

Transformative Investment for systems change

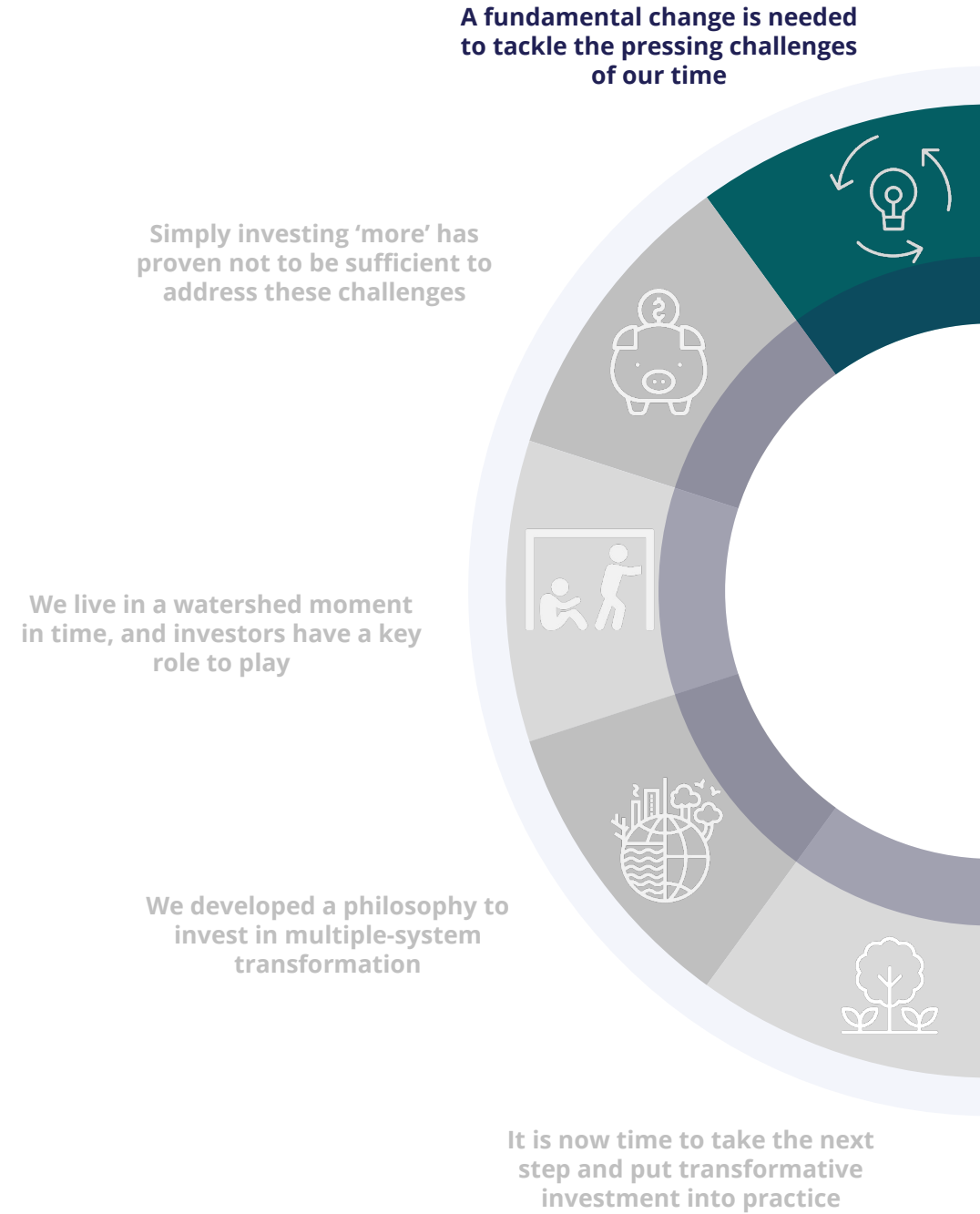
Johan Schot, Utrecht University

An invitation to work with the Deep Transitions Lab

February 2024

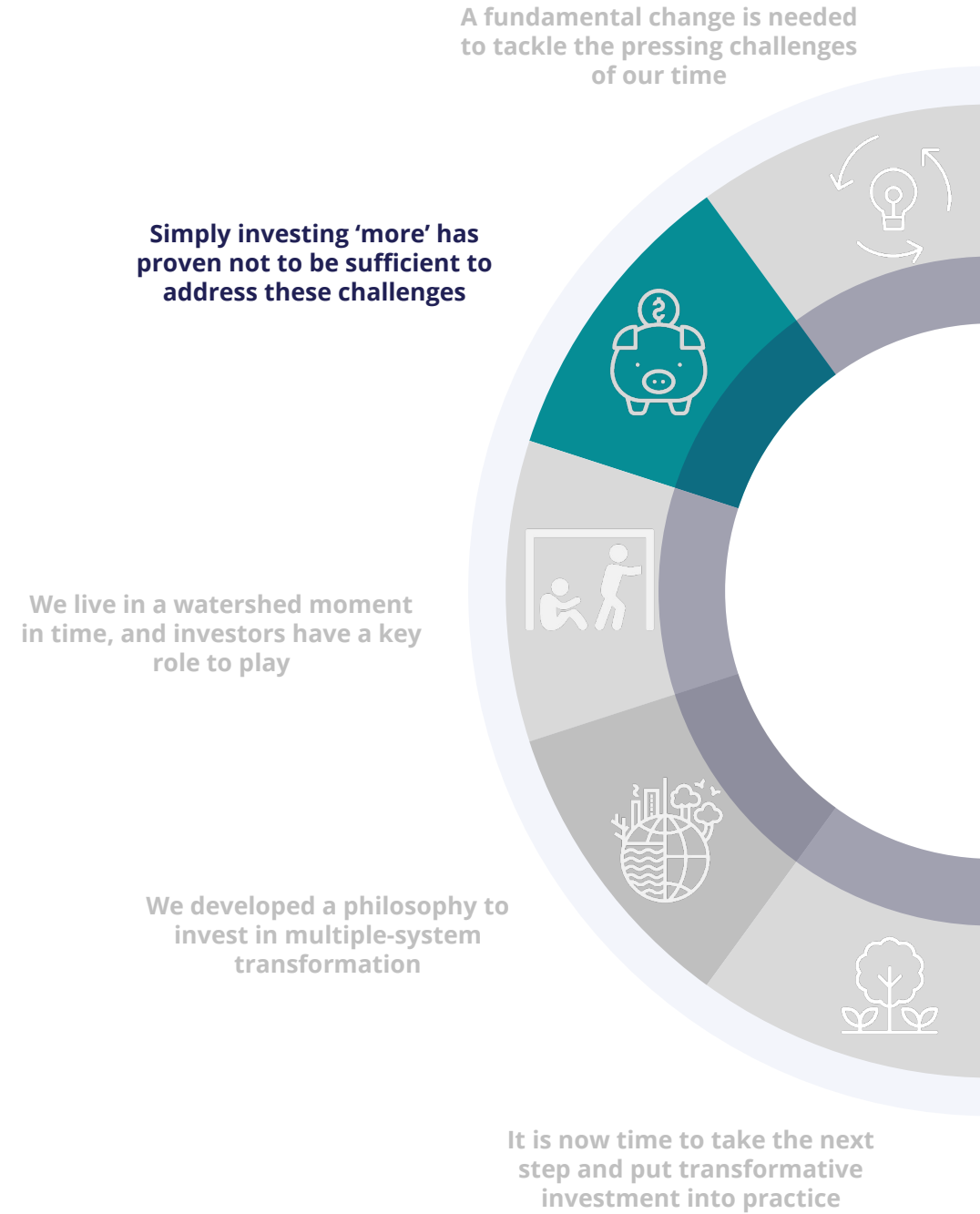
A world-wide sustainability transition has to happen in the coming ten years

To enable this transition, tremendous long-term investments are urgently needed for tackling the interrelated challenges of climate change, biodiversity loss and growing inequality.



However, dominant practices in the investment industry favour system optimisation and preclude deeper and more fundamental societal transformations.

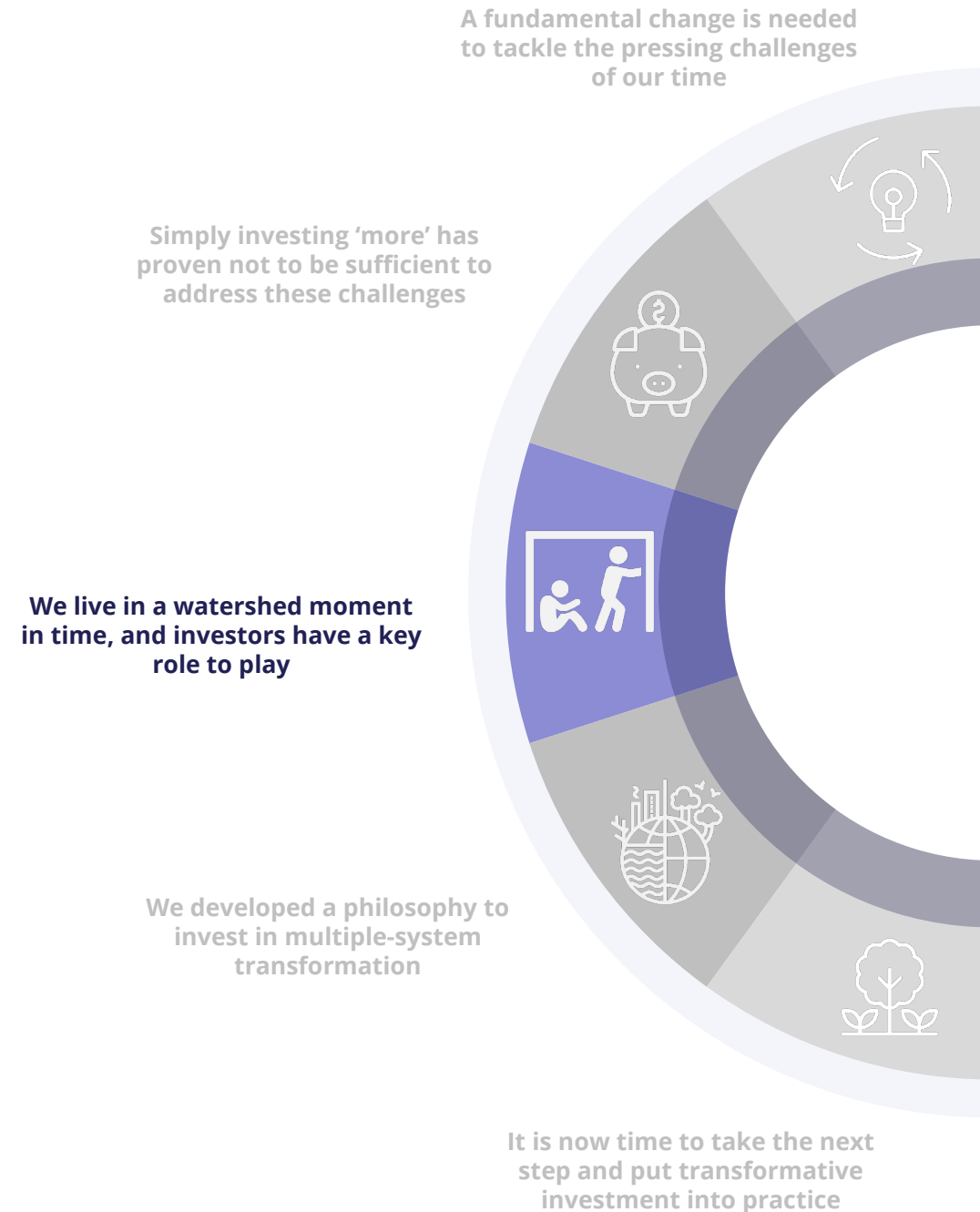
Examples include: short-term focus, narrow interpretation of fiduciary duty, rigid asset class distinctions, backward-looking risk management practices, and twisted incentives.



ESG and impact investors are aware of this, but are increasingly hitting a wall.

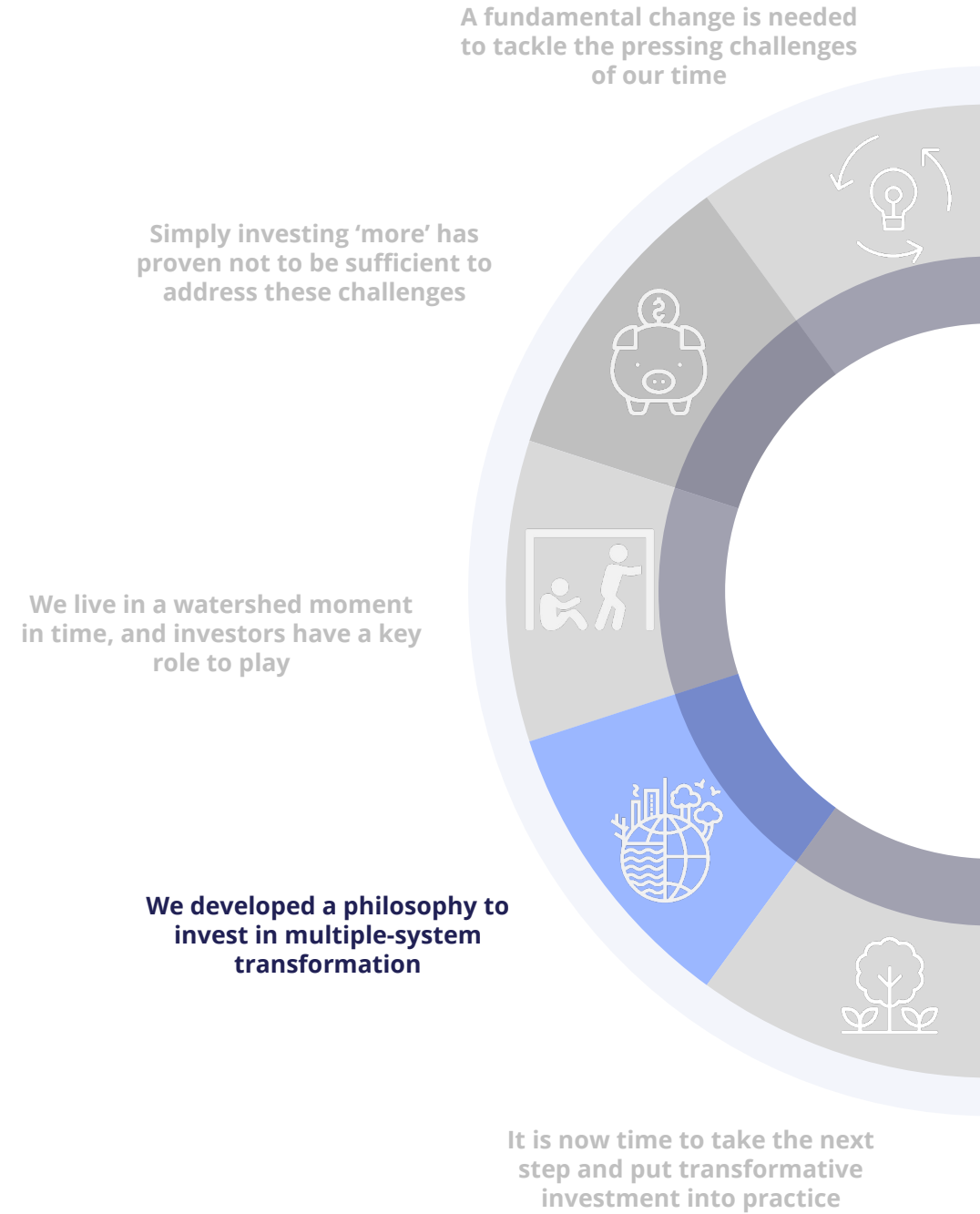
They lack the tools and practices to guide their investments in a direction that can truly target systems change.

To achieve a breakthrough in the next ten years, we need to change the way we invest.



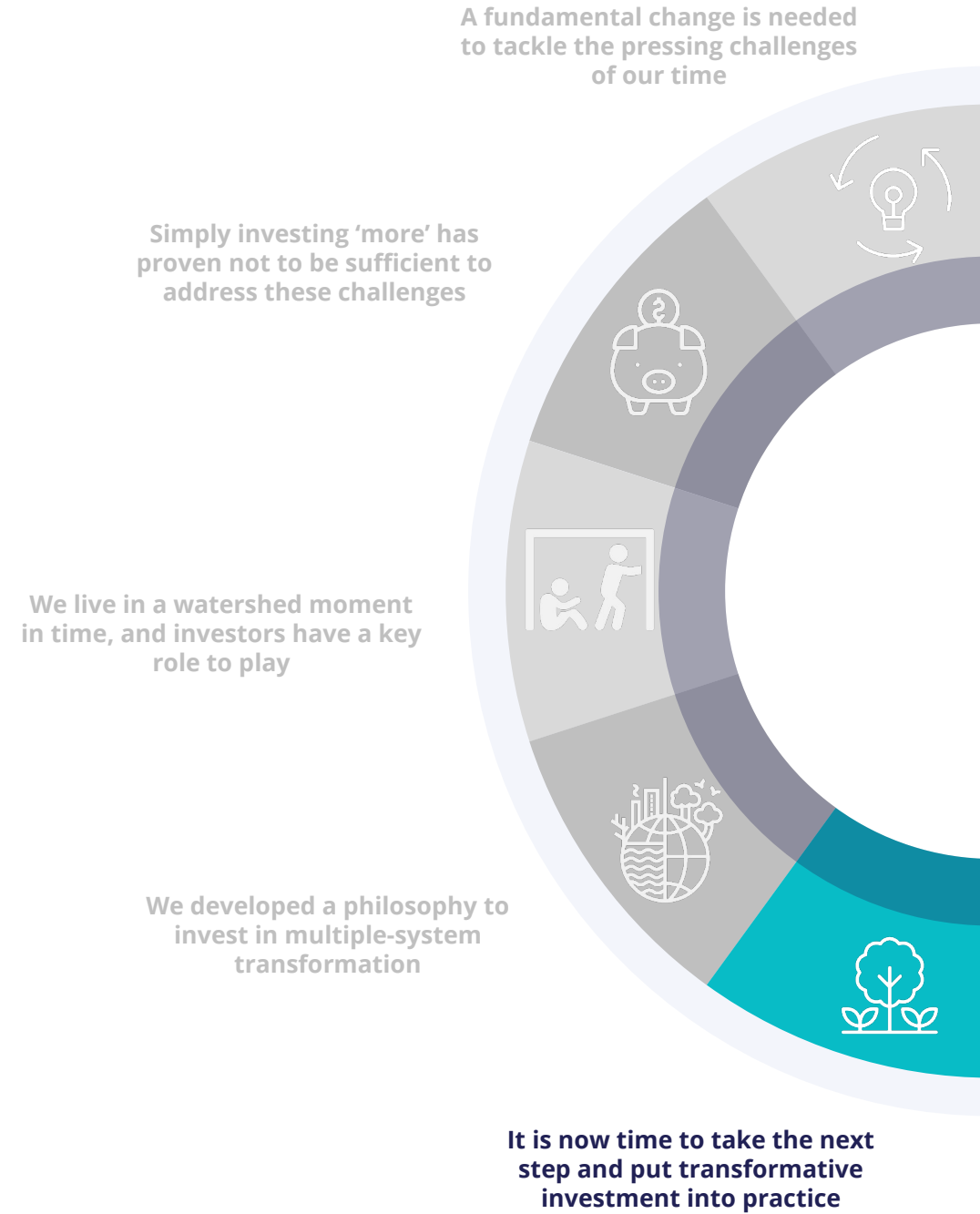
In an unprecedented transdisciplinary research project, historians, sustainability experts, and public and private investors from all over the world collaborated to formulate a response to this challenge:

Transformative Investment



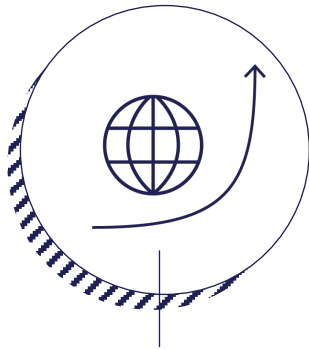
It is now time to take the next step.

We established the Deep Transitions Lab, a platform to implement Transformative Investment in the finance sector through rigorous experimentation, capacity-building and the development of supporting tools and metrics.



Deep Transitions thinking in a nutshell

Deep Transitions thinking is grounded in academic research. It explains how change unfolded in the past in order to learn how to shape the future



What is a Deep Transition?

A Deep Transition is a series of interconnected system changes that transforms society in a fundamental way. The First Deep Transition was the Industrial Revolution, and it is still ongoing today.



The First Deep Transition

The Industrial Revolution led to unprecedented economic growth, prosperity and innovation. However, its principles (or rules) also caused some of the major challenges we are facing today, such as climate change, biodiversity loss and social inequality.



Towards a Second Deep Transition

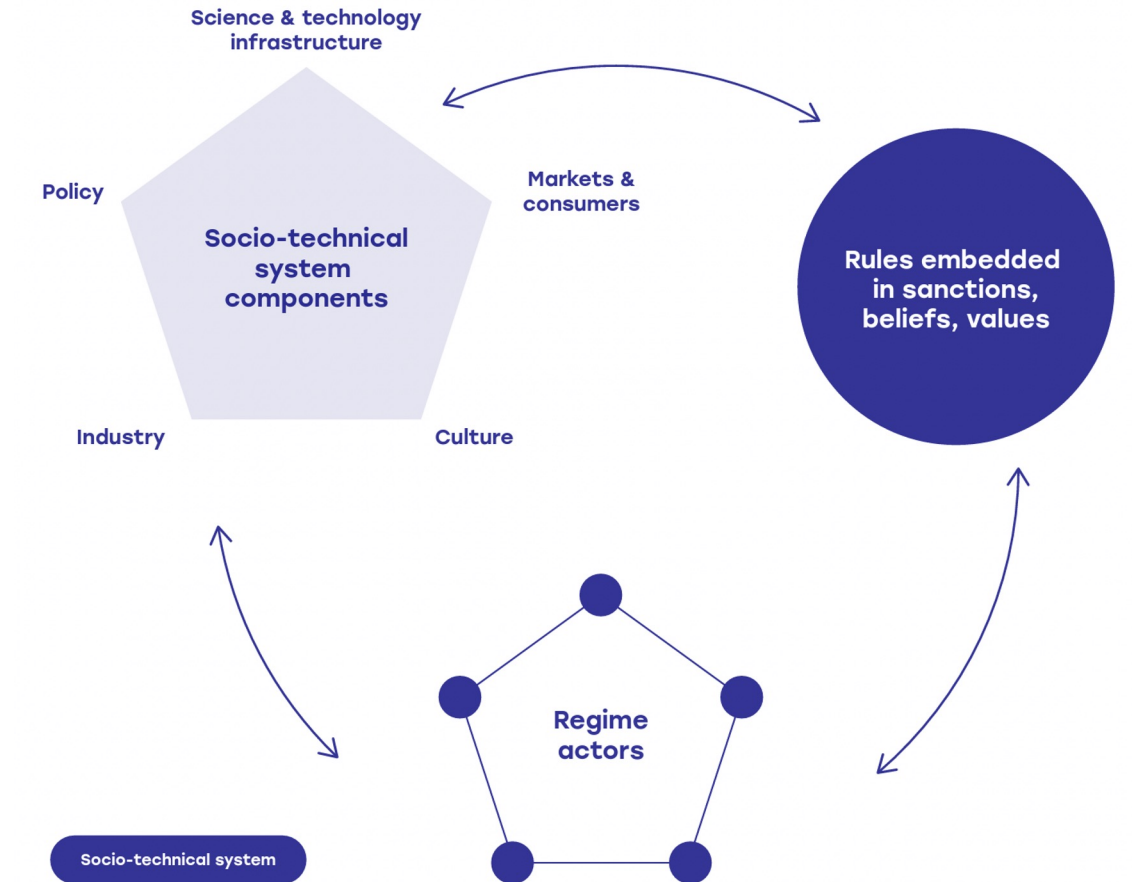
The underlying principles of the First Deep Transition are deeply ingrained in all aspects of everyday life. Therefore, incremental change is not enough. A fundamental shift is necessary to bring about a Second Deep Transition: a sustainability revolution.

Deep Transitions thinking uses the notion of socio-technical systems to understand the nature of system change,

Systems provide basic needs, such as energy, mobility, and food. As such, they dictate everyday behaviour, from our modes of transport to the food we consume and the values we hold.

System change is therefore **not just about technological change**, it also has strong **political, economic, social and cultural** aspects. We thus apply the notion of **socio-technical systems** when talking about systems change.

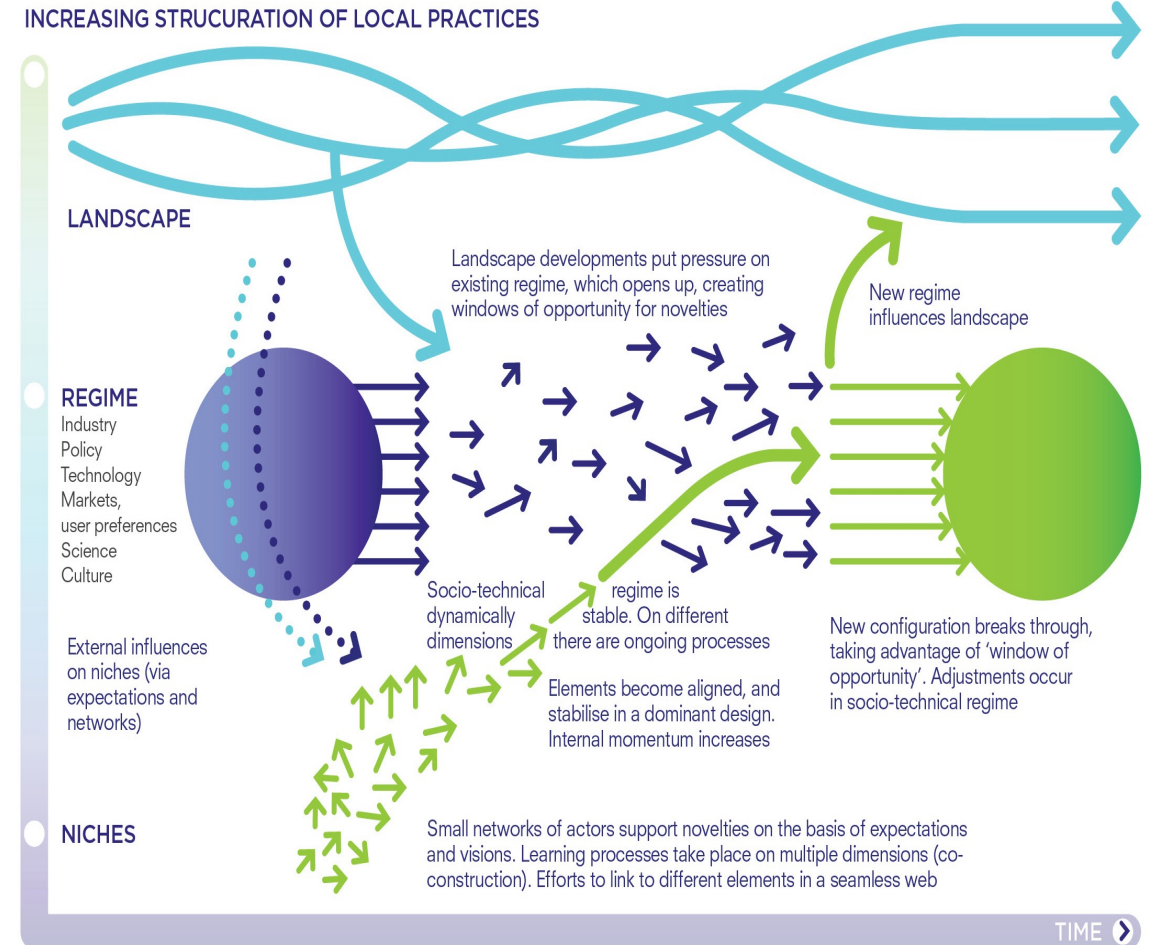
Our current socio-technical systems are based on a series of unsustainable practices (or '**rules**' in Deep Transitions thinking), such as **fossil fuel dependance, globalisation, linear mass production and mass consumption**.



How does single system change happen?

Systems change happens when alternative practices developing in niches are in a position to compete with and replace a dominant regime practice. In the process niches scale and become a regime. Crucial elements in this process are experimentation, and the construction and stabilization of new rules.

The competition between niches and regimes is influenced by external developments, such as megatrends and shocks. These create windows of opportunity. Regime actors may reorient their strategies and behaviour, while niche actors may benefit from these new opportunities. Shocks may also force a rule change to come about through a process called imprinting. Shocks may be traumatic and change views of actors. New choices are possible which were not possible before.



Multi level perspective of the socio-technical transition framework. Source: Geels, 2002; Geels and Schot, 2007

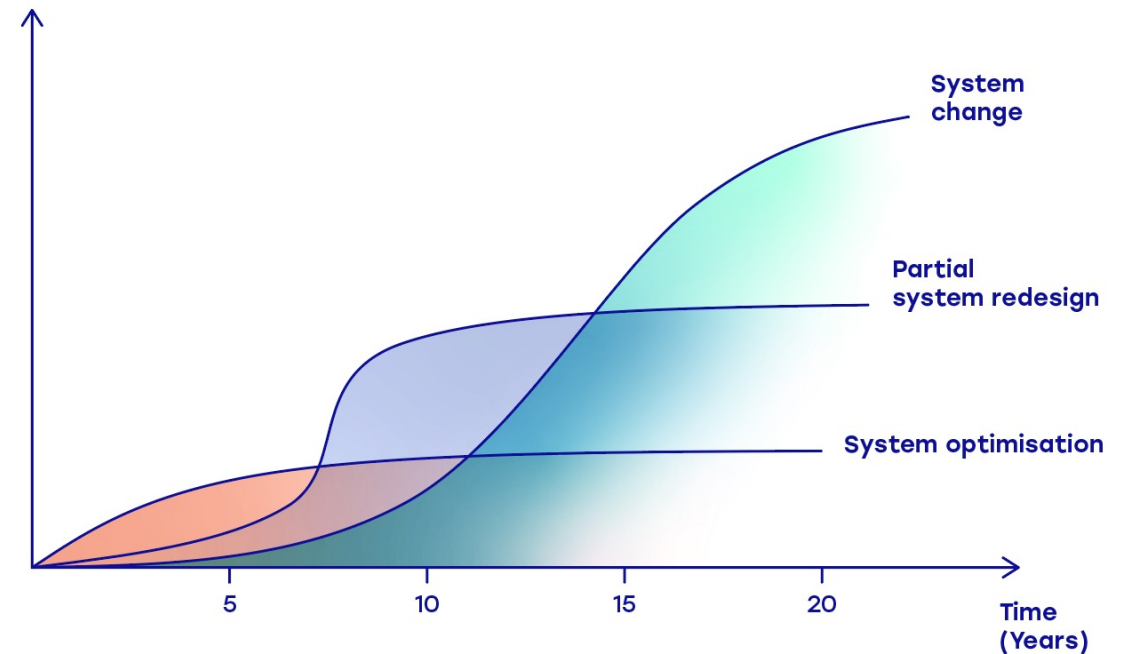
For a Deep Transition to take root, we need system change instead of system optimisation.

System optimisation, such as a productivity improvement, can generate short-term positive effects. However, in the long run it **preserves the unsustainable configuration of the system** and reinforces the underlying rules of the existing system. It thus cannot bring the fundamental shift needed to address the interrelated challenges of climate change, biodiversity loss and growing inequality.

System change, instead, enables a fundamental reconfiguration of the system. It **fosters the emergence of new sustainable rules** in niches that can, in time, provide viable alternatives to the unsustainable practices of the First Deep Transition.

Deep Transitions thinking moves beyond the lure of systems optimisation, to achieve fundamental and lasting systems change.

Meeting Sustainable Development Goals =
Directionality of system change

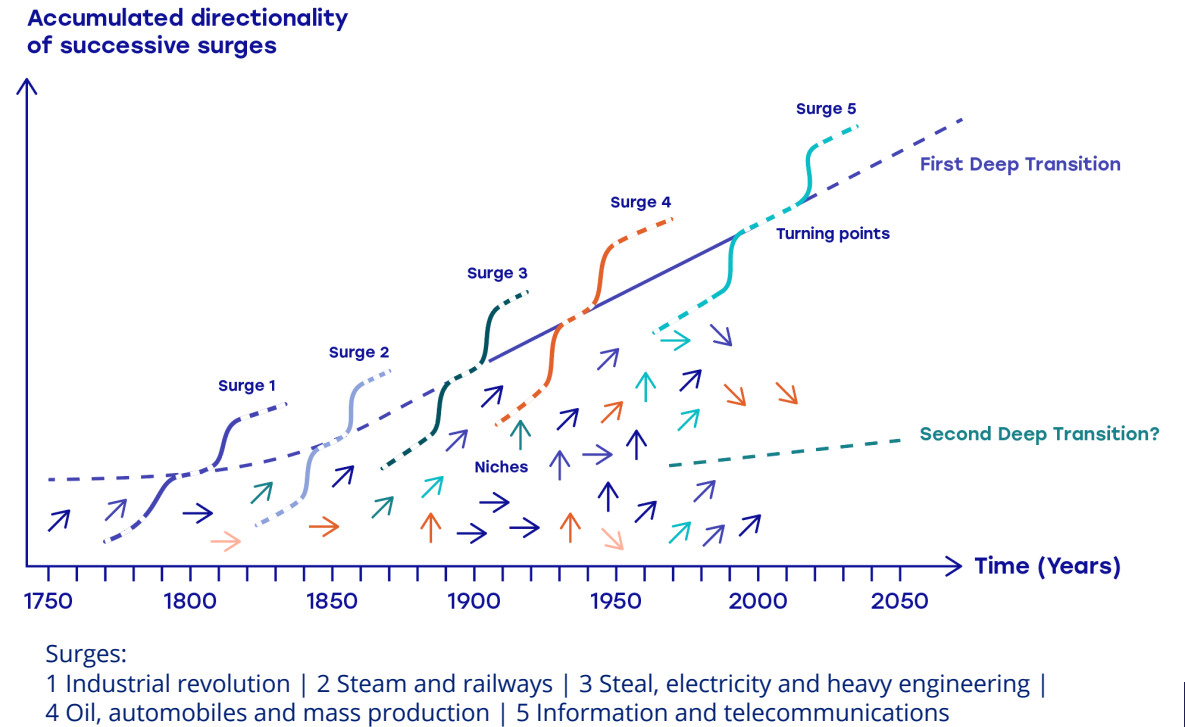


To bring about a Second Deep Transition, single system change is not enough. We need multiple system change.

The unsustainable systems of the First Deep Transition are strongly interconnected. Their underlying rules reinforce each other and form the backbone of everyday life. For instance, our energy system heavily relies on gas and coal; our mobility depends upon oil, and the food system uses nitrogen fertiliser produced with natural gas.

Changing one system in isolation will thus not bring about a Second Deep Transition. For a sustainability revolution to take root, a focus on transforming multiple systems is needed.

Deep Transitions thinking is geared towards multiple systems changes that can **challenge and disrupt current unsustainable systems and replace them with sustainable alternatives.**



Successive surges of development of the First Deep Transition, and possible emergence of Second Deep Transition

Our journey so far: the Deep Transitions project

The Deep Transitions project was an unprecedented trans-disciplinary research project that consisted of two phases:

DEEP ■ TRANSITIONS H I S T O R Y

From 2018 to 2020, An international team of historians, sustainability experts and transition scholars collaborated to learn how fundamental change on a global scale unfolded in the past. The resulting Deep Transitions framework provides a **blueprint for understanding how to shape change in the future.**

DEEP ■ TRANSITIONS F U T U R E S

From 2020 to 2022, building on the success of the history project, the research team collaborated with a Global Investors Panel in the Futures phase of the project. Their aim was to co-develop a new approach to investment, one which **targets transformation and multiple systems change.**

[More information & project video](#)

The Deep Transitions Global Investors Panel consists of 16 public and private investors from all over the world:



Kate Fox



Roberta Benedetti



Nick Abel



Katherine Ng



Jonathan Hausman



Dimple Sahni



Daan du Toit



Sanjoy Sanyal



Atanas Kolev



Dominic Burke



Audrey Desiderato



Lisa Jordan



Göran Marklund



Christopher Palmberg



Yuni Choi



Drew von Glahn

[More about the panellists](#)

The Deep Transitions Research Team is formed by a group of transitions scholars, economists, innovation experts, and professional staff supporting the project.



Prof. Johan Schot
Founder and
academic director



Prof. Ed Steinmueller
Project co-director



Susanne Keesman
Panel director and
project manager



Diana Velasco Malaver
Researcher



Laur Kanger
Researcher



Bipashyee Ghosh
Researcher



Caetano Penna
Researcher



Victoria Ward
Facilitator



Wendy Schulz
Researcher and
Facilitator



Jack Davies
Junior researcher



Jenny Witte
Communications



Pip Bolton
Project support



Nicky Wunderlich
Project support

Deep Transitions published a philosophy for investing in transformation.

The investment philosophy helps investors steer their investments towards **multiple system change**, transformation and, ultimately, the Second Deep Transition.

The philosophy argues **to go beyond compliance with ESG standards, impact aims and metrics**.

We promote investments that are geared towards the **long term**, can cope **with radical uncertainty**, and can **induce a Second Deep Transition**, rather than optimising the existing practices of the First Deep Transition.

[Download the investment philosophy](#)



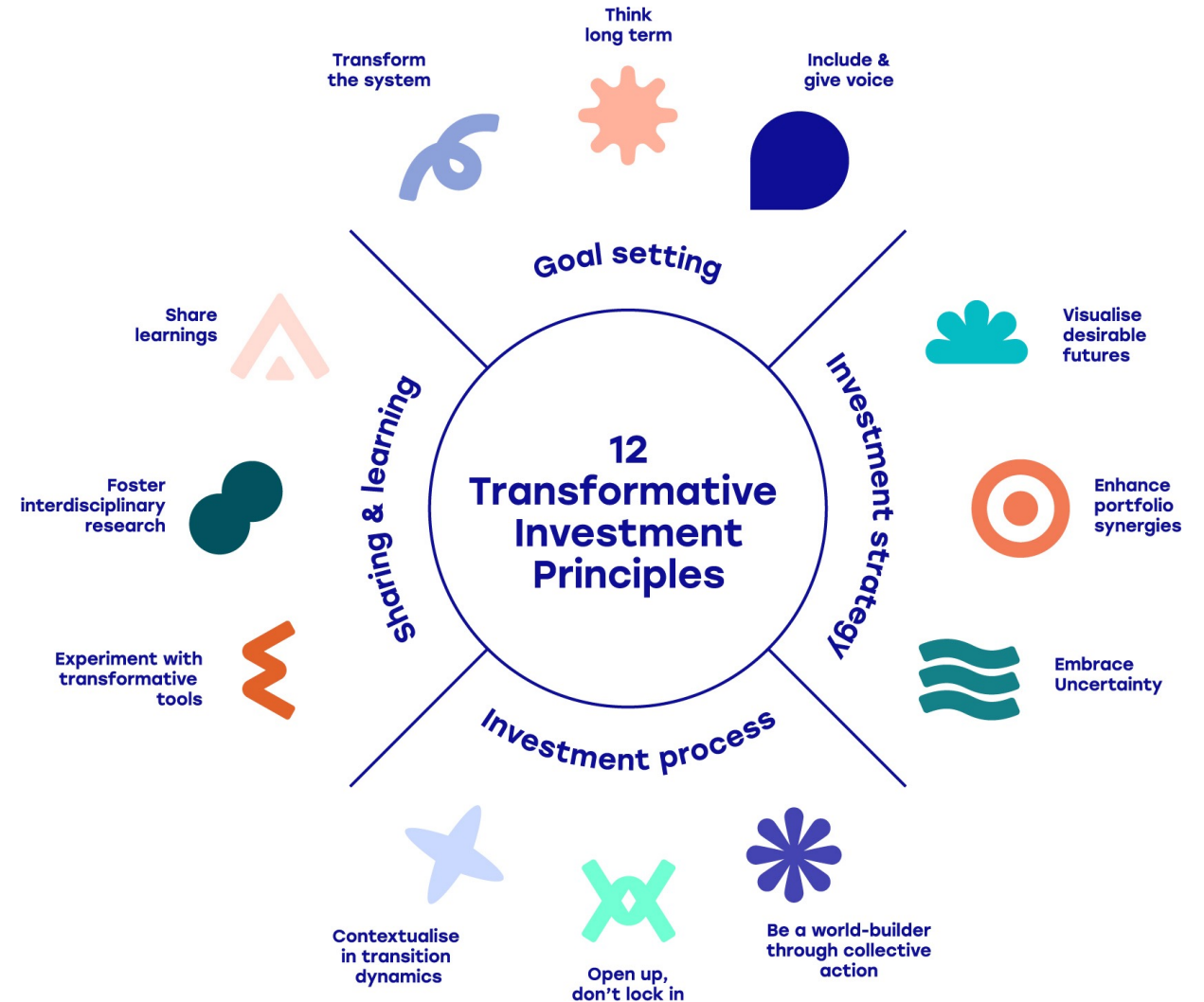
The investment philosophy presents 12 principles of transformative investment.

The principles are a shorthand designed to **aid investors in achieving systems change**. They are a catalyst for fresh thinking, dialogue and decision-making.

Their deployment within the investment practice has the potential to help **uncover (and even create) new investment opportunities** in overlooked areas with high transformative potential.

In the current context of ever-increasing uncertainty and frequency of shocks, these principles can also contribute to **shield investors from exposure to profound systemic risks**.

[More about the principles](#)



Rules of the current financial system

Fundamental rule: allocate investment capital to activities yielding the highest rate of return adjusted for measurable risk. This translates in four subrules:

- Maximise financial return (without taking into account externalities).
- Abide by fiduciary duty, seeking maximum growth of investor wealth (include ESG regulation).
- Manage quantifiable risk, as a result many risks are ignored.
- Focus on short-term returns (because they are more certain and easier to estimate).

Consequence: the potential of current sustainable investing strategies to address urgent social and environmental issues is severely limited.

Proposed new rules for a financial system for transformative investment

Allocate investment capital to a portfolio of activities/projects/companies that contribute to system change.

- Prioritise financial return from investing in system change (consider directionality of investment).
- Abide by an expanded definition of fiduciary duty, taking future shocks into account.
- Map unquantifiable systemic uncertainties, including broader repercussions and rebound effects.
- Maximise system impact with a long-term focus.

Enabling conditions for implementing new rules for transformative investment

- Multi-stakeholder collaborations such as, investment federations and other forms of collective action.
- Embrace the idea that investment is making a contribution to an ongoing transition process.
- Prepare to enlarge participatory basis of investing, working towards a Just Transition.
- Build demonstrators or experiments with scaling strategy, based in transformative theories of change.
- Support collaborations and demonstrators with a learning platform.
- Link grounding transformative investment practice in robust academic research on how transformations actual work.

It is now high-time we make a real step in
bringing about the Second Deep Transition.

We seek to unleash a mobilisation process for
mainstreaming the principles of
Transformative Investment.

To make this possible, we invite donors and
partners to enable the establishment of the
Deep Transitions Lab

The Deep Transition Lab

Putting transformative investment into practice

The lab aims to implement transformative investment as a successful investment strategy. To do so, the lab will engage in three core activities:



Experiments with our partners

Implement transformative investment in their organisations, helping them gain practical experience and accelerate the Second Deep Transition.



Research and analysis

Deepen the theoretical understanding of Deep Transitions and Transformative Investment. Develop new analytical tools to identify opportunities for systems change. Further develop the metrics, assessment frameworks and associated tools to apply Transformative Investment in practice.



Training and capacity-building

Deploying a programme for mutual learning, capacity building and training among and beyond partner organisations, including coaching, workshops, and an annual conference. Develop a digital infrastructure and embedded resource pack.



A partnership lasts for three years (or longer), during which a partner carries out at least one experiment together with researchers of the Lab. The following four types of experiments are possible:

Transformative investment

Assess the transformative potential of a prospective investment by creating a Transformative Theory of Change .



Setting the course

Transformative monitoring

Monitor the transformative impact of an investment or investment portfolio during its lifecycle following a Transformative Theory of Change



Monitoring the road

Transformative portfolio

Assess the transformative potential of existing investment portfolios or new funds to be established, leading to a Transformative Investment impact profile.



Portfolio strategy

Transformative bundle

Identify the investment landscape required to make transformative change possible and support the establishment of public/private partnerships and complementary actions needed.



Public-private action

The DT Lab will collaborate with the Transformative Innovation Policy Consortium (TIPC) to bridge the gap between public and private investment.



TIPC is a **global network of researchers, policymakers and funding agencies in 8 countries across three continents.**

TIPC members want to address the UN's Sustainable Development Goals. The consortium enables managers, policy makers and other actors to recognise, realise and evaluate opportunities that contribute to system transformation.

Main elements of the TIPC Programme



Policy experimentation is at the core of TIPC

TIPC executed a programme of policy experimentation with its partners, leading to a first tested model to incorporate system change and transformation in a policy-context.



Strong academic foundation in research

The 'Three Frames' paper by Schot and Steinmueller has been widely cited by a.o. the EU, the European Environment Agency, the International Labour Organisation and the WHO.



Global knowledge infrastructure & training

TIPC has provided training to 300+ policy makers to date. Its resource lab and coaching programme provide an actionable TIP-toolkit for policy-makers looking to implement TIPC principles.



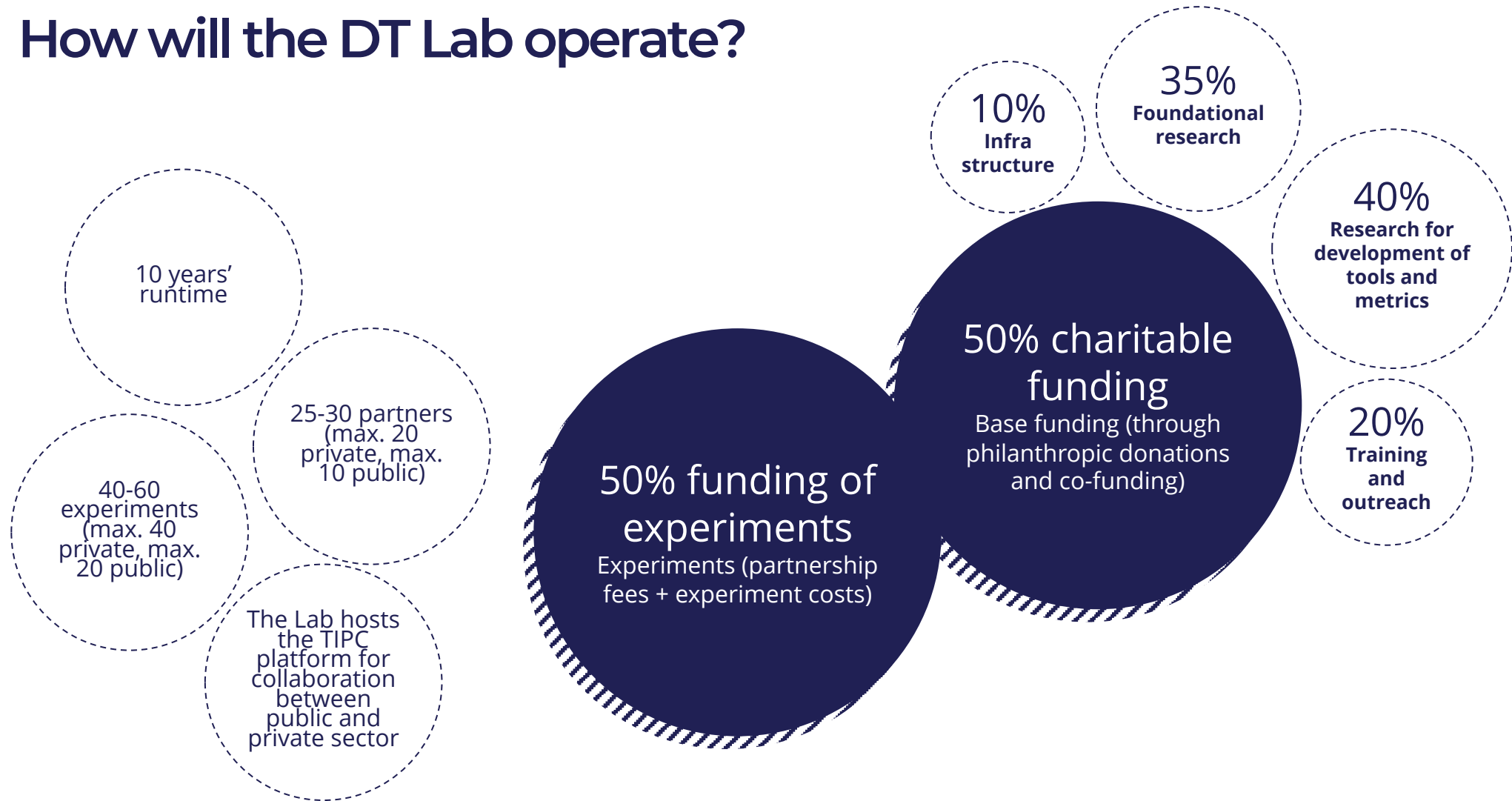
Regional hubs for TIP in local contexts

Regional hubs in Latin America, Africa and Europe support the implementation of TIP in local contexts by working directly with national, regional and local actors.

[Find out more about TIPC](#)

[Download the 'Three Frames' paper](#)

How will the DT Lab operate?



What makes the Deep Transitions Lab unique?

It is rooted in academic thinking about Deep Transitions Theory

The cutting-edge, academically grounded framework for targeting multiple-system change provides the depth and rigour needed to go beyond ESG and thematic investments

It builds synergies between the public and private sector

The Lab will function as a global centre of excellence for Transformative Investment. By engaging both public and private actors it will bring synergies to the table that leverage the potential of public policy



It makes multiple-system transformation actionable

The Deep Transitions Lab is the only initiative that provides the granularity of analysis and practicality of tools. Its experimentation programme will allow partners to apply Transformative Investment in their operational context.

It provides a global training centre for transformative investment

The Lab will be a point of reference for the interdisciplinary training of people in all career stages by offering them a unique and in-depth training in theories and tools of Transformative Investment. In addition, we will develop a global teaching programme for the next generation

In brief: why do we need the Deep Transitions Lab?

For donors



To further refine the Deep Transitions research methodology and its assessment tools through an experimental phase, focusing on maximising accessibility and applicability for practitioners in the finance industry.



To create connective tissue between investors and STI agencies and begin to crowd-in experimental capital



To develop practical experience, exemplary user cases and methods of operation for financing transformation, providing a springboard for replication.



To create and disseminate knowledge that is useful to the investment sector at large. The lab will thus build a network of first movers in the industry and creates momentum for a paradigm shift, accelerating the Second Deep Transition.

For partners



Provide the depth and rigour of academic research to back investment targeting system change, providing the tools of analysis, direct support and assessment required to effectively pursue it.



Participate in the co-creation of the resources platform for planning, executing, and evaluating projects or investment strategies that have transformative intent.



Be at the forefront of Transformative Investment by taking part in a global centre of excellence, also offering international connections to others similarly engaged across different parts of the investment and public innovation spaces.



Gain practical evidence of key transformative opportunities and risks affecting existing investment strategies and portfolios, (e.g. exposure to shocks, consistency with a defined desirable future, opportunities to stretch transformative potential, etc.) and ability to describe and report on transformative impact.

We'd like to invite you to become part of this initiative.

To find out how, please contact us at j.w.schot@uu.nl, s.j.keesman@uu.nl and c.u.daniels@sussex.ac.uk

www.transformativeinvestment.net
<https://deeptransitions.net>
<https://tipconsortium.net/tiah>
<https://tipconsortium.net>



Prof. Dr. Johan Schot

Founder of the Deep Transitions project and professor of sustainability transitions at Utrecht University Centre for Global Challenges



Roberta Benedetti del Rio

Co-chair of the Deep Transitions panel and a sustainability-focused investor working with, amongst others, Just Climate, a subsidiary of Generation Investment Management.



Susanne Keesman

Programme director for Deep Transitions at Utrecht University. Susanne has a strong track record of managing transdisciplinary research projects in fast-changing complex environments.



Dr. Diana Velasco Malaver

Lead of the experimentation programme of the DT Lab. Diana was previously director of research and innovation in Universidad del Rosario and Provost in Universidad de Ibagué, Colombia.