

EXECUTIVE SUMMARY

Embracing complexity

Towards a shared understanding of funding systems change



Facilitation partners:

McKinsey
& Company



Significant financial resources are dedicated to solving humanity's most pressing problems. 22 of the largest philanthropic foundations worldwide provided more than USD 6.1 billion for development work in 2017; in that same year, total development assistance from public and private actors in the 30 members states of the OECD-Development Assistance Committee (DAC) amounted to USD 434 billion. However, solving these problems requires long-term support that goes beyond activity-based funding and approaches that tackle the root cause – i.e., approaches that aim to change systems. To make optimum use of the funds available, it is necessary to introduce the systems change approach to organizations involved in the sector and to share best practice insights.

This report is therefore a collaborative effort of funders, intermediaries, and systems change leaders who aim to send a signal to the social sector funding community – including philanthropists, foundations, impact investors, corporate donors, government agencies, and multilateral organizations – that current practices need to evolve to better support systems change leaders.

Systemic challenges require systemic answers, but currently the dominant funding practices are ill-suited to support them. Systems change leaders often struggle because current funding practices are often built to support short-term projects with clear, measurable results rather than collaborative, evolving approaches to create lasting change. 55 percent of the systems change leaders we surveyed disagreed when asked whether their funders provide sufficient support for systems change work.

Short funding horizons, restricted financial resources and funders' interference with initiatives pose major challenges. The majority of systems change approaches is expected to need more than five years of funder support to achieve their goals – but few funders commit for the long term. Moreover, financial support usually comes with many restrictions on how it can be used: 72 percent of the systems change leaders we surveyed reported receiving less than 25 percent unrestricted funding. Finally, funders seem to actively discourage innovative approaches: 87 percent of the systems change leaders reported that they had to adapt their initiatives to comply with funder requirements – 43 percent of all systems change leaders reported having to make major changes.

There are five principles and resulting practices that funders can adopt to better support systems change work. We distilled and validated these principles through on the existing literature on funding systems change, more than 60 interviews with funders, intermediaries, and systems change leaders, and a survey of over 110 systems change leaders. We offer concrete recommendations for how the five principles we propose can be put into practice.

- **Embrace a systems mindset** by being clear about the systems you want to change, incorporating systems change into your DNA, and actively looking for funding opportunities
- **Support evolving paths to systems change** by funding systems leaders with transformative visions of improved systems rather than projects, investing in learning and capability building and encouraging collaboration among systems change leaders
- **Work in true partnership** by acknowledging and working against power dynamics, providing support that fits systems change leaders' needs, and being mindful of their limited resources
- **Prepare for long-term engagement** by being realistic about the time it takes to achieve systems change, acknowledging that the path of the initiatives will change along the way and encouraging realistic ambitions
- **Collaborate with other stakeholders** by aligning with other funders, building networks for systems change leaders, and leaving the leading role to systems change leaders.

A report is not enough to change the system of funding. While we acknowledge that a report is certainly not enough to change the system of funding by itself, it is a first step of a cooperation between funders, intermediaries, and systems change leaders. What started with an enthusiastic acceptance of an opportunity to join a collaboration between Ashoka and McKinsey has become the foundation of a critical and larger initiative in shaping the field of systems change. We invite interested funders to join our discussion and share their experiences on how to fund systems change. Only together, we can reach the ambitious but urgently needed solutions for humanity's most pressing problems.

Link to full report

<https://www.mckinsey.de/publikationen/embracing-complexity>