today don’t engage financial capital across the capital spectrum, for reasons we explore in Section 2.2. Still, this document builds on the generic model of backbone organizations—and the best practices that have emerged in the field over the past 15 years—and makes the case for expanding the scope of such organizations to encompass the strategic orchestration of financial capital.



Endnotes – Chapter 1

¹ We use the term “systems transformation” to indicate that the work on systemic investing—in whose context this document sits—is primarily concerned with deep and structural change rather than with the kind of incremental change most associated with systems optimization. That said, we recognize that (i) capital orchestration could be pursued for various intents, including incremental ones, and that (ii) a lot would need to be said to unpack the term “transformation” (which is beyond the scope of this document). [↑](#)

² In our use of the term “shared directionality”, “shared” doesn’t mean that everybody agrees with the direction, nor that all pieces of the puzzle fall into place at the same time. For instance, a government could unilaterally enact a new policy that subsequently forces people to change their behaviors and companies to shift their business models, even at great social and economic costs. But it is the realignment of societal stakeholders that ultimately leads to transformation—the policy is only the first step in the process. Or, put differently, the policy will only trigger transformation if it is complied with. [↑](#)

³ For a more detailed argument for why traditional forms of purpose-driven finance are insufficiently effective at driving transformative change in the real economy, read the primer “[Systemic Investing for Social Change](#)” published in the Stanford Social Innovation Review and the more comprehensive white paper “[Transformation Capital – Systemic Investing for Sustainability](#)”. [↑](#)

⁴ TCI is building an example of a financial backbone for regenerative agricultural transitions in the American Midwest. You can learn more about the effort [here](#) and dive deeper into the analytical basis for the work [here](#). [↑](#)

⁵ A formal description of what this new approach looks like and how it can be made sense of is offered in the document “[Definition and Hallmarks of Systemic Investing](#)”. [↑](#)

⁶ Capital types that could be relevant include market-rate and concessional investment capital, philanthropic grants, public finance (investments, procurement, subsidies, tax incentives, R&D grants), corporate finance (advanced market commitments, supply-chain finance, corporate investments), insurance capital, and income from carbon markets and payment-for-ecosystem-services schemes. [↑](#)

⁷ Investor coalitions could be composed of actors from the private (asset owners, investment managers, banks, insurance companies), philanthropic (foundations, individual), public (national, regional, and municipal governments; government-sponsored financial institutions), and civic (NGOs, universities, etc.) domains. It could also include the consultation and participation of citizens and community representatives. [↑](#)

⁸ We believe the high-level definition provided by Patton & Richardson (2024) is a good approximation of the general frame of reference used in the context of our practice community insofar as it delineates transformation from “shallower” forms of change (e.g., systems optimization). However, as Patton and Richardson note: “There can be no single, universal definition or operational specification of what constitutes transformation. Transformation is ultimately contextual and emergent. Therefore, what is meant by transformation must be defined by those engaged in such an effort, expressing a vision of the changed system (or systems) they aspire to and making the case that their initiative constitutes a potential trajectory toward that aspiration.” [↑](#)

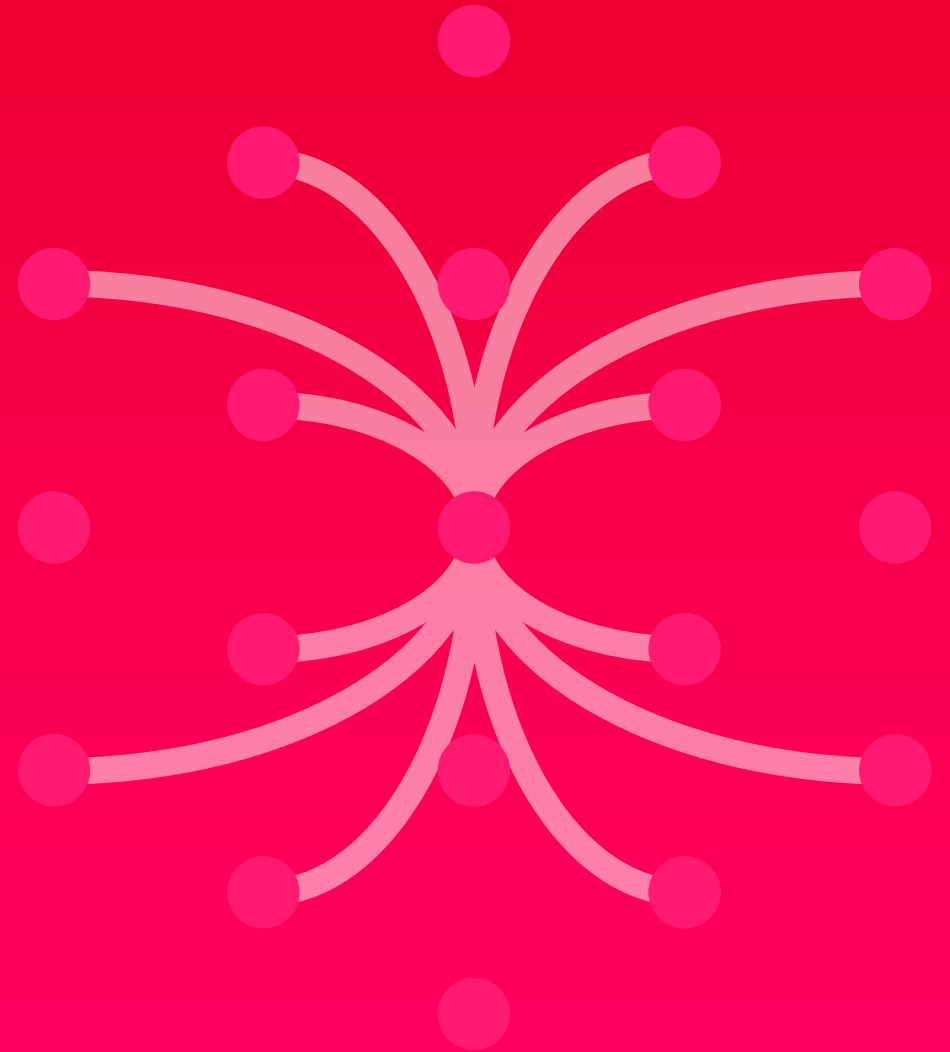
⁹ This definition is aligned with [Turner et al. \(2012\)](#). [↑](#)

¹⁰ The exception to this is the mobilization of grant funding to support the work of coalition members. [↑](#)



2. Problem Frame

Why does purpose-driven financial capital rarely catalyze systems transformation?



Overview

- 2.1 Why is not enough capital flowing in strategic, integrated, and contextualized ways?
- 2.2 Why don't we see capital orchestration happening yet?

“*The vast majority of finance streams flow independently from each other.*”

TOBY ECCLES
SOCIAL FINANCE UK

2.1 Why is not enough capital flowing in strategic, integrated, and contextualized ways?

The axiomatic starting point for this work is the observation that not enough capital is flowing to those interventions most needed to drive systems transformation in a particular context, or not in the way it should. The reasons for this are manifold and fall into three broad categories:

1. Institutional barriers

The mindsets, practices, incentive structures, and governance frameworks of purpose-driven capital deployers.

2. Strategic intelligence gaps

The lack of data, analytical frameworks, and methods needed for strategic, integrated, and contextualized capital deployment.

3. Operational complexity

The inherent difficulty of orchestrating capital and running financial backbones.

At the outset of its inquiry, the practice community identified drivers of this problem and clustered them into different categories such as “social and political dynamics” and “values, mindsets, and behaviors”. We then made sense of these drivers by the timeline over which they might be changeable (short-term, medium-term, and

long-term) and the degree to which capital orchestrators could indeed affect them (not addressable, indirectly addressable, directly addressable). The synthesis of this deliberation is presented in the following pages, with a summary of the issues specifically related to current practices of capital deployment shown in [Box 06](#).

Ramifications

These issues have critical implications for our ability to deploy financial capital for systems-transformative effects:

- **Misallocation of capital**

Capital-centric, systemically siloed strategies can lead to resources being misallocated (from the standpoint of a systems transformation agenda), flowing into areas that may already be overfunded and/or don't represent root causes or leverage points.

- **Loss of impact**

The narrow approaches to capital deployment created by the single-asset approach and impact tunnel vision almost certainly “leave impact on the table” as they fail to leverage the combined effects of strategic, integrated, and system-wide portfolios.

- **Short-termism**

Product mindset and the need for track records tend to confine action to investable opportunities that already exist, as opposed to nurturing the long-term development of market structures and project pipelines.

- **Impact-washing**

The incoherence between the simple stories told about the success of impact finance and the stickiness and complexity of real-world challenges results in declining trust in purpose-led finance overall.

Opportunities and limitations of capital orchestration

Capital orchestration is not going to be able to solve all of these challenges. For instance, there are many structural issues inherent to how finance is practiced today that will only change on decadal timeframes: wealth-building as a primary goal of investment, general resistance to change, industrial and organizational cultures, incentives structures within capital-deploying organizations, and the general competition for resources, to name but a few. Capital orchestration can make a contribution here, but its ability to directly influence these aspects will realistically be limited.

The issues that capital orchestration *can* address directly and within a reasonable timeframe tend to fall into three categories:

- **Improving the systemic intelligence** underpinning capital deployment decisions;
- **Coordinating different forms of capital** as deployed by different types of stakeholders; and
- **Identifying and mobilizing the types of capital needed** but not currently engaged in systemic investing.

We believe there is an opportunity to make progress on these fronts despite the structural constraints within which most capital deployers operate, meeting people where they are today.

2.2 Why don't we see capital orchestration happening yet?

It has long been recognized that changing systems requires systems orchestration. Such orchestration often needs entities to act as the “glue” or connective tissue—what is commonly known as backbone organizations. Usually, backbone organizations convene, coordinate, translate, and advocate. What they typically don't do is engage investment capital and other sources of finance.

Likewise, many financial players such as asset managers, impact investors, banks, foundations, corporations, and governments understand how to deploy whatever pot of money they control into whatever kind of asset they are mandated to invest in. What they typically don't do is convene, coordinate, translate, and advocate.

At the intersection of these two worlds—systems orchestration and capital deployment—is a gap (see Figure 03). Almost nobody is playing the role of *financial* backbone.

What are the ultimate causes of the capital orchestration gap?

The root cause why financial capital tends not to be orchestrated in systems transformation efforts is the product of five factors, which stand in an interdependent relationship with one another (see [Figure 02](#), next page):

1. Relevance

Our collective understanding of how financial capital drives systemic outcomes and why capital should be deployed in an integrated, strategic, and contextualized manner is only just forming, so the need for capital orchestration has been underappreciated to date. *Nobody will attempt to solve a problem they don't recognize.*

2. Value

It is unclear how capital orchestration can further the specific interests of different system stakeholders in generating real-world impact and improve financial performance. *There is a lack of motivation and incentive.*

3. Agency

Few capital deployers have a mandate from the people to whom they are ultimately accountable—funders, investors, boards, shareholders—to lead or participate in capital orchestration (principal/agent dynamic). *Nobody is compelled to try.*

4. Capability

Even if such a mandate exists, there is a dearth of rigorous methods and blueprints for capital orchestration, of real-world examples that show what good looks like in practice, and of people with the necessary skills and experience to perform the task. *Capital orchestration is novel and hard.*

5. Funding

There is limited funding (especially grants) available for capital orchestration work, owing both to the nature of that work as well as to the implications of the aforementioned factors. *Capital orchestration isn't on any funder's priority list.*

“

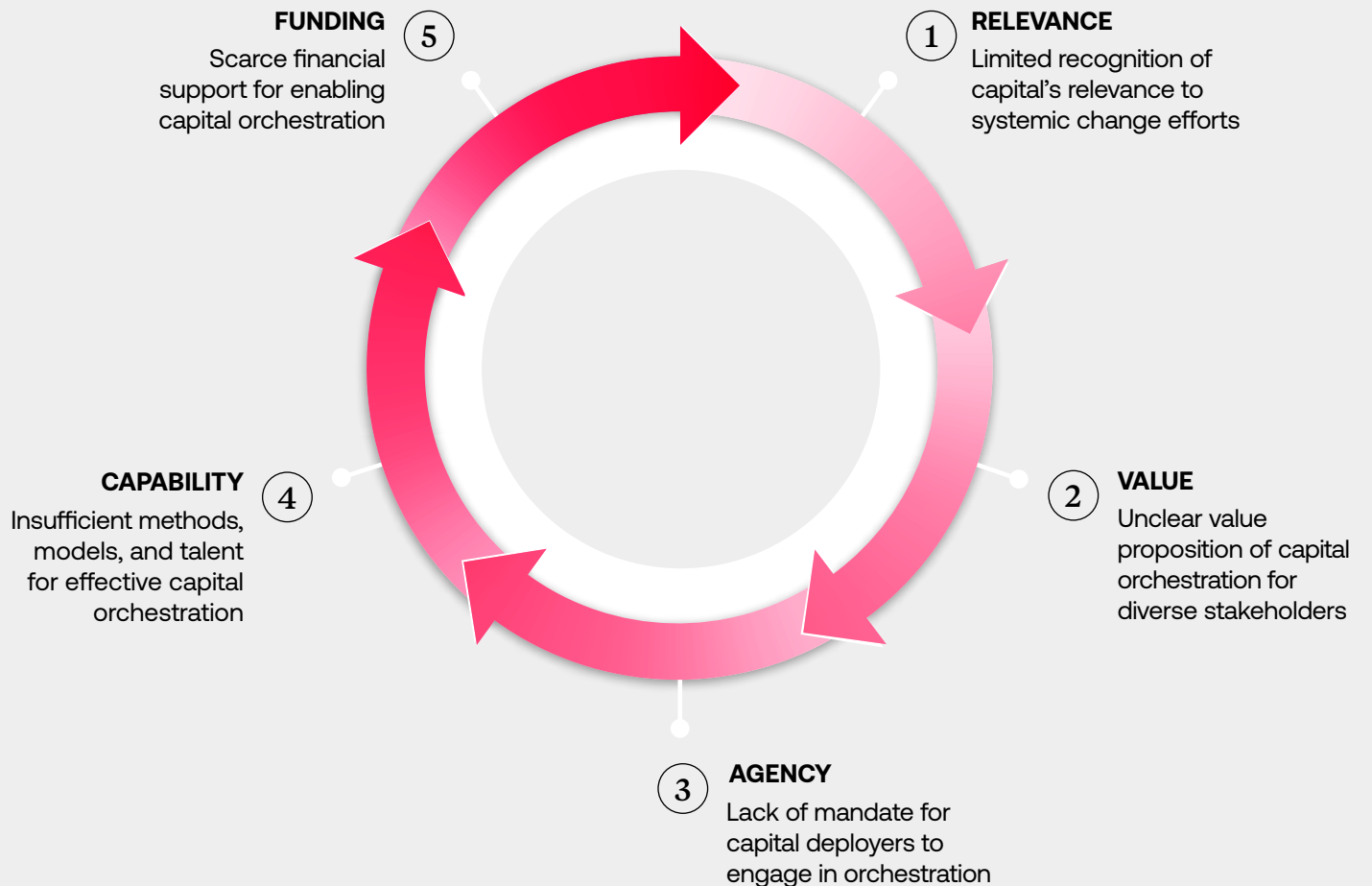
Governments know they need private sector investors on board, but there isn't always enough quality investor-ready projects. What we need is governments with high-quality investor engagement, supported by financial backbones and the infrastructure for systemic insight and collaboration that can create that pipeline.

DR. GEMMA BONE DODDS
SCOTTISH NATIONAL INVESTMENT BANK

”

Five interdependent factors driving the dearth of capital orchestration

Figure 02



Barriers to capital orchestration from conventional purpose-driven finance

Box 06

There are entrenched practices in purpose-driven capital deployment—most prevalent in the private sector, but also existing in philanthropy and governments—that stand in tension with the core ideas of capital orchestration.¹¹

1. Capital-centric strategies

Most capital deployers start with a particular pool of capital and look to allocate or invest it in a way that maximizes the pool's interest, whatever that may be (e.g., achieve impact or maximize financial risk/return). So capital deployers typically scan the landscape of opportunities through the relatively narrow filters of their own specific capital pools, looking for the type of nails made for the specific hammers they wield. And if there is a dearth of such nails, they typically look to others to solve that issue (e.g., to governments for providing concessional capital to de-risk deals).

2. Single-asset approach

Most capital deployers invest in one transaction at a time—into a single company, technology, or project—assessing risk/return and impact on a single-asset basis. This runs counter to how transformative change tends to happen: through many developments within a system occurring concurrently and with some shared directionality (see [Section 1.2](#)).

3. Systemic silos

Most capital deployers, even those with a stated ambition of changing systems, operate within a narrow set of

subspaces of a system: particular sectors, technology types, risk buckets, or geographies. Investment teams are usually built around specific asset classes and/or sectors, and foundation program managers often specialize in a specific societal issue. As a result, few see the full extent of the system and have the strategic intelligence about what changing that system would look like and what this means for capital deployment.

4. Short-termism and closed-endedness of vehicles and programs

The majority of purpose-driven finance today is structured with the expectation of producing results in the short-term; say, 3–4 years. As a result, most private-markets investment vehicles, philanthropic programs, and government support schemes are closed-ended initiatives with fixed timelines. Such short-termism sits at odds with the notion that systems transformation often happens on a decadal timescale, and it inhibits capital deployers from evolving their strategies in line with the changing needs of the system they serve.

5. Impact tunnel vision

Most capital pools operate with highly specific interests, which often translate into highly specific impact objectives (e.g., improvement of a Sustainable Development Goal) and thus drives “impact tunnel vision”. This narrows a capital deployer's scan of investable opportunities in a way that may not be conducive to triggering transformative effects and tends to introduce a bias for interventions with

quantifiable impact, discounting those that might be equally impactful but harder to measure.

6. Product mindset and incentives

Capital deployers are typically incentivized to focus their time on three general activities: raising money, investing capital, and maximizing the value of capital deployed. This is particularly true in the asset management industry, where the business model—and hence remuneration system—is designed around these activities. But it also tends to be true in foundations and governments, which often work under similar output-driven accountability frameworks. So there is little incentive for any of these actors to spend time and effort to philosophize, theorize, or build enabling conditions for deal-making.

7. The need for track records

Capital allocators typically make funding and investment decisions based on the demonstrated track record of fund managers and impact entrepreneurs. This is an issue particularly for fund managers trying to raise capital for unproven strategies (e.g., those steeped in a systemic investment logic) or for vehicles that deviate from industry norms (e.g., in the design of their fee and incentive structures), leading to a “invest in more of the same” inertia in investment markets. It can also make it hard for new social enterprises or nonprofit initiatives to raise grants for new strategies (though philanthropy tends to look more favorably upon innovation).

What challenges inherent to capital orchestration need to be overcome?

Capital orchestration is complex, and there is a long list of challenges financial backbones would have to overcome to effectively perform the role:

- **Current practice and resistance to change**

There is a large set of entrenched practices in capital deployment that stand in tension with what capital orchestration demands (see Box 06, previous page). These practices create path dependencies, and attempts at changing them will inevitably cause resistance.

- **Culture and language**

People working in different pockets of the “money world” have all been formed in different contexts. Investment bankers, civil servants, foundation staff, wealth owners, and community organizers tend to commune in their own social circles, and these circles are characterized by their own sets of values, mindsets, jargons, forums, and ways of working. Bridging these worlds and “translating” between tribes is a formidable challenge.

- **Integrating objectives**

Different types of capital have different motivations and goals. Whereas market-rate investment capital seeks to maximize risk-adjusted financial returns (preferably in the short-term, and often agnostic to societal outcomes), philanthropy typically wants to maximize societal impact (with measurable outcomes), and public

finance looks for alignment with the political agendas of those in power. These differences must be navigated and integrated, and some of them stand in irresolvable tension with one another.

- **Agency, rhythm, and speed**

Wealth owners and investment managers often have agency over capital deployment decisions and are used to making such decisions on short notice when investment opportunities present themselves. In contrast, many foundations work with fixed decision-making schedules and often through committees. And governments are beholden to public procurement rules and political dynamics (including election cycles and political opportunism), meaning they tend to operate out of sync with other capital providers. Synchronizing capital deployment across these actor types requires effort.

- **Multi-asset class expertise**

People working in purpose-driven finance often understand one particular type of finance really well and have surface-level knowledge of a couple more. But few possess the knowledge and experience necessary to work across the entire capital stack.

- **Data and analytics**

There is a general dearth of analytical insight into how to deploy capital for systems transformation. The issue is not just about generating strategic intelligence but also about communicating it in a way that lands with different target audiences. So a key

challenge is to improve the explanatory power of data and to “translate” it for different audiences, which requires convening and bridge-building skills.

- **Capacity**

There is a need for capacity building and technical assistance, and this need exists on both the investee and investor side. Whereas technical assistance typically targets projects looking for capital, systemic investing calls for considerable capacity building on the investor and funder side, too.

- **Working in complexity**

Neither foundations, private-sector investors, nor governments are set up to work in complexity, in terms of governance, decision-making processes, and accountability frameworks. This is as much a cultural and mindset issue as it is a skills and capabilities problem.



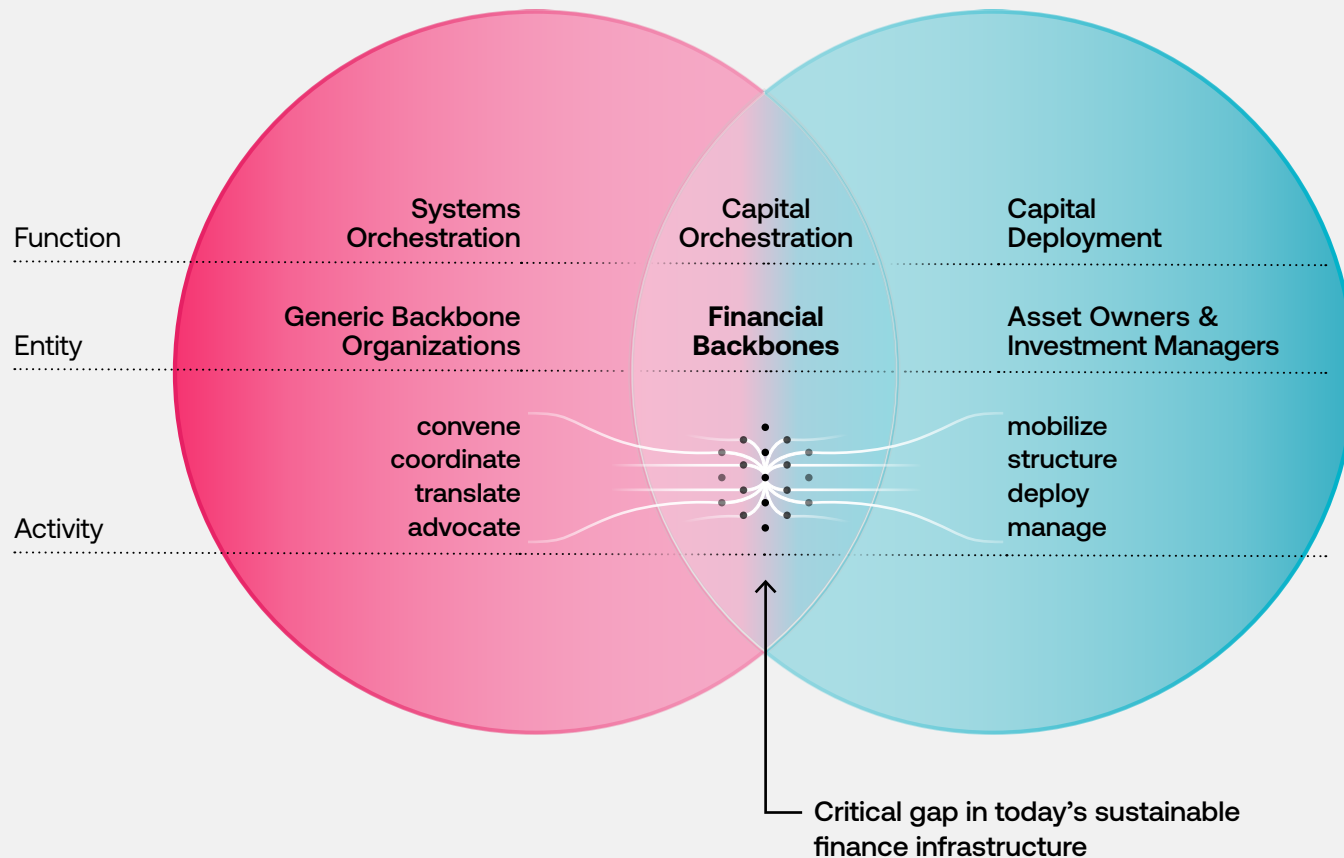
The problem isn't with the size and quality of the deal flow—it's with investors' understanding of risk and their return expectations.

DIEDERIK WOKKE
WIRE GROUP



Financial backbones fill the gap at the intersection of generic systems orchestration and conventional purpose-driven capital deployment

Figure 03



“

The majority of finance sits in two massive buckets: grant money on one side, commercial or near-commercial money on the other. Few are focused on the space between, despite the opportunities there.

TOBY ECCLES
SOCIAL FINANCE UK

We now understand that we need to connect to different types of capital beyond philanthropy to achieve our missions. But program officers at foundations don't understand investors, and vice versa.

MORGAN SNYDER
WALTON FAMILY FOUNDATION

Asset managers need to become better at teaming up with different players.

BARBARA VISSER
IDH INVESTMENT MANAGEMENT

”

What challenges inherent to financial backbones would have to be overcome?

Whereas the challenges in the preceding section relate to capital orchestration (function), there are also challenges that relate to financial backbones as entities (form):

- **Stakeholder buy-in**

Investors and funders often underappreciate the need for capital orchestration and the value it generates for them. This results in diminished willingness of capital deployers to relinquish control or deviate from current practice, or to spend time, cognitive bandwidth, and money on engaging with financial backbones.

- **Resourcing**

Funders are generally reluctant to support systems orchestration work, as it is perceived as too intangible and removed from the “action on the ground” (by program staff and/or senior leadership, including board members). This makes it difficult for financial backbones to find the necessary resources to perform their public-benefit role.

- **Operational infrastructure**

There is a general lack of blueprints, operating models, and reference cases for how to build and run financial backbones. This requires more conceptual innovation and real-world experimentation. One key barrier to overcome is the cultural chasms that exist between different kinds of capital and the organizations deploying those capitals.

- **Compliance**

Financial markets regulation requires financial backbones to have a compliance infrastructure, which means that financial backbones are (relatively) complicated and expensive to run, even if they don’t have direct control over capital deployment decisions.

- **Staffing**

Capital orchestration consists of a wide range of activities, which means financial backbones need to find people with a broad—and unique—blend of skills. This is a challenge in many labor markets, which tend to provide people with highly specialized skills.

“

Today, technical assistance is all about fitting projects into the standardized boxes of the finance world. But investor readiness is as much a problem as investee readiness.

JAMES VICCARO
REPATTERN

In looking to become more of a capital orchestrator, we try to hire people with broad skill sets. And yet most people in the investment world are highly specialized.

CLAUDIA A. LEON
PRIME COALITION

”

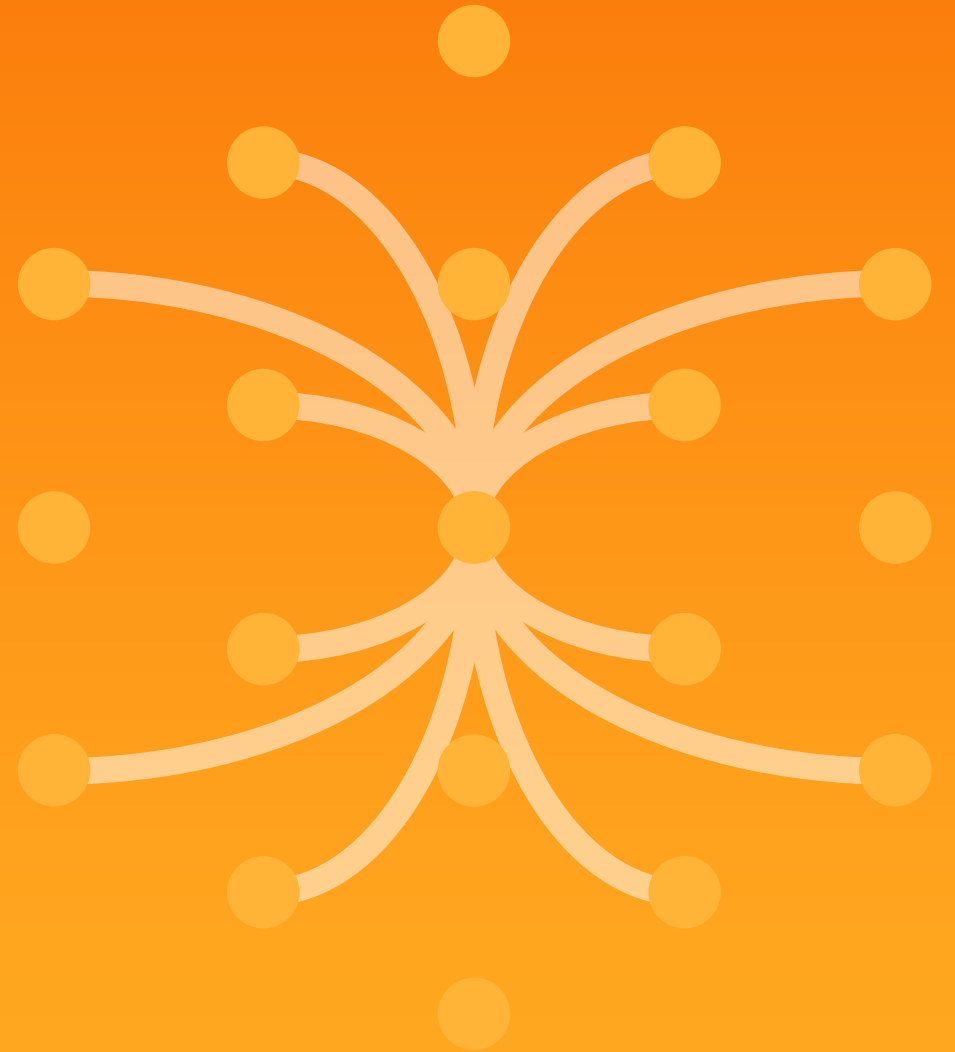
Endnotes – Chapter 2

¹¹ There is considerable overlap between the results of the practice community's analysis and the fundamental critique of conventional purpose-driven capital deployment in which the field of systemic investing is anchored. Resources to consult for more detail on this angle include TCI's white paper "[Transformation Capital – Systemic Investing for Sustainability](#)", TWIST's report "[Emergence and Co-Creation – A collective's perspective on Investing for systems change](#)", and Rockefeller Philanthropy's publication "[Systems Thinking for Impact Investing: Primer, Playbook, and What's Next](#)". [↑](#)



3. Solution Frame

The function of capital orchestration and the role of financial backbones



Overview

- 3.1 Activities
- 3.2 Value propositions
- 3.3 Design principles
- 3.4 Strategic, tactical, and operational considerations

“*The magic of financial backbones comes from bringing different assets into a strategic relationship with each other so that they generate combinatorial effects.*”

IVANA GAZIBARA
TRANSCAP INITIATIVE

Because the issues described in the previous chapter are structural in nature, we need a structural solution to address them. By “structural” we mean something that is not an incremental improvement of an existing approach—think, a fancier hammer in the form of a new kind of investment fund; which, in some way, is where the sustainable finance effort is currently stuck. We mean something that is more fundamentally different, a new element in the sustainable finance infrastructure: financial backbones.

The overall purpose of financial backbones should be to enable the effective and efficient allocation of a multitude of different kinds of capital from a multitude of sources to a multitude of destinations, guided by a theory of change for a particular systemic issue. The pathways to such enablement include *influencing*, *governing*, and *controlling* capital deployment, with the relative degree to which financial backbones do one or the other depending on context.¹²

In exploring how, exactly, capital orchestration should be done and what financial backbones should look like, we have investigated the following areas:

- **Activities**
The set of functions that a financial backbone could perform (in response to the problem analysis presented in the previous chapter)

- **Value propositions**
The benefits that a financial backbone’s activities will produce for different stakeholder groups and what those groups might need to participate in a capital orchestration effort
- **Design principles**
The fundamental ideas and guidelines that shape how a financial backbone should be created and structured to achieve its intended purpose
- **Strategic and tactical considerations**
Best practices (what to do) and mistakes to avoid (what not to do) for the design and implementation of a financial backbone

3.1 Activities

From the problem analysis presented in [Chapter 1](#), we have derived a set of activities that financial backbones could perform to improve the extent to which capital flows strategically and in coordinated ways in service of a systems transformation agenda. These activities need to be considered a menu—a set of choices of what to do depending on the needs in a specific context, whereby that need will likely evolve over time.

[Table O1](#) lists those activities. It differentiates between generic backbone activities, which are typically within

the mandate of any systems orchestrator, and those specific to backbones with a mandate of engaging financial capital.¹³ The table does not, however, list the most generic activities typically played by backbone organizations, such as keeping minutes of coalition meetings or running a coalition website.

What emerges from this menu is that financial backbones play three critical meta-roles:

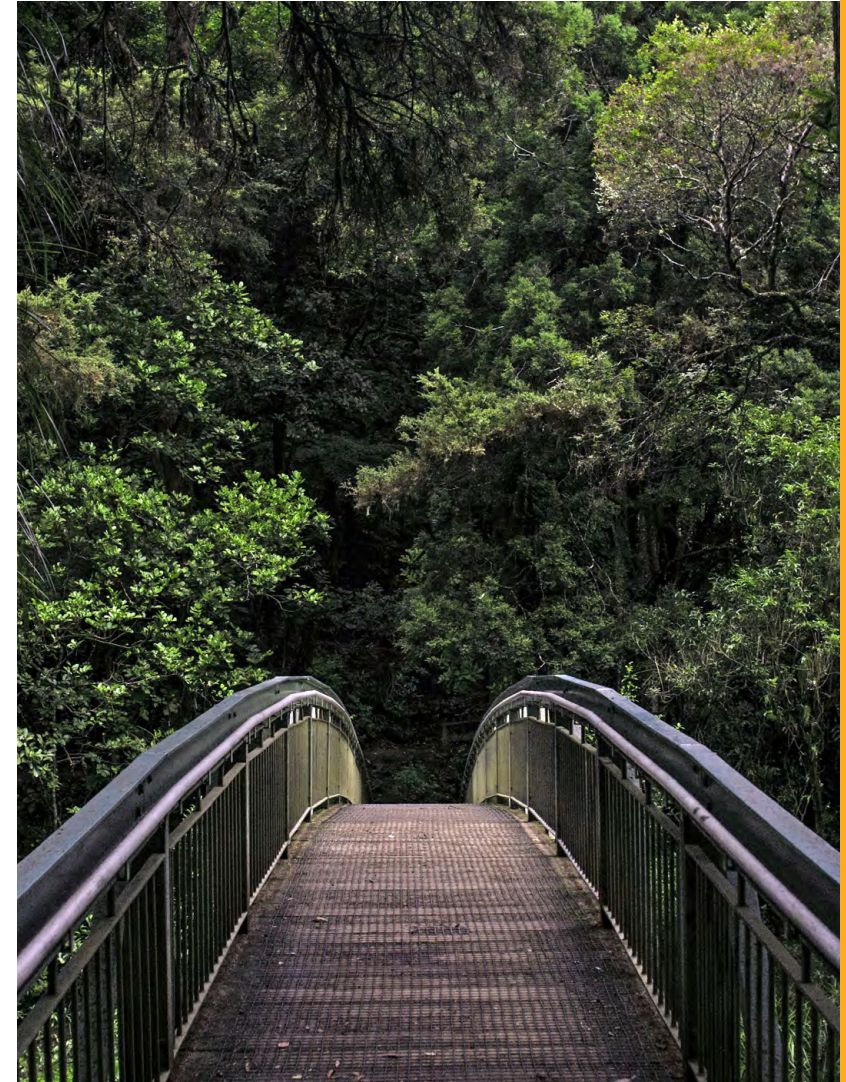
- **Mobilizing and building bridges** between system stakeholders and coordinating capital deployment in ways that generate combinatorial effects;
- **Building capacity and developing the mindsets** for systems work amongst stakeholders; and
- **Managing change** in complex contexts and through long-term strategic partnerships.

Furthermore, here are some noteworthy observations emerging from [Table 01](#):

- While certain activities are labeled as “generic”, these will still need to be performed in a manner appropriate for the target audience of financial backbones. In other words, the overarching purpose of financial backbones as capital orchestrators has a bearing on how, say, convening and storytelling needs to be done. Capital remains the lens through which all activity is performed.
- Some of the activities specific to capital orchestration are subject to financial market regulation and might therefore require that financial backbones build and

maintain a compliance and reporting infrastructure.¹⁴ This infrastructure is not just about installing a set of processes and reportings but also about instilling a culture steeped in risk awareness and discipline.

- Some activities performed by financial backbones might stand in competition to the work of other coalition members (e.g., investment advisors), creating social dynamics that need to be navigated with care, especially when building and securing the buy-in for the financial backbone’s mandate.
- Many capital deployers operate in environments that are highly regulated and risk-averse, burdened with complex accountability requirements and bureaucratic procedures. This includes private-sector investors bound by rigorous due diligence and financial compliance standards, government actors restricted by legislated budgets and procurement rules, and foundations governed by committee-based decision-making and stringent impact reporting. These constraints make the orchestration of capital a painstaking and resource-intensive endeavor—especially when compared to the more fluid work of convening stakeholders, shaping narratives, or developing strategies. As a result, financial backbones often find themselves straddling two very different operational worlds, each with its own pace, language, and logic. This duality can strain the coherence and culture of a financial backbone, forcing it to embody two distinct “personas” of work within a single organizational identity.



The menu of activities a financial backbone could perform depending on the need of a specific context

Table 01

GENERIC SYSTEMS ORCHESTRATION ACTIVITIES	SPECIFIC CAPITAL ORCHESTRATION ACTIVITIES
DEVELOP, GUIDE, AND INFLUENCE COLLECTIVE VISION & STRATEGY	
• Articulate a collectively-owned long-term vision (transformational intent setting) • Develop and maintain a collectively-owned theory of transformation and intervention strategy • Generate and disseminate generic strategic intelligence about a system, e.g. actor maps • Influence and nudge decision-makers to join coalitions, work with others, and possibly deviate from current practice • Disseminate new knowledge, learnings, and demonstration effects from third-party research and innovation experiments	• Generate strategic intelligence for capital deployment: <u>transition maps</u>, <u>investment architectures</u>, <u>system financing needs</u>, <u>leverage points</u> • Support the construction of <u>strategic investment portfolios</u> • Coordinate and mobilize capital flows: source new flows of capital (particularly “commons capital”, see Box 09); identify opportunities and facilitate the kinds of collaboration that allow for the generation of <u>combinatorial effects</u> • Shape the deal pipeline: scan deal landscape, synthesize deal pipeline, and aggregate projects; provide/facilitate technical assistance to individual projects; perform project/capital matchmaking; incubate new projects (systemic venturing) • Align capital deployment with the actions of other system stakeholders (i.e. <u>nesting</u>)
BUILD AND NURTURE LONG-TERM STRATEGIC PARTNERSHIPS	
• Convene coalition members, online and offline • Build capacity and develop the mindsets (including hard and soft skills) for systems work, amongst both funders/investors and grantees/investees • Build and hold the learning and sensemaking infrastructure and run learning and iteration cycles (including systems monitoring and data collection) • Engage and convene key stakeholders outside the coalition • Engage the broader community in strategy development and decision-making • Hold coalition members accountable for commitments and contractual obligations	• Translate for, and build bridges across, different types of capital holders (explain needs, operating constraints, risk appetites, etc.) • Facilitate relationships between non-financial and financial system stakeholders to enable knowledge exchange • Create opportunities for non-financial system stakeholders to deepen their understanding of the capital landscape

The menu of activities a financial backbone could perform depending on the need of a specific context

[continued] Table 01

GENERIC SYSTEMS ORCHESTRATION ACTIVITIES	SPECIFIC CAPITAL ORCHESTRATION ACTIVITIES
	INTERMEDIATE CAPITAL • Structure and capitalize financial instruments and vehicles, particularly capital aggregators (e.g., a fund of funds). • Deploy (or delegate the deployment of) capital into specific projects. • Create or facilitate opportunities for small-scale experiments in multi-capital and multi-beneficiary transaction. • Devise “mission-lock” mechanisms that ensure the systemic vision is integrated into capital deployment. • Broker investment/granting opportunities to investors/funders. • Facilitate access to (pro-bono) legal advice. • Align capital deployment with the actions of other system stakeholders i.e. <u>nesting</u>
SUPPORT COALITION ACTIVITIES • Design and maintain the coalition’s governance structure. • Develop and operate a collectively-owned evaluation and measurement framework. • Build public support through storytelling and non-political advocacy. • Build political will and shape a favorable policy environment through advocacy. • Mobilize resources (e.g., grants) to support the work of coalition members.	Notes: (i) This table uses “projects” as a catch-all phrase for fundable/investable entities, including for-profit companies, social enterprises, nonprofit organizations, and standalone projects; (ii) this table uses “investment(s)” as a catch-all phrase for capital deployment activities, including what is traditionally understood as investment capital as well as non-repayable grants, public finance, and other forms of finance.

CDFIs, Green Banks, and other echoes of financial backbones

Box 07

While it is rare to see organizations performing the full suite of activities laid out in Table 01, certain tasks specific to capital orchestration are being performed by some organizations. Specifically, there are two kinds of financial actors that strongly echo the core ideas presented herein and represent steps in the same direction.

One is community development financial institutions (CDFIs), which are specialized financial institutions with a primary mission of supporting the economic development of a specific community. CDFIs often provide financial capital as well as development services in support of small businesses, affordable housing, and community facilities, particularly in low-income or economically disadvantaged areas. The other is Green Banks, which are defined as “publicly capitalized entities established specifically to facilitate and attract private investment into domestic low-carbon and resilient infrastructure and other green sectors such as water and waste management through different activities and interventions.”

Both CDFIs and Green Banks operate with a strategic mandate, in a particular context, and by deploying multiple forms of capital. Their models thus mirror the three strategic imperatives of systemic investing. As a result, we can look to CDFIs and Green Banks for learnings and inspiration about the design, structure, and implementation of financial backbones.



“

We need someone to figure out the integrated capital piece and implement it.

KEVIN IRBY
FUNDERS FOR REGENERATIVE AGRICULTURE

Bankability is a malleable concept. When you force a certain depth of understanding between both capital deployers and capital seekers, more projects become bankable. But that requires bridge-building and translation.

JAMES VICCARO
REPATTERN

Investment strategies are typically determined by the type of capital available. In the future, we need to first understand the problem and then go find the right capital to address it.

BARBARA VISSER
IDH INVESTMENT MANAGEMENT

”

3.2 Value propositions

Financial backbones are vital—but missing—infrastructure for systems transformation work. Their promise lies in creating the enabling conditions required for collective action, such as building trustful relationships, managing information and knowledge flows, creating system awareness, nurturing alignment and coherence, and strengthening a coalition’s resilience and adaptive capacity. Above all, financial backbones create the opportunity to amplify value—both financial value and impact—and mitigate risks for all stakeholders through generating combinatorial effects, the synergies that arise when two or more assets or projects stand in strategic relationship(s) with one another.

That said, the specific value proposition will differ by stakeholder group—in other words, different stakeholders will want different things from financial backbones in return for spending time and trust on the partnership. Equally, these stakeholder groups might need different things from a financial backbone to be able to engage with it. [Table 02](#) (see next three pages) lists these specific wants and needs.¹⁵



Wants and needs from financial backbones of different stakeholder groups

Table 02

WHAT MIGHT STAKEHOLDERS WANT FROM A FINANCIAL BACKBONE?	WHAT MIGHT STAKEHOLDERS NEED FROM A FINANCIAL BACKBONE TO PARTICIPATE IN A CAPITAL ORCHESTRATION EFFORT?
SHARED BY ALL STAKEHOLDER GROUPS	
• [Generally] greater success in the pursuit of their respective missions • Access to new partners, co-funders, and co-investors • Strategic intelligence about a system of interest • A permission space to learn, experiment, and develop systems capabilities	• Translation of concepts and terms of systemic investing • Facilitation and bridge-building across stakeholder groups • Signaling effects emanating from their peers engaging with the same financial backbone • Ease and efficiency of engagement and low transaction costs
PRIVATE-SECTOR ASSET OWNERS & INVESTMENT MANAGERS	
• Clear investment thesis for systemic investing in a specific context • Reduction in investment risk and enhancement of financial returns through <u>combinatorial effects</u> • Deal flow of impact-oriented assets • Access to new partners and co-investors	• Support with reporting based on their own KPIs and on general disclosure obligations • Data about the system and possible investments that their analysts can use in investment and risk models • Harmonized impact measurement tools and alignment with accepted standards • Support with managing environmental and social risks in line with generally accepted standards • Support and guidance on investment structures that can relate both to the needs of projects and investors • Term sheets for individual investment opportunities that fit their processes and frameworks as much as possible

Wants and needs from financial backbones of different stakeholder groups

[continued] Table 02

WHAT MIGHT STAKEHOLDERS WANT FROM A FINANCIAL BACKBONE?	WHAT MIGHT STAKEHOLDERS NEED FROM A FINANCIAL BACKBONE TO PARTICIPATE IN A CAPITAL ORCHESTRATION EFFORT?
PUBLIC-SECTOR INVESTORS: Governments, Multi-lateral Development Banks, Development Finance Institutions, Sovereign Wealth Funds	
• Measurable social and economic returns (in a cost/benefit logic) • Leverage effects (public-sector capital mobilizing private-sector money) • Opportunities to align public-sector capital deployment with policy objectives	• Simple political narrative for the public • Alignment of financial backbone activity with political cycles (“results before elections”) and policy cycles (budgeting timelines) • Short-term wins to point to for renewing political will
PHILANTHROPY: Foundations, Individual Donors	
• Connectivity with other actors across the spectrum of capital • Long-term leverage effects (grants, recoverables grants, and other types of innovative catalytic capital tools advancing markets and crowding-in other types of financial capital) • Connection to a diverse ecosystem of organizations with aligned missions and goals, especially access to the “investor world”	• Clear causal link between the financial backbone’s mission and their own theory of change • Measurable impact (in the short term) • Ability to attribute their impact within the broader impact of the financial backbone’s work • Clear understanding and mitigation of reputational risks of other capital providers and of portfolio investments
CORPORATIONS	
• Increasing the efficiency of their capital deployment (leverage effect) • Opportunity to mitigate the strategic risks emanating from systems they depend on (e.g., particular places or supply chains) • Opportunity to align investments with their business and sustainability goals. • Stories for their PR and marketing efforts • Support with environmental, social, and reputational risk mitigation	• Robust information on the impact of their investments • Clear view of complementary role the corporation can play and why • Flexibility to step out of the financial backbone if/when priorities change

Wants and needs from financial backbones of different stakeholder groups

[continued] Table 02

WHAT MIGHT STAKEHOLDERS WANT FROM A FINANCIAL BACKBONE?	WHAT MIGHT STAKEHOLDERS NEED FROM A FINANCIAL BACKBONE TO PARTICIPATE IN A CAPITAL ORCHESTRATION EFFORT?
INVESTEES & GRANTEES	
• Funding and investment of the kind and at the scale that matches needs • Advocacy to capital holders on their behalf • System-wide narrative and strategy support • Business development through match-making within the investees in a portfolio • A greater risk-tolerance and embrace of the messiness of systemic change in practice	• Support on investment-readiness and business development • Participation in funding/investment decision-making • Technical assistance to reach investment readiness • Low bureaucracy (including regarding reporting obligations)
COMMUNITY MEMBERS	
• Opportunity to convey their wants and needs to capital holders • Mechanisms to build community wealth and resilience, such as support for community-owned enterprises or land trusts • Support in making the case for systemic investing within their community to other stakeholders using data, stories, and systemic insights • Opportunities for capacity building in areas like finance, governance, and advocacy to strengthen community agency	• Participation in funding/investment decision-making, and protection against tokenization or extractive participation rather than symbolic inclusion • Compensation for time, knowledge, and lived experience contributions (e.g., stipends, honoraria) • Culturally appropriate facilitation and accessible formats for engagement (e.g., translation, childcare, transportation support) • Trust-building efforts through long-term, consistent engagement rather than transactional consultations

3.3 Design principles

Financial backbones need to be highly attuned to context in terms of what they do and the value they seek to generate for different stakeholder groups. So there will be no one-size-fits-all model for capital orchestration. That said, years of experience in systems innovation and collaborative capital deployment have led us to recognize a set of design principles that make it more likely that systems orchestrators can meet their purpose.

What follows is a list of such design principles. The list does *not* contain the most basic principles for all collaborative systems transformation efforts, such as the imperatives to design for transparency, inclusivity, and accountability. Instead, it focuses on those design principles important for capital orchestration.

What emerges from this list is that the design principles applying to financial backbones are largely the same as those applying to (generic) backbone organizations. In other words, there are few aspects unique to capital orchestration relative to generic backboning that call for the adherence to different design principles (see [Figure 04](#), next page).



Every fund wants a network, and every network wants a fund—and very few have both. Financial backbones solve for that.

KEVIN IRBY
FUNDERS FOR REGENERATIVE AGRICULTURE

The unique opportunity for financial backbones is to bring systemically impactful investment opportunities to investors and funders who might not hold the same knowledge or access to information—to mobilize capital for where it's most needed.

CLAUDIA A. LEON
PRIME COALITION

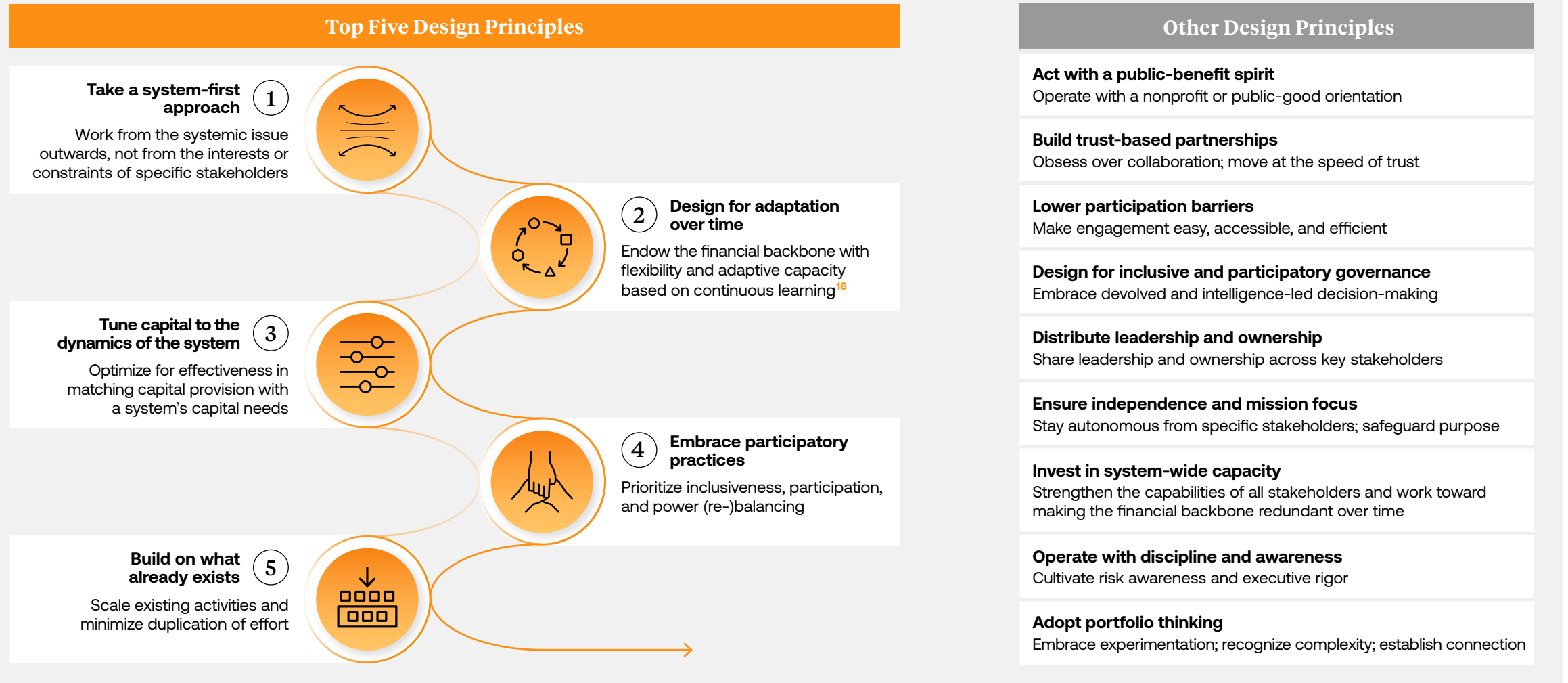
The strength of a coalition comes from different stakeholders wanting and needing different things. If financial backbones can turn that into an advantage, it would be powerful.

BRENDAN LEHAN
NEW CAPITALISM PROJECT



Core principles shaping financial backbone design

Figure 04



Comparing financial backbones to generic backbone organizations

Box 08

In some ways, financial backbones could be seen as generic backbone organizations with a particular focus, meaning that most financial backbones will operate with a mandate consisting of some activities unique to capital orchestration and a lot of activities performed by any other backbone. This gives rise to the question of whether the pursuit of capital orchestration activities has a special bearing on how financial backbones need to be designed. We believe that the answer is “no”.

Here are some of the most prominent differences between financial backbones and generic backbone organizations (other than the performance of tasks specifically related to capital orchestration):

- Financial backbones might perform regulated activities, requiring them to build a compliance infrastructure and operate with greater risk-awareness and discipline than generic backbones.
- Financial backbones work across two domains of a fundamentally different nature

(generic systems orchestration and capital orchestration), requiring them to develop cultures and systems that can integrate both.

- Financial backbones might be tasked with activities that could stand in competition with the work of some of their members, creating dynamics that need to be carefully navigated.
- Financial backbones might perform activities requiring technical knowledge and expertise of a depth typically not required in generic backbones (e.g., for financial instrument design or capital raising).
- Given the data-driven nature of finance, capital orchestration will place a higher analytical burden on financial backbones.

All of these factors mean that operating a financial backbone could be more demanding than running a generic backbone organization. But they don't mean that financial backbones need to be designed in fundamentally different ways.

“

Investors are driven by a desire to solve, not to learn. That's a problem.

INGRID BURKETT
THE GOOD SHIFT

Flexibility is key. You don't know what problem the system is going to have, so you need different tools to fix things—horses for courses, as they say.

BEN GIMSON,
GATSBY AFRICA

Financial backbones need to bring different parts of an impact ecosystem together and balance power dynamics where possible.

TOBY ECCLES
SOCIAL FINANCE UK

”

3.4 Strategic, tactical, and operational considerations

What follows is a set of reflections on the strategic, tactical, and operational dimensions of financial backbones. These are distinct from, yet complementary to, design principles. Whereas design principles provide foundational guidance that remains constant over the lifetime of a financial backbone—its conceptual DNA—strategic and operational choices are more situational and must evolve over time. We have organized these considerations into two categories: positive (what to pursue) and negative (what to avoid).

What to do

Establishing a financial backbone isn't about perfection from the outset. What matters most is setting a clear course, engaging the right people, and remaining adaptable along the way. For those looking to build a capital orchestrator, we offer a set of practical recommendations—covering strategic and tactical choices, staffing, resourcing, and legal or institutional structures (see [Table 03](#), next page).



There's an element of laziness in blended finance, and financial backbones have an opportunity to bring creativity back into the mix.

JAMES VACCARO
REPATTERN

Stakeholder alignment and collaboration is key when moving away from individual assets to a more systemic approach, where various actors in the ecosystem are working toward aligned outcomes.

MARK HALL
IMPACT INVESTING INSTITUTE

The most important thing is for the coalition to work with a collectively owned strategy.

JORDAN FABYANSKE
DALBERG CATALYST



Strategic, tactical, and operational considerations in running a financial backbone

Table 03

STRATEGIC CHOICES		TACTICAL CONSIDERATIONS	
• Develop a clear and compelling vision at the outset; but the overall direction of travel is more important than hard targets and goals • Invest time and effort into fostering a shared understanding of—and buy-in for—that vision • Build a coalition that is diverse, balanced, and seen as legitimate by system stakeholders • Build a governance structure that balances power dynamics, includes community voices, and is unequivocally committed to a system’s health and imperatives shared by all stakeholders		• Follow the momentum and seize opportunities when they arise (“meet the moments”) • Prioritize working with a coalition of the willing, especially in the beginning • Pilot specific pieces of work quickly, then lean into where the energy in the system is • Start small and avoid the LEW (large, expensive, wrong) trap • Signal that the initiator of the financial backbone is not looking to scale its own business but, instead, is deeply committed to launching the backbone and then stepping away • Signal that the purpose and approach of the financial backbone will be revisited; make liberal use of the word “interim”	
STAFFING	RESOURCING	LEGAL & INSTITUTIONAL STRUCTURES	
• Build a broadly skilled team covering all areas of expertise relevant to the financial backbone’s mandate • Prioritize “translators” and “bridge builders” who are generic problem-solvers and come with an agile mindset and humility • Find a leader with standing in the system to steward the financial backbone in the beginning (though let that leader emerge over the course of the design process)	• Secure multi-year funding for the financial backbone so that it doesn’t stand in competition with coalition members; ideally, do that at the outset, but be prepared for a grind • Raise some investment capital over which the financial backbone has agency so that it is seen as a peer by other capital holders	• Consider working in an interim structure at the beginning (e.g., placing the initiative within an existing organization that acts as the initial steward) until the right model emerges • Adopt a stewardship/nonprofit structure to minimize risk of mission drift • Don’t shy away from more complex or innovative legal structures for blended capital approaches	

Commons capital

Box 09

Table 03 suggests that financial backbones should consider raising some investment capital over which it has direct control. The ramifications of doing so are profound, both in terms of the demands on a financial backbone's internal culture, processes, and compliance infrastructure but also in terms of the relational aspects within the coalition the financial backbone is orchestrating. [Section 4.1](#) delves deeper into this issue.

When having direct control over some capital *is* sensible for a financial backbone, the financial backbone would ideally focus on capital that other coalition members don't necessarily have access to (so that there is additionality), that complements more traditional forms of capital, and that is particularly well suited for systems work because it allows for:

- Flexible allocation across different activities and systems-level portfolios;
- Deployment through multiple instruments based on context and need;

- Tolerance for varied return profiles and timeframes;
- Risk/reward assessment based on systems-level effects rather than narrow outcomes (the “relational return on investment”);
- High adaptiveness to portfolio and system-level emergence; and
- Ability to be subordinated to leverage and/or blend with other resources.

Such “commons capital” tends to be scarce, so financial backbones might need to make an effort sourcing it, including by influencing decision-makers working for asset owners, investment managers, governments, foundations, and the like.

“

There is urgency and impatience on the side of capital, but that doesn't mean we can skip over the reality of the time it takes to do meaningful human and relational work.

KAJ LÖFGREN
REGEN MELBOURNE

In all systems orchestrators we have launched, we could not have overspent on partner engagement and communications.

JORDAN FABYANSKE
DALBERG CATALYSTJ

We need strong storytelling to sell the idea of capital orchestration, particularly to dispel the concern that coordination will lead to delays in capital deployment.

BARBARA VISSER
IDH INVESTMENT MANAGEMENT

”

What not to do

Equally important as adhering to suggested practices in building system orchestrators is avoiding preventable mistakes. While the concept of financial backbones is too new for anyone to definitely know what the most common mistakes might be, we believe the following are leading candidates:

- **Overpromising** in terms of the speed and scale of capital deployment (to potential investees and grantees) and impact and financial returns (to funders and investors) as a result of underestimating the time it takes to build relationships, structures, and capital pools;
- **Undercommunicating** by not investing sufficient time in developing a shared vision, narrative, and language, and by not sharing—with partners, system stakeholders, and the greater public—updates on progress, opportunities, and challenges;
- **Creating a weak partnership** by not sharing agency and decision-making power, by not making visioning and strategizing a participatory process, by being beholden to the particular interests of a small set of stakeholders, by failing to tap the collective intelligence of all partners, or by not ensuring the buy-in of critical stakeholders upfront;
- **Managing the financial backbone too rigidly** as a result of holding the original vision and strategy too firmly, believing in a single “right” way of doing things, assuming a shared vision without pressure-testing, and failing to anticipate a change of interest and strategy among partners over time;
- **Setting the wrong focus** by, amongst other things, not clearly defining the system or choosing a system that is too large to meaningfully affect change; by trying to change everything, everywhere, all at once; or by not understanding the KPIs of partners;
- **Underresourcing the financial backbone** by predisposing it to a continuous fundraising challenge, especially if that means the financial backbone needs to raise grants at the same time and from the same sources as some of its coalition members;
- **Not integrating community voices effectively**, including by relying on possible investees and grantees as representatives of the community rather than going to the grassroots level; and
- **Moving too fast** as a result of starting with implementation before the necessary social foundations and governance arrangements have been built or buy-in has been secured—in other words, travelling faster than the speed of trust.



How to build gravitational force and directive effectiveness

Box 10

For a financial backbone to be effective, it needs to be able to attract a wide range of system stakeholders and make them consider—and, ideally, follow—its guidance. So how can financial backbones generate such gravitational force and directive effectiveness at the beginning, and sustain that over time? The answer contains both strategic and tactical elements.

At the outset, people launching financial backbones need to meet certain hygiene factors to even create the possibility that others will pay any attention. These include technical expertise in the activities that will likely be required, a thorough understanding of the system the financial backbone is trying to change, the voices of some of those with resources and authority to take action, and a direct line to the people closest to the issue.

When these elements are in place, then financial backbone initiators can begin with the foundational work of building trustful relationships, forming them into a coalition, and developing visions and action plans. As part of

that, it is important that there is broad buy-in into the vision, that prospective coalition members see their role in the ensemble, and that they feel that the financial backbone is going to amplify and elevate their work rather than stand in competition with it.

Tactically, financial backbones should try to demonstrate their usefulness as soon as possible. Such demonstrations can come in the form of capital flows, especially if grant or investment money can be mobilized for coalition members. But value can also be generated in simpler ways, e.g. through convenings or the production of analytical artifacts that people find valuable. But completing a first transaction—making money flow—will be the greatest catalyst for the effort.

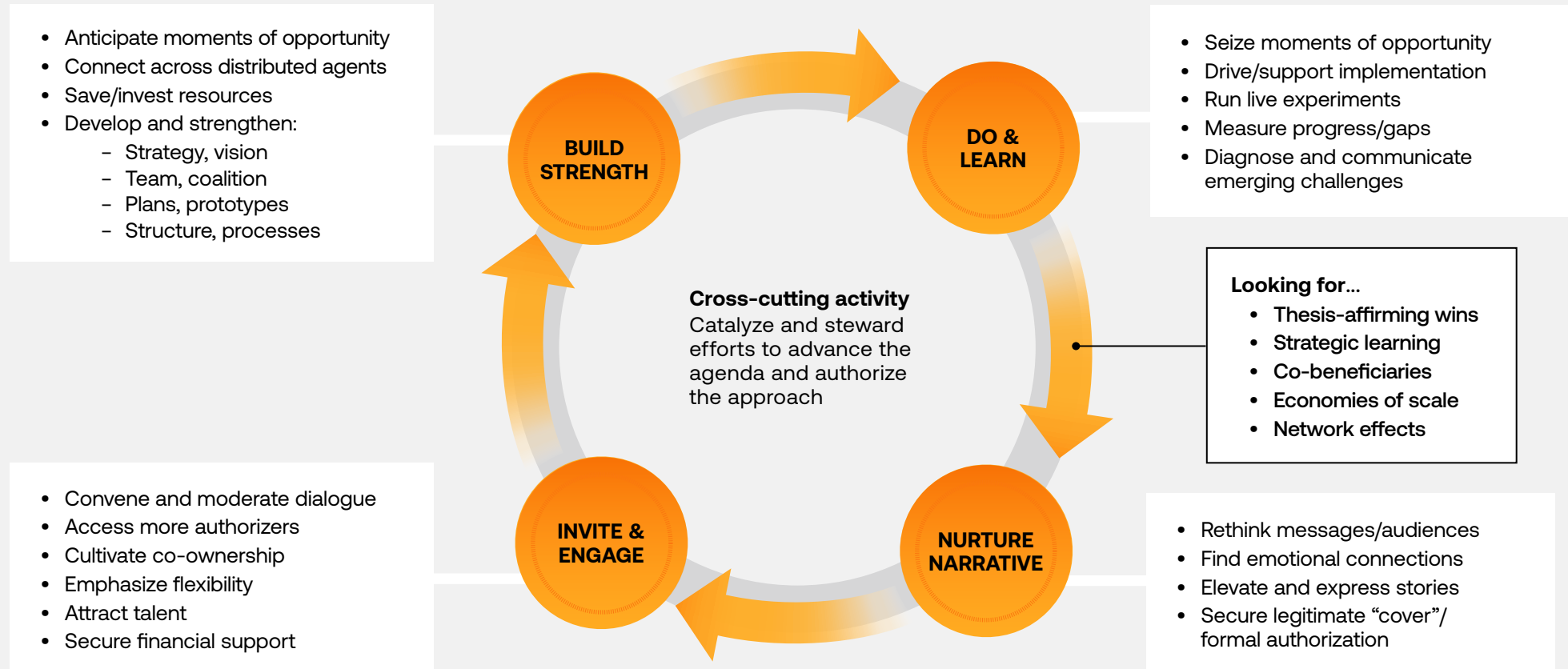
Sustaining momentum will become a possibility if financial backbones create flywheel effects; starting small and simple and adding size and complexity—in terms of scope of work, number of coalition members, types of capital engaged, size of portfolios, etc—over time (see [Figure 05](#), next page).

The pull isn't gravitational—it's magnetic. So it's about interaction between different stakeholders, and we need financial backbones to create and sustain that interaction.

INGRID BURKETT
THE GOOD SHIFT

Building a transformation flywheel ecosystem

Figure 05

Source: [Dalberg Catalyst](#)

Endnotes – Chapter 3

¹² Note: The ramifications for organizational design of having direct control over capital deployment (vs. merely influencing others) decisions are profound. See [Section 4.1](#) for a discussion of these. ↗

¹³ See [Section 4.3](#) for a treatment of the question of whether capital orchestration could be performed inside generic backbone organizations (as one of many activities) or whether it calls for the establishment of dedicated entities. ↗

¹⁴ The compliance burden tends to be highest for those organizations that have discretionary decision-making power over the allocation of capital owned by others (e.g., investment managers). That said, even if a financial backbone doesn't allocate capital directly, some of its activities—for instance, identifying specific investment gaps within a system and pointing to organizations capable of closing them, which could possibly amount to investment advice—could constitute regulated activity. And even if that's not the case in substance, the fact that financial backbones operate in close proximity to regulated activity already triggers a compliance burden, if only to ensure that a financial backbone doesn't unintentionally “cross over” into regulated territory. ↗

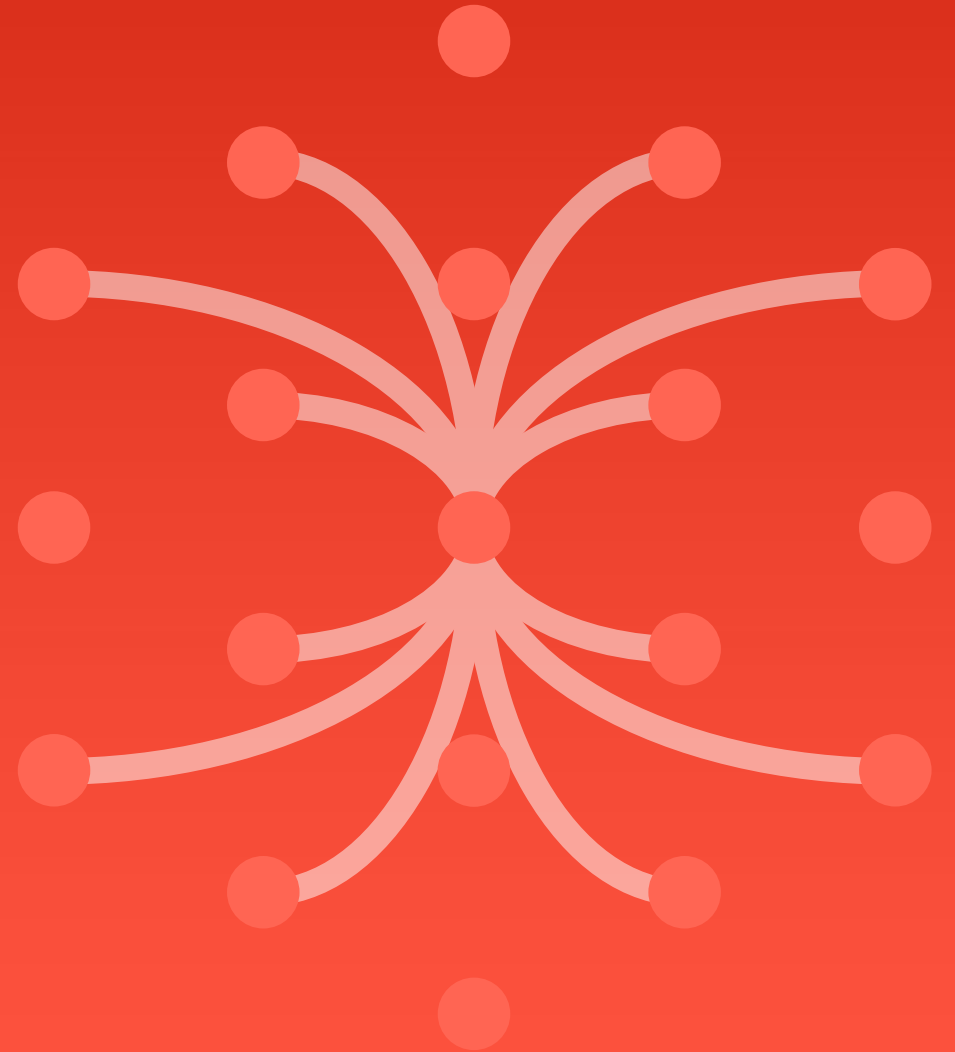
¹⁵ The table excludes generic best practices of systems orchestration that stakeholders tend to want and need—e.g., frequent communications, transparent decision-making, regular in-person convenings, etc.—and instead focuses on those aspects relevant for capital orchestration. ↗

¹⁶ Frequently, learning and sensemaking is concentrated within teams responsible for the “thinking” (e.g., strategy teams), not the doing (e.g., investment managers). For financial backbones to be effective, it is paramount that those making investment decisions are also part of learning and sensemaking cycles. ↗



4. Special Topics

Design choices, trade-offs, and
implementation pathways



Overview

- 4.1 Facilitation vs. intermediation
- 4.2 Centralized vs. distributed
- 4.3 Relative emphasis of capital orchestration vs. more generic backbone activities
- 4.4 Institutional structures and legal forms
- 4.5 Resourcing model

“
It is much easier to raise capital for activities directly related to capital deployment than funding for the deeply important field- and ecosystem-building work.
 ”

CLAUDIA LEON
 PRIME COALITION

Over the course of the practice community’s convenings, we have surfaced a long list of issues that would need to be investigated and addressed (see [Table 06](#)). Many of these represent complex questions to which there is no single right answer. In this chapter, we will present initial viewpoints on some of the most important of these questions.

4.1 Facilitation vs. intermediation

Should financial backbones exclusively focus on ensuring greater coordination of capital flows controlled by others or also have direct control over some capital? Or, in musical terms, are financial backbones more like conductors of orchestras (who play no instrument and focus on directing the ensemble) or more like leaders of jazz bands (who play their own instruments while directing the rest of the band through cues)? This is the central question at the heart of the facilitation vs. intermediation debate.

The tension at the core of this question arises through the different advantages and disadvantages that intermediation would bring (see [Table 04](#)). As is so often the case in systems work, the right answer will depend on context. In (financially) mature systems, where a lot of capital is present and financial decision-makers are willing to coordinate capital deployment and work with a financial backbone, it might not be necessary for financial backbones to also do capital intermediation.¹⁷ But where capital is scarce or collaborative energy low, there might be

value in the financial backbone playing a capital aggregator and reallocator role.

On balance, we believe that building intermediation capacity will often be a worthwhile undertaking. This will be particularly true if the intermediated capital is designed to be catalytic (i.e., effective at crowding-in other capital, e.g. by de-risking other investments; see [Box 09](#)) and/or if the financial backbone plays an incubation role for projects and companies.

That said, if a financial backbone *does* intermediate, it should take extra care to mitigate risks that come with that role. Most importantly, the financial backbone will need to find ways of preserving its status as a trusted facilitator and guard itself against mission drift. [Box 11](#) presents an example of how that might be achieved.

“
Investors respond to financing partners differently to those not participating. If you don’t have your own capital, you’re not as likely to be taken seriously.
 ”

TOBY ECCLES
 SOCIAL FINANCE UK

The advantages and disadvantages of financial backbones playing an intermediation function by having direct control over some capital

Table 04

PROS OF PLAYING AN INTERMEDIATION FUNCTION...

- It increases the speed and agility of capital deployment, as it reduces the need to synchronize decision-making processes across multiple capital deployers.
- It can help move the financial backbone into operational mode more quickly, thereby contributing to trust-building upfront.
- Financial backbones will be taken more seriously by certain capital deployers (indirect power through peer effect) and have more influence over others in the coalition (direct power through capital provision).
- Financial backbones can play the role of aggregator and (re-)allocator (think: fund of funds), which could help mobilize additional capital (especially from capital deployers not rooted in the system/place) while creating a useful distance between investors/grantors and investees/grantees.
- Financial backbones can role-model capital deployment, thereby raising the bar for everyone else (signaling effect).
- Financial backbones gain hands-on learning and insights into the experience of capital deployment in a given system, making them more effective at helping the coalition move through pinch points.
- It eliminates the possibility for financial backbones to hide behind the interests and constraints of capital holders as an excuse for low ambition.
- It could open up a new revenue stream for financial backbones (asset management) to complement grant funding.

CONS OF PLAYING AN INTERMEDIATION FUNCTION...

- It introduces the risk that financial backbones will focus on their own assets at the expense of the orchestration work, prioritizing their own interests and needs over those of coalition partners or the system at large (conflict of interest).
- Financial backbones might lose their standing as trusted, selfless facilitators and mediators.
- It increases out-of-pocket costs of operating the financial backbone (capital raising, due diligence, legal fees, reporting, etc.).
- It could introduce competitive dynamics with coalition members, especially asset managers.
- It increases the governance and compliance burden on financial backbones.
- It introduces the risk that the success of financial backbones is reduced to the financial performance of their own investments.
- It introduces new capability and resourcing needs.
- It can create internal organizational culture tensions that create friction with other functions of the organization.

The design of GroundBreak Coalition's intermediation function

Box 11

In the early stages of the GroundBreak Coalition—a financial backbone aimed at closing wealth gaps in Minneapolis–St. Paul (USA)—its leadership team was hoping that existing structures for managing and allocating capital could be used, via the extensive network of nonprofit organizations and community and mainstream banks that were already operating in the city. However, it soon became clear that it was necessary for GroundBreak to create its own structures in a way that provides a degree of control over how capital is being deployed. The Coalition had realized that such control was going to be necessary to ensure the strategic alignment of each capital pool, choose operational setups customized for each pool's mandate, gain the flexibility to make adjustments over time, and create effective accountability mechanisms.

There are several aspects to how GroundBreak has designed its intermediation function that we believe are innovative and thoughtful and could provide useful guidance for other financial backbones:

- While each GroundBreak-controlled capital pool (one each for low-cost patient capital, grants, and guarantees) is structured as a limited liability company, these LLCs sit within a parent organization structured as a 501(c)3 charitable

organization. This structure allows for containing risks, managing liabilities, and organizing operations by compartment while ensuring that the initiative overall remains governed by the spirit and laws of public benefit work.

- Each capital pool is managed by an organization with expertise and a track record for the type of capital in that pool. This creates a degree of separation between the Coalition's leadership and day-to-day operations of these capital pools while pulling into the coalition the necessary track record, compliance infrastructure, and asset class-specific expertise for each pool.
- Each capital pool has clearly defined allocation principles and rules. This increases transparency and reduces arbitrariness in decision-making while mitigating power imbalances.
- Each capital pool has been programmed to serve a specific function in the Coalition's investment architecture in ways that are catalytic for other forms of capital (e.g., guarantees that unlock growth-stage loans from banks going to entrepreneurs). So GroundBreak was highly strategic in choosing which capital to have control over and which coalition member pools to mobilize, thereby minimizing competitive tensions.

To learn more about how the GroundBreak Coalition exemplifies systemic investing and capital orchestration, read the TransCap Initiative's case study of their work.



4.2 Centralized vs. distributed

Throughout this document, we have insinuated that the capital orchestration role would be played by a single organization (or a single team within an organization), suggesting centralization of the work. This doesn't mean, however, that capital orchestration as a function couldn't also be performed collectively by a multitude of teams and organizations in a distributed fashion. Is one of these models more preferable than the other?

There are arguments for both models (see [Table 05](#), right), and the right set-up will depend on the context. The general trade-off seems to be between a stronger backbone with weaker member engagement (centralized) and a weaker backbone with stronger member engagement (distributed). A distributed model seems more coherent with a complexity view of the world and a collective impact approach to systems transformation, or at least the model to aspire to in the long run. That said, there are several aspects related to capital orchestration that might prove challenging for distributed efforts to overcome:

- **Collaboration** is hard, and capital orchestration requires a particularly tight integration of different workstreams. Working across different entities introduces organizational boundaries as an additional inhibitor of communication and coordination, suggesting it might be beneficial to perform all work streams “under one roof.”

- **Distributed backboning** will only be possible in a context where there are several organizations with an extraordinary degree of readiness to work in the ways required. Given the technical nature of capital orchestration and the dearth of organizations experienced to work in complex contexts and through multi-stakeholder coalitions, this is a tall order.
- **Foundations** have a preference for funding single organizations over collaboratives. It might be easier to raise grants for financial backbone activity if there is a single entity pursuing a centralized strategy, in part because many foundations are familiar with the concept of (generic) backbone organizations.
- **Power dynamics** might lead to increasing centralization over time, as individual members of a coalition emerge as leaders or centers of gravity—whether intended or not. So even if a financial backbone is designed in decentralized fashion, it may not be able to counteract forces pulling it toward centralization.

For these and other reasons, we believe that financial backbones are most likely to materialize in a centralized form, mostly because they seem easier to operate. However, we see the emergence of distributed versions as a distinct possibility. In fact, a financial backbone could start out as a centralized endeavor and later—once basic infrastructures, ways of working, relationships, and track records have been established—devolve into a distributed effort.¹⁸

Arguments in favor of centralized and distributed capital orchestration

Table 05

ARGUMENTS FOR CENTRALIZED CAPITAL ORCHESTRATION

- Less coordinative load; fewer interfaces to manage
- Clear assignment of managerial responsibility to one team
- Easier and faster to design, launch, validate, and mature
- Possibly easier to resource

ARGUMENTS FOR DISTRIBUTED CAPITAL ORCHESTRATION

- Greater resilience—if one organization steps away, the financial backbone function as a whole does not necessarily crater
- Greater distribution of workload and resources.
- Higher degree of sense of co-ownership
- Greater ability to source strategic intelligence and tap the collective intelligence of the coalition
- It might be easier to cover critical skill sets and system perspectives across several organizations

4.3 Relative emphasis of capital orchestration vs. more generic backbone activities

Financial backbones perform a mix of generic backboning activities and finance-specific tasks. So should capital orchestration be one of many functions within a general systems orchestrator or be performed in a dedicated entity (see Figure 06, right)?

This question is relevant for two reasons: because of the existence of many (generic) backbone organizations that don't engage in capital orchestration yet but could expand their mandate, and because of the question of how capital-centric the design of a new backbone organization needs to be to do this work effectively. Would it need to be steeped in an investment logic and focus on capital deployers as the main target audience, or can it be designed as a generic systems orchestrator with a capital coordination function?

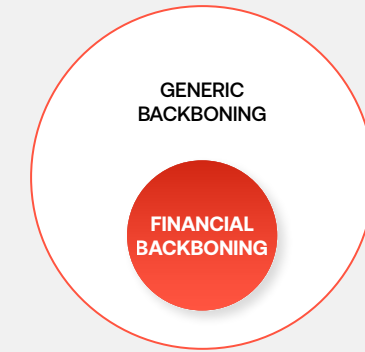
The field of capital orchestration is not mature enough to provide definitive answers to this question yet, and more research and experimentation is needed to understand possibilities and best practices. That said, early experience shows that there are several aspects inherent in capital orchestration that might make it difficult for generic backbone organizations to effectively engage in the work. Two such aspects stand out:

- The **regulatory regime** in which capital orchestration takes place requires backbones to work with risk awareness and discipline and to establish a compliance infrastructure. The effort and costs associated with building these elements might be difficult to justify for an organization for which capital orchestration is not the primary mission.
- Capital orchestration requires a type of **capability, experience, culture, and mindset** possessed by “finance people”, who tend to have been educated and formed in different contexts than those specialized in the social impact field. Finance people also often face greater economic opportunity costs by working for a financial backbone, which could lead them to demand a higher salary than what generic backbone organizations can typically afford. Accommodating a finance team within an organization designed mostly for non-financial work could therefore bring cultural and financial tensions.

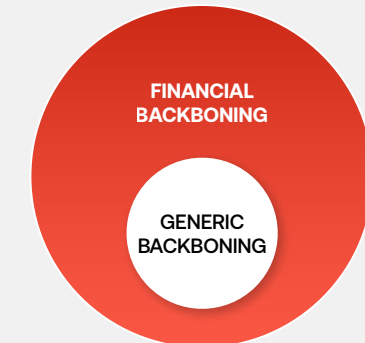
Both of these factors point to a challenge in doing capital orchestration work as a side activity. For generic backbone organizations wanting to engage in capital orchestration, it will not be as easy as “just hire a finance person”. In contrast, it seems more feasible to nestle generic backbone activities within a mission focused predominantly on capital orchestration, which is why financial backbones are more likely to emerge as dedicated entities.

Simplified visualization of two operating models based on a difference in relative emphasis

Figure 06



Model A: Capital orchestration performed within a generic backbone organization



Model B: Generic systems orchestration performed within a financial backbone

4.4 Institutional structures and legal forms

Once the design and strategy for a financial backbone exist, institutional structures and legal forms move into the spotlight. Considerations for making choices in this space include:

- **Coherence between the profit motive of the financial backbone and different legal structures:** It seems sensible to place nonprofit activity in nonprofit vehicles (e.g., foundations, public charities) and for-profit activity in for-profit shells (e.g., LLCs).
- **Alignment with design principles,** especially regarding flexibility, participatory decision-making, and broad-based governance. For instance, whereas associations have no owners and are meant to be member-led, corporations have owners and decisions are meant to be made by those owners.
- **Intensity of coordination required:** Some systemic challenges require a high degree of coordination and synchronized operation, which might lend itself for more formal structural arrangements (e.g., binding contracts). In contrast, when a societal issue can be addressed with relatively loose coordination, simpler structures (including non-binding commitments) might suffice.
- **Complexity of legal arrangements,** especially when working across several legal entities and jurisdictions.

- **Coalition members' familiarity** with particular legal forms, which will impact their comfort of engaging with financial backbone activity. The more exotic a structure, the harder it might be to ensure buy-in. This is particularly true for financial instruments.
- **Accountability of parties and enforceability of obligations,** which require the codification of commitments into legally binding contracts.
- **Timing, process, and cost of building structural arrangements:** Building everything at once is expensive and runs the risk of missing the mark, as the needs of the coalition might only emerge over time.
- **Regulatory and statutory requirements:** Certain activities cannot be performed by certain legal structures by law. For instance, in the United States, 501(c)3 charitable foundations are limited in their ability to do lobbying, while 501(c)4 entities are specifically allowed to do so. Likewise, capital deployers might be limited in their ability to channel capital to particular legal structures, such as foundations that require tax-exempt nonprofits on the receiving end of their grantmaking.

There is no single correct structural set-up, and finding a suitable set-up should be treated as a long-term process rather than a problem that needs to be addressed upfront. Form should follow function, and as the most appropriate function will only reveal itself over time, so will the requirements for the form.

That said, we feel that what matters more than institutional structures and legal forms is the “soft underbelly” of the financial backbone—the relationships between the people stewarding the effort. Legal arrangements are necessary, but they are no replacement for the relational work. In addition, every backbone should be careful not to overload itself with bureaucracy and legal requirements. Structural arrangements should make collaboration more effective without overburdening coalition members or creating barriers for engagement. It is worthwhile looking at existing financial backbones as well as their close cousins—CDFIs and Green Banks—for inspiration, best practices, and mistakes to avoid.

4.5 Resourcing model

So, who is going to pay for all this? The work of financial backbones must be resourced, and in deciding which revenue sources to explore, there are several considerations to keep in mind:

- **Incentives and priorities** The source of funding might skew the incentives and priorities of the financial backbone. For instance, if the financial backbone funds its activities by providing services to its coalition members, it will inevitably evolve into a consultancy, serving its clients rather than the system, and needing to constantly find additional work to make payroll. Similarly, if the financial backbone is funded by a single organization, the financial backbone might come under pressure to

prioritize the specific interest of that organization over the interests of everybody else.

- **Value proposition**

Certain activities performed by the financial backbone are directly valuable to coalition members. For instance, the strategic intelligence that emerges from the financial backbone's analytical work might be used by private-sector investors for sourcing deals and reducing the risk/return profile of their portfolios. Similarly, financial backbones will help foundations leverage their grant funding by mobilizing other forms of capital to address the societal issues these foundations care about, an important KPI for some. So coalition members might be willing to pay for the creation of this value.

- **Flexibility of funding**

Some types of funding are more flexible than others. For instance, whereas general operating support from foundations comes with a lot of flexibility, fee-for-service arrangements are usually more constrained and based on a set of specific deliverables.

We believe that financial backbones—at least the public-benefit capital orchestration work—are best resourced through multi-year grants structured as general operating support.¹⁹ This type of revenue is most in line with the public-benefit mission of financial backbones. It is also the most flexible, allowing a financial backbone to adjust its strategy and activities over time and in response to the evolving needs of the system it serves. And because of

the non-reciprocal nature of grants, this type of money is least at risk of distorting a financial backbone's interests and priorities.

Funding a financial backbone through coalition members in a fee-for-service logic remains a possibility. However, experience shows that the willingness to pay for services provided by systems orchestrators is generally low, especially in the beginning when the orchestrator's value proposition is still emerging. And even if there was such willingness, operating a fee-for-service model would create significant risks for mission drift.

Alternatively, financial backbones could try to raise grants from coalition members structured as either donations or membership fees. Asking coalition members to resource the financial backbone becomes particularly viable if the financial backbone can provide clear and tangible value to its partners in the foreseeable future and if the donation or membership fee is tax deductible.

Governments, which are often the challenge owners for a wide range of societal issues, might also be candidates for grant funding. An example would be a city government looking for a capital orchestrator to help it finance its climate action plan. But government funding is usually more rigid, meaning it tends to be granted for specific projects with clear deliverables. It is also typically subject to procurement rules. Both of these things mean that public funding is less flexible and harder to unlock than grants from the philanthropic or private sectors.

Finally, financial backbones might be able to frame their work in terms of technical assistance (TA) to an ecosystem of projects and actors, possibly creating funding opportunities for TA programs. These TA programs are often sponsored by governments or government-proximate entities, such as development finance institutions and multilateral development banks. They might thus be of particular interest to financial backbones pursuing sustainable development objectives in low- and middle-income countries.

Whatever the specific source of a financial backbone's revenue, we believe that in designing a financial backbone's revenue model, there are two additional



Philanthropy needs to be able to exit. Either the financial backbone finds a way to sustain itself without grants from foundations, or it needs to be designed to sunset at some point.

MORGAN SNYDER
WALTON FAMILY FOUNDATION



things that should be considered:

- Financial backbones should be mindful of the competitive dynamics that might arise if they perform services also offered by other coalition members (e.g., investment advisory, asset management), as this could undermine trust and inhibit the willingness of those organizations to participate in the coalition.
- Financial backbones should avoid revenue that depends on the financial success of investments. Not only would that skew the financial backbone's incentives, but it would also create an incoherence in the funding model emanating from the difference between the stable nature of the financial backbone's operating costs and the highly unpredictable size and timing of proceeds from investments.²⁰

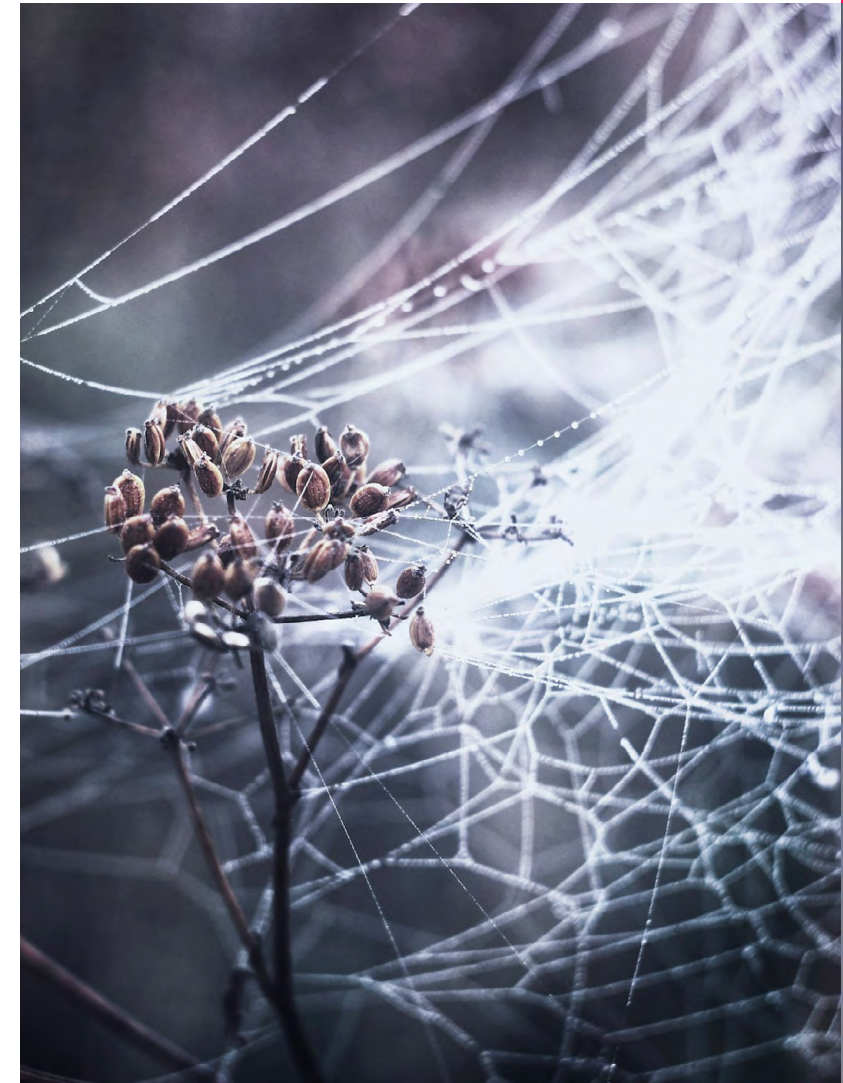
Endnotes – Chapter 4

¹⁷ Note: Even in mature contexts there can still be a disconnect between the type and form of capital that's needed by enterprises/projects versus the needs of investors and asset owners. Intermediation (e.g., through new financial products) can help bridge the disconnect. ↗

¹⁸ In any case, it is useful to differentiate between management and oversight: financial backbones might benefit from centralized operations. But—in keeping with the core design principles around governance (see Section 3.3)—they would ideally be accountable to a broad-based governance body, which would allow them to distribute decision-making. ↗

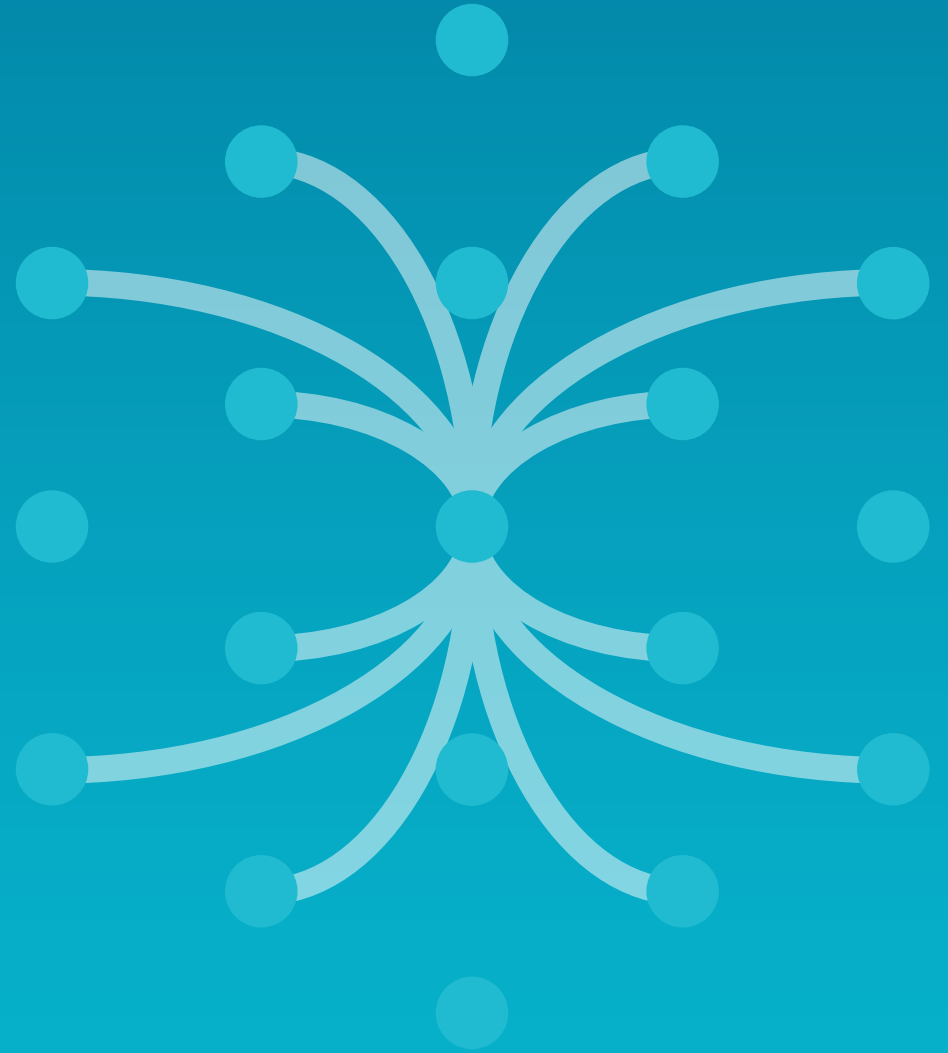
¹⁹ Where an existing impact-driven investment manager with sizable assets under management plays the role of a financial backbone, a hybrid approach between management fees and grants might be a distinct possibility. ↗

²⁰ The exception to this would be a set-up in which the financial backbone's funding comes from a large established asset manager, for instance in the form of a share of the company's management fee or profit. This set-up is not uncommon for charitable arms of for-profit financial institutions. Yet in order to be viable for financial backbone, the expected annual contribution must reliably exceed a certain minimum so that the financial backbone can do proper long-term budgeting. ↗



5. Final Reflections

Where to go from here?



Capital orchestration is not an entirely new concept. There have always been attempts at coordinating the flows of diverse forms of financial capital for a specific goal, reaching back at least to medieval Venice where merchants and bankers developed novel financial instruments to finance trade voyages. Today, the most common—though arguably not most effective—type of financial backbones might be governments, which control a wide range of financial levers to guide capital flows in service of a particular economic or social agenda.

Yet most forms of capital orchestration happening today remain steeped in traditional investment logic. What's different for the work presented in this document is that it reimagines capital orchestration through a systems lens and for the purpose of addressing the wicked problems of the 21st century. In so doing, it offers a tangible way for operationalizing the emerging investment logic of systemic investing.

That said, this document must be seen as a starting point to a longer-term exploration of capital orchestration and what it means to design and operationalize a financial backbone. We consider this field nascent and believe that much conceptual development and practical experimentation remains to be done, especially to learn how to navigate the many irresolvable tensions that the practice community has surfaced.²¹

Areas of further work include:

- **Case studies** that shed a light on existing financial backbones and try to spot patterns of good practice while allowing the development of a typology of financial backbones;
- **Conceptual investigations** into key topics, such as those mentioned in [Table 06](#) (see following pages);
- **Peer-to-peer support** for those building and operating financial backbones;
- **Field-building and capacity-building** aimed at popularizing the concept of financial backbones and upskilling system stakeholders to see its relevance and value; and
- **Collective experiments** in capital orchestration to test and advance the theoretical and practical boundaries of the field.

Our collective experience suggests that capital orchestration is a critical function in any systems transformation work, and that financial backbones are a vital piece of infrastructure in purpose-driven finance. Financial backbones won't solve every problem about today's financial system, but they can unlock much progress even when working within the constraints of the current system. We encourage everybody with a mandate to deploy capital for positive societal impact to study the ideas and arguments presented herein and find ways of implementing them in practice.

“

You're not going to change the nature of the private sector or government. The challenge is to work with the cultures and institutions we've got.

TOBY ECCLES
SOCIAL FINANCE UK

”

Questions for further exploration

Table 06

DESIGN	STRATEGY	TACTICS
• Centralized vs. distributed Is capital orchestration best done in a centralized or distributed way? • Structuring Should capital orchestration happen in a dedicated organization or be thought of as a function that needs to be played in all (generic) systems orchestrators? • Governance What are high-level governance principles for financial backbones? What are specific governance models that have proven to be effective in practice? • Incentives What do different incentive models for capital orchestration look like?	• Facilitation vs. intermediation When/why/how does it make sense for financial backbones to not only facilitate but also intermediate capital flows? • Definition of success How should a financial backbone make sense of its success, and what success metrics should it use for that? • Investment thesis To what extent does participation in a financial backbone by existing investment managers require them to change their investment theses (or take on a new one) vs. consenting to have their existing theses woven into a larger systemic portfolio of investment (and other capital deployment) theses? • Investment strategy When working deeply in context, how can financial backbones ensure sufficient deal flow and liquidity?	• Getting started What are important strategic and tactical considerations when starting a new financial backbone? • Coalition building How can key stakeholders (mostly capital providers) be incentivized to work with financial backbones?
		RESOURCING
		• Revenue model What are viable revenue models for financial backbones? • Financial sustainability In addition to revenue models, what are other ways for financial backbones to access more sustainable forms of funding?

Endnotes – Chapter 5

²¹ For instance, starting with small steps to prove the model vs. aiming high to signal ambition, spending time building trustful relationships vs. moving quickly to build momentum, and being guided by a broad direction of travel vs. setting hard targets to make the vision tangible. ↗

Questions for further exploration

[continued] Table 06

IMPLEMENTATION

- **Structuring**
What are institutional structures and legal forms suitable for financial backbones?
- **Structuring**
What would a hybrid model consisting of a backbone organization and a set of functions distributed across an ecosystem or organizations look like?
- **License to operate**
How does a financial backbone earn and sustain trust and legitimacy amongst key stakeholders?
- **Selling the concept**
What narratives would help convey the relevance and importance of capital orchestration?
- **Staffing**
How can the staffing challenge (emanating from the wide range of competencies that a financial backbone team needs) be addressed?
- **Community engagement**
How could financial backbones effectively involve communities in the development of visions and strategies and in capital deployment decisions?
- **Communications**
What are “boundary objects” that could be used by financial backbone in its engagement with—and translation across—different audiences?

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