

Humanity and Impact Investing at the Crossroad: Personal Reflections and Call to Action

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Charly Kleissner in Alpbach. Photo credit: Die Presse.

Introduction

We are at the beginning of an unprecedented global transformation, where humanity has precious little time to figure out how to sustainably live on a planet with finite resources. Fundamental design flaws of our economic and financial systems - like the assumption of unlimited exponential growth on a finitely resourced planet - have been contributing to massive disruptions, as evidenced by the ongoing pandemic and the war in Ukraine.

In times of radical change, we need to continue to support and enhance the existing systems, while allowing the new system to emerge. A great example of this dynamic is the explosive growth of the ESG (environmental, social and governance) movement and the emergence of the deep impact movement. The former is improving the existing financial system, while the latter is birthing the new system. We need to do both, contrary to the opinion of many who are trapped in their own echo chambers!

Humanity is at a crossroad. The first road continues on the path of business as usual. This road cements existing power structures in place, does not create space for the deep impact economy to emerge, and will predictably lead to environmental and societal collapse. The second road actively prepares for major systemic changes, while making sure that the old system does not uncontrollably crash. It allows for the emergence of a regenerative financial and economic system serving humanity and the planet. This road is much more uncertain and unknown, yet filled with infinite possibilities. The choice is ours. I have chosen the second road.

I take this opportunity to reflect about the following two questions: How did we get to this crossroad? And where do we need to go from here? I end with a call to action.



Charly Kleissner ski touring in the Canadian Rockies. Photo credit: Pam MacEachern.

How did we get to this crossroad?

ESG is going mainstream: Global ESG assets are expected to grow from \$41T in 2022 to \$50T by 2025 [1]. Most ESG investments are motivated by attracting more capital, by competition, and by peer pressure [2]. Impact investing, on the other hand, is driven by intentionally achieving net positive impact. Even though impact investing assets - according to The Global Impact Investing Network (GIIN) - have grown from \$502B in 2019 to \$715B in 2020 [3], they represent less than 2% of ESG assets.

Make no mistake: ESG is better than non-ESG and has a place in any 100% impact portfolio that requires liquidity. But ESG is not sufficient to effectively deal with the big systemic issues of our times, like inequality, social injustice, poverty, ecosystem collapse and climate change. These issues are systemic in nature: highly complex, dynamic, and interdependent. To address them requires a different approach. Even if all the money in the world would move into ESG, these wicked problems would not be solved, they would actually get worse. Take the massive investments in climate change avoidance and mitigation as an example. For all the venture capital and private equity deals in this space, only the investors will reap the financial benefits, all the other stakeholders will not benefit from this opportunity, and inequality will significantly increase.

All financial product providers have been rushing into the ESG space – mostly without full transparency and without detailed impact reporting, delighted to discover a new way of maximizing their own profits without real concern for fixing the underpinning system design flaws, thereby creating a massive impact-washing bubble, that has yet to reach its peak. Regulators will have to play a big role in defining ESG standards and in forcing the financial industry to report verified impact. These types of regulations will move non-impactful ESG to ESG+, which will sit at the shallow side of the impact investing continuum. The EU is currently leading this regulatory push with its Sustainable Finance Disclosures Regulation [4].

While many of us have been working hard to improve ESG and to go deeper on the impact side, our systems are already breaking down, as systems do when they come under severe stress. Since our economic system makes it much more profitable to extract and burn fossil fuels than leaving them in the ground, it puts severe stress on our planet's biosphere, thereby causing run-away climate change. Since our financial system creates unprecedented inequality, it puts severe stress on our social fabric, thereby causing social upheaval and unrest. Unless we change the underlying design flaws of these systems, it will be impossible to reach a new equilibrium that sustains the

necessary biodiversity to allow close to 10 billion people to lead a purposeful and fulfilling life.

My wife Lisa and I started our impact journey a little over 20 years ago. During these years we have expanded from supporting social entrepreneurs and changing the financial system to also work on elevating humanity's consciousness and awareness, a prerequisite of actually changing these systems. We witnessed the birth of the impact investing movement and had the privilege to co-create and contribute to it through our family foundation (KL Felicitas Foundation [\[5\]](#)), and through our engagements in many inspiring efforts with many inspiring leaders. We were among the first to embrace 100% impact investing, we co-founded Toniic and its 100% Network, and I had the privilege to serve on ImpactAssets board pretty much from the very beginning – the last 5 years as their board chair; and I am thrilled to have recently handed the baton to Liesel Pritzker Simmons.

It was exciting and humbling to witness ImpactAssets' growth to more than \$2.2B in assets under management and 1,700+ customers by the end of 2021; to disbursing more than \$200M in grants during 2021; and to empowering ImpactAssets' clients to make nearly 1,000 private debt and equity investments since 2011 - nearly one investment every business day. In the last few years, ImpactAssets has become the preeminent partner for philanthropists to achieve maximum impact not only through giving, but also through impact investing – enabling substantial capital to be deployed in deep impact themes like racial & gender equity and climate change.

Three years ago, life threw me a significant curveball: I was diagnosed with a life-threatening form of lymphoma. Today I am grateful for the experience of fighting and fully recovering from that. I had to prepare for death, and practicing dying forced me to focus on what really matters: family, community, spirituality, and my life's purpose. It helped me go deeper in discovering and articulating my intentions, my personal Theory of Change and my deep impact vision [\[6\]](#).



Charly Kleissner and grandson, Keapo. Photo credit: Lisa Kleissner.

Where do we need to go from here?

We know what to do: We need to holistically apply principles like circularity, resiliency, regeneration, regionality, and social justice. But we seem to be paralyzed, lost, and confused. The question is: Why don't we do what needs to be done? A few superficial reasons are inertia, lack of courage, and fear of the unknown. But I believe the root cause is that our level of awareness and consciousness is too anthropocentric. Human brains are adept in convincing us, that we are somehow special. Not understanding and not feeling that we are part of nature, gives us permission to dominate and destroy nature and other sentient beings – ignorant of the fact that we are destroying ourselves. Having nature and the universe at the center has profound implications on many different levels, including changing our reductionist thinking to holistic thinking. We need to acknowledge that humanity is part of the evolutionary process, not outside of it. I have been calling an economy that addresses the root causes of systemic issues with an elevated consciousness the 'deep impact economy' [\[7\]](#) and the investment

methodology that goes along with that ‘deep impact investing’ – a far cry from the ESG movement today.

The pandemic and the war in Ukraine have demonstrably triggered an increase in awareness and consciousness. That is the good news. The challenge is, that most actions taken so far have only treated the symptoms of these disasters, and not their root causes. A couple of important questions need to be asked: First, do we need these types of disruptions in order to make incremental steps in awareness and consciousness, or could we accomplish this with much less pain? And secondly, will it take an even bigger disaster to jolt us into waking up to our evolutionary role on our beautiful planet – which is to be part of it, not somehow outside of it?

I am personally cautiously optimistic that the necessary changes have been emerging bottom-up: from tens of thousands of beautiful grassroots efforts; from millions of individuals who have taken responsibility for their own awakening, who understand that the impact of their lives is a direct reflection of their inner state-of-being and who understand that the answers to these questions lie within; and from thousands of communities who really care.

The potential for change is there, particularly with the very young generation. Now we need to create the conditions that enable it to happen. How do systems change? Very slowly at first, and then all at once. The same is true for consciousness change. It seems very slow at first, but ultimately it will happen quickly. System theorist Otto Scharmer calls this awareness-based system change. I am counting on the emergence of this step function in awareness, and am witnessing the beauty of its birth with much inner joy.

What are some of the necessary enablers for the new system, for successfully embarking on our journey on the second road?

Circles of 10-30 people are an archetypal form of human communication and are emerging everywhere. These circles enable deeper and more meaningful connections and relationships amongst their participants. At Toniic, we institutionalized Deep Impact Circles, where participants explore hard questions like: How are we contributing to inequality and social in-justice? How do we benefit from the existing system? How much is enough? Are we perpetuating extractive practices through what we call impact investments? How do we activate more blended, catalytic, and patient capital – including our own?

The Impact Management Project [\[8\]](#) has created one of the preeminent impact management methodologies. A group of impact investors is exploring how to expand this methodology to include deep impact investments, which are all awareness-based system change investments. They are proposing to use multiple system change frameworks to prove the systemic nature of these investments. One of these frameworks is Regenerative Economics [\[9\]](#), which is based on living systems science and principles, including indigenous wisdom.

In the words of John Fullerton: 'We need to change finance, not just finance change'. A financial system based on regenerative principles would look substantially different than the reductionist system we have today. It would actually be in service to humanity and the planet as opposed to just itself. Let me point out a couple of differences between an ESG/impact approach w.r.t. moving towards 'net zero' and a regenerative/deep impact approach. An ESG approach is all about reducing use of pesticides, reducing water pollution and decarbonization technologies, whereas regeneration is about 'net positive' or 'nature positive' where we revive, and bring life back to the soils and oceans, and empower people to thrive and flourish as an integral part of nature.

We need to fund a considerable research effort to develop the Post-Modern Portfolio Theory or Total Portfolio Theory, which will move us beyond the false dichotomy of market rate returns versus concessionary return. This research will analyze the relationship between impact risk & return and financial risk & return. We will have to collect massive open-source impact data-sets in order to enable this. Machine learning algorithms will use these datasets to compute the optimum impact portfolios – based on impact themes and expected financial & impact returns, constrained by financial & impact risks and liquidity needs.

Modern technologies like artificial intelligence and blockchain will need to be in service to the impact economy. Companies using these technologies will have to be driven by ethical charters, which provide full accountability and transparency regarding fundamental values, including such things as individual rights, privacy, non-discrimination and non-manipulation. Tokenization of impact, impact NFTs, Decentralized Autonomous Organisations (DAOs) and impact crowd funding platforms will move the power and governance structures from shareholders to stakeholders – including beneficiaries.

Call to Action

A lot of the necessary transformative work is already underway, but in very small pockets and many times invisible to, or suppressed by the mainstream. We need to give these efforts more visibility, more funding, and we need to massively accelerate and scale them – both bottom-up and top-down.

It is time for the deep impact community to get together and develop an additional impact investing category for investments, which are systemic, ecosystem centric, co-creative and decentralized in nature. This can be done by either defining and using an adjective like ‘deep’ to differentiate system change investments from ESG/regular impact investments, or by using a new term like ‘conscious investing’ or ‘regenerative investing’. Let’s start this conversation!

My daily reminders of my own impermanence and playing with my 9-month old grandson Keapo are powerful reminders about the urgency of actively co-inventing the new impact economy. I see deep impact investing not as an intellectual exercise, but as an expression of who I really am. I see deep impact investing not only as a result of my thoughts and my feelings, but as an expression of my soul. I am committed to contributing to bridge building, to creating the right environment for us to take the second road, which will lead us towards a regenerative future. Let us lead from the future as it emerges.

[1] <https://www.bloomberg.com/company/press/esg-may-surpass-41-trillion-assets-in-2022-but-not-without-challenges-finds-bloomberg-intelligence/>

[2] <https://www.gbm.hsbc.com/en-gb/feed/sustainability/esg-sentiment-survey>

[3] https://thegiin.org/assets/GIIN_2019%20Annual%20Impact%20Investor%20Survey_webfile.pdf

[4] https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/sustainability-related-disclosure-financial-services-sector_en

[5] www.klfelicitasfoundation.org

[6] See my personal Website www.charlykleissner.com

[7] Inspired by Arne Naess’ work on deep ecology: https://en.wikipedia.org/wiki/Deep_ecology

[8] www.impactmanagementproject.com

[9] www.capitalinstitute.org