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Designing Web3 Financial Innovations for Social Change

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Christina Madden
Jalen Gildersleeve

Executive Summary

Finance is one of the most powerful systems in the world. It can drive a community's economic growth, create jobs, and support the development of housing and other crucial infrastructure. It can enable new and innovative sectors — such as renewable energy — to flourish, and support communities, organizations, and households through crises or otherwise disruptive transitions. Finance makes it possible for individuals to start or grow a business, purchase a home, pay for higher education or vocational training, and achieve independence, stability, and security.

Yet the power within the financial system is controlled by a relative few. Of the US\$69 trillion in assets under management in the US investment industry, [98.7% is managed by firms owned by white males](#).¹ Important voices — those with expertise on social issues and the inner workings of local communities — are kept out because of bias, discrimination, and complex processes that fail to value their needs and input. As a result, billions of people around the world lack access to capital that is appropriate to their circumstances, and investments are made that reinforce injustices while causing unintended consequences that harm people, extract from communities, and devastate our planet.

In recent years, a variety of financial innovations enabled by **Web3** and blockchain technology have emerged as transformative forces, aiming to challenge the status quo and address the systemic inequities ingrained in traditional financial systems. Web3 can increase access to capital, democratize financial design and decision-making, and empower communities to pool assets and collectively determine how to manage and invest their resources. The core tenet of these innovations — decentralization, or the removal of intermediaries and centralized power structures — enables communities to come together in new ways and to decide what they value and how value creation is rewarded and incentivized. In short, Web3 has the potential to transform community finance — and the broader financial system — as we know it.

This paper aims to explore that potential and the possibilities that exist for Web3 to radically shift who holds power in the design of financial innovations, with emphasis on community finance and related themes. It examines existing and hypothetical applications of Web3 for community finance; analyzes the power dynamics at play within Web3 financial innovations; outlines specific strategies for addressing those power dynamics, with examples of transformative projects underway; and offers recommendations for potential next steps.

1 Morris, D. Z. (2020, June 19). Investment management is overwhelmingly dominated by white men—and it's costing you money. *Fortune*. <https://fortune.com/2020/06/19/investment-management-diversity-hedge-funds-mutual-funds-real-estate-pe-private-equity/>

What is Web3?

Web3 refers to the next generation of internet technology that aims to reshape how people interact, collaborate, and transact online. In simple terms, it represents a decentralized vision of the internet where individuals maintain control and ownership of their digital lives, in theory enabling them to participate in and create a more democratic and inclusive online ecosystem.

The first iteration of the internet, or Web1, was primarily made up of static websites that served a singular purpose of conveying information. Web2, by contrast, emerged with the creation of e-commerce, social media networks, and other user-generated content-sharing platforms. Web2 allows for greater interaction among users, but ownership and control of the ecosystem is largely centralized on corporate platforms that hold and control user data and content.

Web3 leverages blockchain technology (a decentralized digital record-keeping system which will be explained in more detail later in the report) to create a more transparent, secure method of handling transactions and information exchange that prioritizes data protection and user privacy. This decentralized infrastructure enables direct peer-to-peer interactions without the need for corporate or government intermediaries.



The paper is based on the premise that a more just future will not be achieved through innovation alone but relies upon a dedicated commitment to recognizing and addressing how power operates in the existing financial system and in the design of new solutions.

The Transformative Potential of Web3 for Community Finance

Communities around the world — both physical communities and those that have come together digitally — are utilizing Web3 every day to tackle social and environmental challenges. Web3 is enabling previously unbanked populations to access financial services, helping to finance the Sustainable Development Goals, incentivizing climate action by assigning value to ecological health, and supporting communities to pool resources or raise funding to invest in affordable housing, small-scale agriculture, and renewable energy.^{2 3 4}

Web3 innovations largely rely upon its decentralized nature, built-in transparency, and ability to tokenize assets. Decentralization removes the need for traditional legal and financial intermediaries, along with the gate keepers that determine who has the power to design and organize financial products and investment vehicles. The secure and immutable nature of **blockchain** records ensures that financial transactions and data are visible to all participants, increasing transparency and accountability and reducing the possibility of fraud or manipulation. Tokenization, or the conversion of assets into digital tokens on the blockchain, unlocks the potential for fractional ownership of assets, easier access to liquidity, and more efficient fundraising mechanisms, as well as the ability to assign value to and offer compensation for participation, intellectual property, and other contributions to projects or broader economic systems.

Taken together, these applications can revolutionize the traditional power structures within finance and investments, foster inclusion, democratize access and decision-making, and leverage the power of communities to determine how their resources should be invested.

What is blockchain?

Blockchain is an encrypted digital database that enables information to be shared transparently and securely. Blockchain acts like a digital ledger: data on each exchange or transaction is stored in a series of connected blocks, which are distributed among a network of nodes that participate in the verification and validation of the information on each block. The verification process relies upon consensus mechanisms, whereby all network participants must agree on the status of a dataset in order for it to be added to the chain. While some blockchain applications utilize a verification process known as Proof of Work (whereby nodes compete to be the first to verify) that has been criticized for its excessive use of energy, others utilize a Proof of Stake mechanism (whereby a single node is randomly selected to validate the next block on the chain), which is said to be up to 99.95% more energy efficient.⁵

Changes to data do not overwrite old blocks. Instead, they are added to the chain as new blocks. As such, all changes can be monitored by the entire network. The network also has the possibility to reject any changes. This, in theory, removes the possibility of double entry, fraud, manipulation, or alteration of data.

Blockchains may operate publicly, privately, or with select permissions. In a public blockchain, anyone can become a node and participate in the process of validating and verifying data. Public blockchains do not rely on a central authority (for instance, a bank, a corporation, or a government agency) to manage the transfer of data or assets. The technology brings greater trust and transparency to the exchange of data and assets, allowing people to securely track transactions, verify information, and engage in reliable online interactions. Blockchain also reduces the time and costs associated with typical transactions because it removes the need for third party intermediaries, paperwork, and other forms of overhead.

While blockchain's original purpose was to enable the creation of digital currency — or cryptocurrency — outside the centralized financial system, the technology now has wide-sweeping applications across the public, private, and social sectors. Among other use cases, blockchain is being employed to coordinate and deliver humanitarian aid; to crowdfund donations and issue grants; and to track products throughout their entire supply chains so that authenticity, sustainability, and/or fair and ethical production practices may be verified.^{6 7}

2 Kiva's next frontier: Kiva Protocol | Kiva. (n.d.). Kiva. <https://www.kiva.org/blog/kivas-next-frontier-kiva-protocol>

3 Uzsoki, D., & Guerdat, P. (2019). [Impact Tokens: A blockchain-based solution for impact investing](#). International Institute for Sustainable Development.

4 Khodai, E. (2023). Web3 for climate action | Builder interviews. Toucan Protocol. <https://blog.toucan.earth/web3-accelerate-climate-action/>

5 Ellison, J. (2022, February 22). What is ReFi? Part I — A tour through the climate crypto rabbit hole. Retrieved June 22, 2023, from https://je.mirror.xyz/S-dpms92h-w6aiacUHoL3f_iAnLVDvbEUOXw7wpY7JaU

6 United Nations. (2022, December 22). UNHCR launches pilot Cash-Based Intervention Using Blockchain Technology for Humanitarian Payments to People Displaced and Impacted by the War in Ukraine [Press release]. <https://ukraine.un.org/en/211593-unhcr-launches-pilot-cash-based-intervention-using-blockchain-technology-humanitarian>

7 How Fishcoin is using blockchain to combat seafood fraud. Freethink. <https://www.freethink.com/sponsored/fishcoin>

Analyzing Power in Web3 Financial Innovations

Unlocking the transformative potential of Web3 requires an understanding of how power operates so that solutions can be intentionally designed that address the existing power dynamics that drive inequality and reinforce injustices. Utilizing a framework developed by Criterion Institute, in collaboration with government branches, investment fund managers, NGOs, and community organizations, the paper analyzes the potential for Web3 to address power dynamics inherent within traditional investment processes. The framework identifies seven power dynamics: knowledge, access, decision-making, timing, transparency, risk sharing, and alignment of incentives.

While Web3 financial innovations have the potential to address inequities and injustices in the traditional financial system, the technology on its own will not transform the status quo. Intentional design is crucial to ensure that Web3 innovations are shifting who holds power in investments, whose voices are included in design and decision-making processes, and whose metrics define what successful outcomes would look like.

Strategies for Designing Web3 Investments that Transform Power Dynamics

This section discusses five social change strategies that can be implemented using Web3 technologies to transform the financial system and address power dynamics in investments.

The first strategy involves channeling investment capital to enterprises or opportunities that promote social change. It explores the ways in which Web3 technologies facilitate crowdfunding and capital distribution mechanisms, increasing access to investment opportunities and allowing communities to have greater control over where funding is directed.

The second strategy focuses on influencing the benchmarks used to measure investment success. By redefining success criteria, investments can be evaluated based on their contribution to community revitalization or environmental protection, as opposed to profit or growth at all costs. Within Web3, impact tokens are being utilized to facilitate transparency in how social impact is measured and monitored, enabling investors to make more informed decisions about the social and environmental impacts of their investments.

The third strategy aims to change how value is assigned in finance by introducing new data or eliminating biases in data assessment. Blockchain technology provides a decentralized and transparent platform for collecting and verifying data, allowing for a more accurate analysis of risks and opportunities. This strategy looks at Web3 initiatives like decentralized lending platforms that consider additional data points beyond traditional credit history, empowering individuals without formal credit records to be seen as “credit worthy” and thus to access financing.

The fourth strategy seeks to shift power dynamics in investment relationships by changing the structure and terms of investments. Web3 is revolutionizing how communities design and engage in participatory governance structures. The strategy examines how community investment funds can utilize the technology to create governance and voting structures that equitably distribute power among investors, investees, and impacted communities.

The fifth strategy focuses on expanding whose expertise is trusted and what processes are considered valid in investment decision-making. It challenges the existing power structures by recognizing the value of different forms of knowledge and experience as well as alternative approaches to financial design and decision-making. Web3 technologies provide opportunities to decentralize investment processes away from traditional power holders, thereby enabling a wider range of stakeholders to have say in investment decision-making.

Overall, these strategies leverage Web3 technologies to transform how power operates in financial systems and can demonstrate a commitment to inclusion, accountability, and integrity as well the will to act to disrupt harmful power dynamics.

Opportunities and Next Steps

Social change organizations are uniquely positioned to envision community-centered Web3 applications and shape the trajectory of this transformative technology. By engaging now, they can help ensure that Web3 is harnessed to benefit communities and fundamentally shift harmful power dynamics at play within the traditional finance and investment landscape. The recommendations captured in this section include: designing standards for Web3 community investments to ensure the technology is harnessed for the best possible social outcomes and does not unintentionally reinforce existing injustices and inequalities; designing a community-owned and governed investment fund powered by blockchain technology, demonstrating what is possible and who has the power to architect Web3 solutions; hosting a Hackathon that brings together diverse community members to design Web3 enabled solutions to community issues, fostering cross-sector collaboration and innovative partnerships; and issuing grants for civil society to experiment with Web3 for community finance.

Conclusion

Web3 is advancing at an ever-accelerating pace. With that comes tremendous potential for the technology to support the development of new financial vehicles, to solve social and environmental issues, and to help create a more just and equitable world. Fully realizing that potential requires social change organizations to meaningfully engage in the space, bringing their knowledge and experience to the design of new solutions. By actively participating in the development and design of Web3 financial innovations, social change organizations can shape the trajectory of the technology, ensure solutions being developed have a positive and lasting impact on their communities, and demonstrate the different kinds of actors that are able to drive innovation in this space.

Acknowledgements

This report is supported by the Menzies Foundation.

It builds upon Criterion Institute's more than two decades of work to radically expand who sees themselves as having the power to influence financial systems and to play a role in designing new interventions. It follows the publication of "Community-Centered Blended Finance: Towards a Transformative Approach," also supported by the Menzies Foundation and authored by Criterion's Arianna Muirow, Jinita Prasad, and Pranay Samson. It draws on the publication's discussion of regenerative finance and the work the authors have done to document community centered approaches to financial design and decision-making.

In addition, this report utilizes Criterion's Framework for Analyzing Power in Investments, developed and iterated over the past several years in collaboration with key branches of the Australian and Canadian governments, investment fund managers, and a diverse set of civil society organizations. The report also utilizes Criterion's Five Strategies for Using Finance as a Tool for Social Change, the methodology that underpins Criterion's TOOLKIT workshops and the publication series, A Blueprint on Using Finance as a Tool for Social Change.

About Criterion Institute

Criterion Institute is a nonprofit think tank dedicated to expanding what is seen as possible for using finance as a tool for social change. Criterion has spent the past two decades working with investors, governments, and civil society organizations to design financial solutions to advance social justice, gender equality, and economic development goals. Our work is fundamentally about challenging and changing the power dynamics inherent in using finance for social change. We seek to transform whose voices are heard, whose expertise is valued, and whose metrics define success. We work to radically expand who sees themselves as having the power to influence financial systems and to play a role in designing new interventions.

About the Menzies Foundation

Inspired by the legacy of Sir Robert Menzies, the non-partisan Menzies Foundation was established in 1979 to create opportunities to support the next generation of Australian leaders. Sir Robert Menzies, Australia's longest serving Prime Minister, embodied many of the leadership qualities that remain important today. Integrity, purpose, strong values, a regard for all Australians and an abiding commitment to service and the community. In May 2018, in celebration of the 40-year Anniversary, the Foundation honored past achievements, unveiled a catalytic strategy to address the pressing leadership challenges of our time and reaffirmed our commitment to raising the profile and importance of 'outstanding' leadership. Today the Menzies Foundation acts as a catalyst change agent focusing on supporting a leadership movement that encourages Australians to reflect on their purpose, build their leadership capability and contribute to the 'greater good.'

The Transformative Potential of Web3 for Community Finance

Envision the launch of an investment fund designed by a group of community-based organizations with the explicit purpose of strengthening the local ecosystem and fostering a resilient, regenerative local economy. The fund was designed by the community it seeks to serve, with input from a diverse cross-sector of local leaders who share their wisdom, experiences, needs, and assets. And while the fund is able to raise capital from global supporters, the fund is 100% governed by the local community.

Collectively, the community has designed a crowd-funding platform that enables resources to be pooled from around the world, with no minimum investment. They have created and codified equitable eligibility requirements that enable organizations of all sizes to apply for loans, transparent application processes without time-consuming and complex paperwork, due diligence processes that rely on community trust rather than prior credit histories, and rapid response mechanisms that enable eligible organizations selected to immediately receive investment capital. Decision-making authority is reserved for members of the physical community, and — rather than being based on one's financial stake in the fund — is determined based on contributions of time and expertise. Those who support the fund from afar are rewarded with a return on their investments as well as access to an online community where they can join events, learn from the experiences and impact of the fund, and foster meaningful relationships with the community.

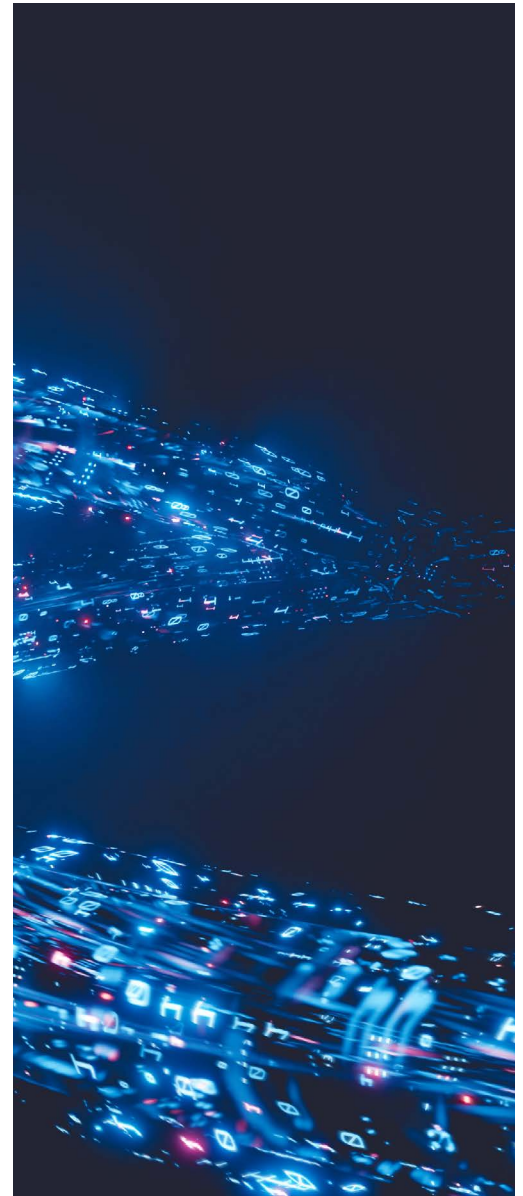
The fund invests in artisans who are preserving local traditions through their crafts, small-scale agricultural co-ops comprised of farmers who support one another's crop production during seasonal changes and unexpected market fluctuations, land trusts established to conserve the community's natural resources, and local manufacturers that can guarantee their supply chains are free of exploitation and manipulation.

Because it has engaged community leaders from the start, the fund is aware of potential unintended consequences, and has set up monitoring and evaluation mechanisms whereby activities found to be harmful to the community can be halted until remedial action is taken. The fund monitors for natural disasters, such as wildfires or floods induced by climate change, and is set up to inject additional capital in the form of crisis grants to those investees who are most affected.

Now imagine the investment fund is a **decentralized autonomous organizations (DAO)** — a form of blockchain enabled co-op owned and governed by its members. The capabilities outlined above are made possible by Web3, a new evolution of the internet, grounded in principles of transparency and user-centric governance, and they are already being put into practice by a diverse set of physical and digital communities around the globe.

What is a decentralized autonomous organization?

A decentralized autonomous organization (DAO) is a digital community that runs on its own without relying on a central authority, such as a government or a corporate board. Power is shared among members of the DAO, and the members themselves can determine how decision-making authority is delegated. DAOs utilize blockchain-enabled tools, such as tokens and smart contracts, to create a more equitable and transparent system that facilitates a community in working together to achieve common goals, like supporting projects or making decisions that benefit the whole community.



Web3 holds immense potential for transforming community finance — and the broader financial system — as we know it.

Already it has been used to enable previously unbanked populations to access financial services, to support financing the Sustainable Development Goals, to incentivize climate action by assigning value to ecological health, and to support communities to raise funding or pool resources to invest in affordable housing, small-scale agriculture, and renewable energy. The technology seems to unlock near limitless possibilities for utilizing finance as a tool for social change.^{8 9 10}

Innovations within Web3 largely rely upon its decentralized nature, built-in transparency, and tokenization of assets. Decentralization removes the need for traditional legal and financial intermediaries, along with the gate keepers that determine who has the power to design and organize financial products and investment vehicles. The secure and immutable nature of blockchain records ensures that financial transactions and data are visible to all participants, increasing transparency and accountability and reducing the possibility of fraud or manipulation. Tokenization, or the conversion of assets into digital tokens on the blockchain, unlocks the potential for fractional ownership of assets, easier access to liquidity, and more efficient fundraising mechanisms, as well as the ability to assign value to and offer compensation for participation, intellectual property, and other contributions to projects or broader economic systems.

Taken together, these applications can revolutionize the traditional power structures within finance and investments, foster inclusion, democratize access and decision-making, and leverage the power of communities to determine how their resources should be invested. Web3's most ardent supporters believe it is the key to coordinating and rewarding meaningful contributions to the creation and maintenance of public goods and to building and sustaining economies that are grounded in regeneration and abundance. It has led to a vast number of predictions that DAOs will transform how communities organize, engage, and determine how to utilize their resources.

The sections that follow outline a framework for analyzing power in the application of Web3 technologies to investments, explore strategies for using Web3 to address how power operates in finance, and offer recommendations for how social change organizations can effectively engage in the space, all with the goal of harnessing Web3 to enhance community financing initiatives while radically transforming who holds power within the broader financial system.

“New technologies can help civil society make better use of the abundance of resources it possesses. Additionally, by embracing digital innovations, [civil society organizations] can establish new and inclusive alliances and enhance their impact. Organizations are increasingly combining online and offline activism and applying technologies like blockchain to contribute to sustainable development.”

-Joining Forces, Sharing Power: Civil society collaborations for the future

<https://www.partos.nl/wp-content/uploads/2021/05/Joining-forces-sharing-power.pdf>

8 See footnote 5.

9 See footnote 6.

10 See footnote 7.

Analyzing Power in Web3 Financial Innovations

A key to unlocking the transformative potential of Web3 lies in the ability to recognize and understand the underlying power dynamics so that solutions can be intentionally designed that effectively shift harmful dynamics to those that are more equitable.

Over the past several years, Criterion has been creating and iterating a framework to support investors in analyzing and addressing how power dynamics operate within their processes. The framework was developed in collaboration with key branches of the Australian and Canadian governments, as well as investment fund managers, and a diverse set of NGOs and community organizations.

Criterion's framework consists of seven identified power dynamics at play within investment processes:

1. **Knowledge:** Whose knowledge is valued?
2. **Access:** Who is seen as 'worthy' of access to capital and resources?
3. **Decision Making:** Who gets to decide across the process?
4. **Timing:** Whose timeframe matters?
5. **Transparency:** Who gets to know what, when?
6. **Risk Sharing:** Whose risk is mitigated?
7. **Alignment of Incentives:** Who is incentivized to do what?

The framework recognizes that the power dynamics at play within finance can be transformed, from a dynamic in which the investors tend to have power over the investee and other members of the ecosystem to one that is more equitable. It can be applied to Web3 financial innovations to guide how investors engage and value the knowledge and lived experience of their investees as well as that of social issue experts and the communities that may be impacted by the investment. It can shape investments to enable entrepreneurs and their communities to flourish.

Knowledge

Within financial design processes, expertise on finance is often valued above expertise on social issues or local context, even within fields like impact investing that are explicitly about using finance as a tool for social change. Yet the knowledge and expertise held by community-based organizations and other civil society organizations is crucial to designing financial solutions. Community-based organizations have local knowledge of the populations they serve, evidence of and research on the root causes of the issues affecting those constituents, and data sets that reveal patterns of lived experience. This contextualized knowledge of communities is crucial to ensuring initiatives that use finance as a tool for social change are ultimately workable for and have a positive impact on end users, appropriately value and utilize community assets, and avoid unintended consequences.

DAOs can foster a culture of collaboration and respect for different forms of expertise in the way they structure their community engagement and leadership, and how they integrate open-source information and peer-to-peer exchanges into their platforms and processes. DAOs can also connect virtual communities — where technical and financial knowhow may be more prominent — to physical communities with local, contextualized knowledge of social issues, by fostering partnerships with community-based organizations. Collaborative workshops, town hall meetings, or community outreach initiatives can be organized to engage community members and ensure that they are meaningfully engaged in the design, implementation, and monitoring of the investment DAO.



Access

Access to traditional investment opportunities is often reserved for those with the most established track records or existing access to financial networks. Individuals seeking loans are often required to demonstrate their credit history or provide collateral, which can disadvantage those without a formal or established financial background. Similarly, for entrepreneurs seeking venture capital, investors often rely upon personal referrals to source deals and establish trust, excluding potential investees who lack the “right” connections. This bias extends to emerging fund managers who face a Catch-22 situation as they try to bring diverse and innovative perspectives on underserved markets often overlooked by more traditional fund managers: investors demand proof of a track record, yet without investments, they are unable to build one.

Web3 tools have the potential to democratize access and lower the barriers to entry to finance and investment. For instance, tokenization can facilitate the fractional ownership of assets, allowing individuals with limited resources to acquire and trade digital tokens representing a share of the asset. Land, for instance, can be tokenized, enabling members of a community to purchase shares in the land which could be utilized for a community farm or other business activity, or preserved in a community land trust based on the community’s needs and desires.

While traditional finance also offers mechanisms for fractionalization of assets, Web3 mechanisms are more globally accessible, efficient, and secure. The decentralized nature of blockchain technology removes reliance on centralized intermediaries and geographical restrictions. With blockchain, transactions and data are stored on a distributed network of computers worldwide, allowing anyone with internet access — including those without access to a traditional bank account — to participate and interact with the network. This facilitates cross-border transactions, fosters financial inclusion, and opens opportunities for individuals and businesses around the globe to engage in financial activities such as payments, investments, and asset transfers.

Decision-making

Capital holders typically monopolize financial design and decision-making processes without sharing control with affected communities. This concentration of power can result in investment decisions that prioritize short-term gains for the few at the expense of shared prosperity and long-term sustainability. It can perpetuate systemic biases, overlook the needs and perspectives of marginalized groups, and cause risks and opportunities to be undervalued or overlooked entirely.

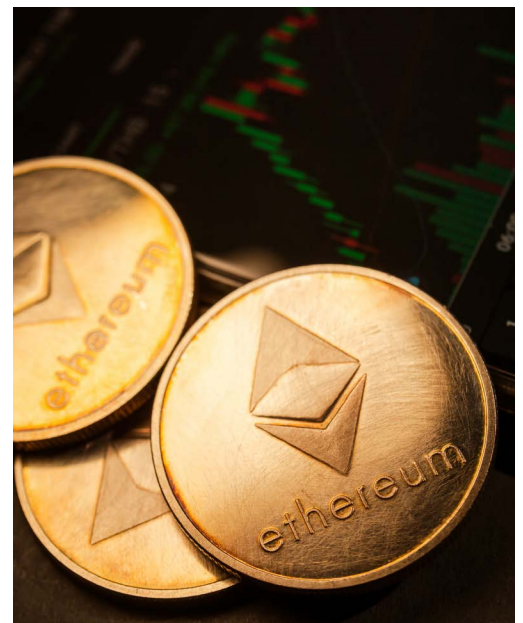
What are tokens?

A token is a digital representation of a value or asset, typically built on a blockchain platform. It serves as a unit of value within a specific ecosystem, enabling transactions, incentivizing participation, and representing ownership rights.

An impact token is a digital token that leverages blockchain technology and smart contracts to represent and track specific social or environmental impacts. These tokens are designed to quantify and incentivize actions that contribute to positive outcomes, such as reducing carbon emissions, supporting sustainable initiatives, or fostering social development.

The underlying technology enables transparent and immutable record-keeping on a decentralized blockchain, ensuring the integrity and traceability of impact data. Smart contracts automate the issuance, transfer, and validation of impact tokens based on predefined impact criteria or milestones. This technology allows for seamless integration with decentralized finance (DeFi) platforms, enabling stakeholders to engage in activities like staking, voting, or receiving rewards in alignment with impact objectives.

The process of converting real-world assets, such as property, art, or loyalty points, into digital tokens is called “tokenization.” By tokenizing assets, their value becomes divisible, transferable, and programmable, unlocking new possibilities for liquidity, fractional ownership, and efficient exchange. Tokenization promotes accessibility, enables tracing of assets, facilitates peer-to-peer transactions, and fosters innovative business models in a variety of sectors.



The distribution of **tokens** can be intentionally designed to ensure the expertise of investors, entrepreneurs, impacted communities, and other stakeholders is being valued equitably in the DAO's decision-making processes. For instance, instead of distributing voting rights via a token sale, tokens can be given to some or all stakeholders in exchange for their contributions of knowledge, data sets, or active participation in the DAO. Tokens can appreciate in value over time based on the performance of the portfolio of investments or future rounds of token sales, whereby early participants would be compensated monetarily for their engagement.

Timing

Investors often have a luxury of time compared to capital recipients that must continue business operations throughout a fundraising process. A protracted fundraising process can strain the financial resources of an entrepreneur or small business, affecting their ability to sustain and scale their business effectively. This can also hinder their ability to seize timely opportunities, expand operations, or launch new products and services, costing them their competitive advantage.

Because Web3 is decentralized, thereby bypassing traditional financial intermediaries, borrowing and lending processes can often be carried out more efficiently. Entrepreneurs have access to alternative fundraising mechanisms such as token sales which, similar to crowdfunding, can reduce the reliance on a formalized fundraising process from a traditional investor.

Decentralized lending platforms can also offer more streamlined processes, faster approval times, and reduced paperwork, enabling entrepreneurs to secure funding in a shorter timeframe. DAOs can design application platforms with smart contracts — self-executing contracts automate processes based on predefined rules — that define and make transparent the fund's eligibility criteria, required documentation for applicants, and evaluation parameters. Smart contracts can also automate the verification of applicants' credentials, reducing manual verification time and potential delays.

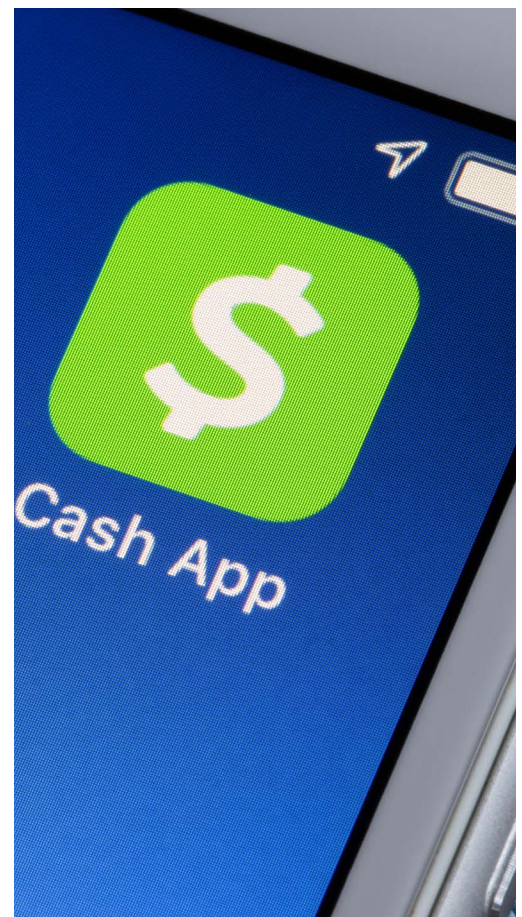
In designing application processes using Web3 technology, DAOs should be intentional about which criteria they pre-define, creating a framework that offers clear guidelines and efficiency while also being flexible and adaptable to the needs, circumstances, and ideas of entrepreneurs.

Transparency

Within a financial transaction, information tends to flow much more heavily towards capital holders than recipients. This asymmetry of information creates a power imbalance, whereby capital holders possess greater knowledge and therefore greater control of

What is decentralized finance?

Decentralized finance, often referred to as DeFi, utilizes blockchain technology to create an open, transparent financial system that does not rely on intermediaries. Decentralized finance challenges the traditional financial system by removing the need for banks and brokers, instead facilitating direct peer-to-peer transactions. In doing so, it eliminates the transaction fees charged by these actors and enables funds to be transferred nearly instantaneously.



negotiation and decision-making processes, while investees and other stakeholders are placed at a disadvantage. This dynamic can perpetuate existing inequalities, hinder equitable resource allocation, and limit the ability of entrepreneurs to assert their needs and preferences in deal terms.

Blockchain technology provides automatic transparency and traceability of transactions, meaning all investment-related information, including the terms, conditions, and outcomes, can be recorded and made accessible to all stakeholders. This ensures all parties have timely and transparent disclosure of information about the fund's activities, investments, and performance, including regular updates and insights on the fund's decision-making processes, portfolio composition, capital allocations, and other relevant metrics. Blockchain's immutability further ensures that the recorded information cannot be altered or manipulated, enhancing trust and accountability in the investment ecosystem.

Risk-sharing

Understanding investor risk often takes precedence above all other risks in due diligence processes, with considerably fewer resources invested toward assessing, analyzing, and mitigating risks to entrepreneurs, end users, and other stakeholders. This has far-reaching implications for both social outcomes and financial outcomes. By neglecting to assess the risks faced by end users of an investment, such as accessibility, safety, usability, or affordability, there is a risk of investing in products or services that do not meet the needs of the intended beneficiaries and are therefore unusable and, ultimately, unprofitable. This not only undermines social impact but also hampers the financial success of investments.

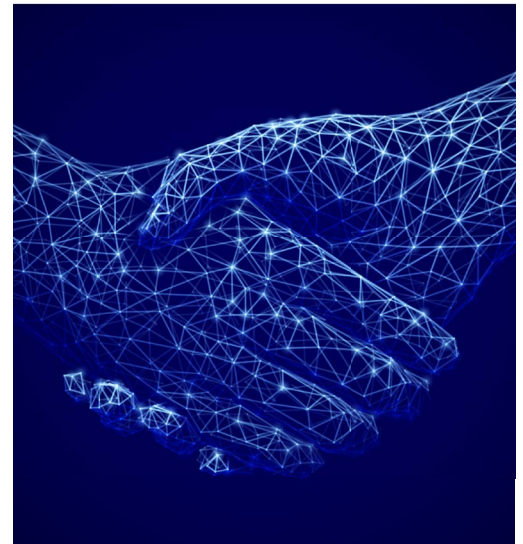
By utilizing smart contracts, enabled by blockchain technology, Web3 financial innovations have the potential to transform how risk is shared among investors, investees, end users, and the broader community by introducing more inclusive and transparent approaches to valuing, mitigating, and preventing risk. By leveraging smart contracts, risks can be accurately defined, assessed, and shared among stakeholders, ensuring fair and transparent allocation of responsibilities and rewards.

Smart contracts, for instance, can be programmed with insight from impacted communities to automatically respond to environmental risks by triggering immediate and proactive measures to prevent harm and protect communities. This might entail shutting down a factory that is discovered to be polluting the local air or water, or initiating a fund allocation to support environmental remediation projects in the affected community.

What is a smart contract?

A smart contract is a self-executing digital agreement that runs on a blockchain platform. It is programmed to automatically enforce the terms and conditions of a contract without the need for intermediaries. Smart contracts are programmed with rules in a way that allows them to execute specific actions when predefined conditions are met.

Smart contracts have a wide variety of applications, including: automating release of payments to a partner if certain milestones are achieved or eligibility requirements met; preventing delays and disputes in the distribution of rewards and incentives; and revoking or suspending payments to partners — or triggering remedial action — if harmful environmental or social impacts are detected as a result of their activities.



Alignment of Incentives

The financial system's inherent incentive structures often result in deal terms that do not align with the social objectives of an impact investment. In particular, the incentives that govern publicly traded companies and those funded by venture capital tend to favor growth at all costs over sustainability, worker safety and wellbeing, community impact, and attention to social and environmental risks. Just like a traditional investment fund, DAOs design their own terms and determine how incentives will operate.

DAOs can utilize token-based economies where participants are rewarded with tokens for their contributions to social and environmental impact. These tokens serve as incentives, representing ownership and equity, compensation, voting power, and/or access to the DAO's ecosystem. Incentives can be distributed to investors, investees, community members, and other kinds of contributors based on factors like the value they bring to designing an impact strategy, assessing potential unintended consequences, or measuring the success of an investment. By providing tangible rewards, DAOs can organize and foster active participation and attract expertise that contributes to positive social and financial outcomes.

Smart contracts also can be a powerful tool utilized by DAOs to align a fund's incentives structures with positive social and environmental outcomes. For instance, a smart contract could incorporate a mechanism whereby a portion of the fund's returns is automatically allocated to community development initiatives in the regions where the investments are made. This ensures that the financial success of the fund is directly linked to the social impact it generates for the community.

It should be noted that there is no guarantee that investments designed utilizing Web3 will effectively address all the inequities inherent in traditional investments. For instance, if tokens are distributed to members of a DAO via a token sale, decision-making authority could be concentrated in the hands of those willing and able to pay the highest price and/or buy the greatest number of tokens. The Chainalysis State of Web3 report, published in June 2022, found that across several major DAOs, 90% of voting power was concentrated in the hands of less than 1% of token holders. Similarly, inequities could be exacerbated without attention to uneven access to technical knowhow, high-speed internet and other digital infrastructure, blockchain wallets which are used to securely store, manage, and transact digital assets including tokens, and the digital communities that are building Web3 solutions.

Intentional design is crucial to ensure that Web3 platforms and investments are shifting who holds power in investments, whose voices are included in design and decision-making processes, and whose metrics define what successful outcomes would look like.

Strategies for Addressing Power Dynamics in Web3 Financial Innovations

This section outlines five social change strategies that can be deployed to shift how power operates in Web3 financial innovations. Some strategies focus on working within the confines of the existing system to leverage its power toward social change objectives, while others seek to fundamentally change how the financial system assigns value, the processes that govern the system, and who has the power to inspire and design alternative systems that work for communities.

There is value in using and changing the system at the same time. This involves analyzing the system internally and externally to develop robust accountability and transparency processes in tandem with the exploration of new avenues for transforming the financial system as a whole to catalyze social change. It allows for adaptability, timeliness, and responsiveness in using finance as a tool for social change.

Social change organizations seeking can leverage a combination of all or any of these strategies in the design and implementation of a community-owned and governed DAO.

Use the system by channeling investment capital to enterprises or opportunities that are creating or contributing to transformative social change.

Finance looks at enterprises at a certain stage of growth, with assets that are seen as valuable to investors, in sectors that are seen as having opportunity. This strategy deals with redirecting and redistributing investment capital so that it is channeled out of companies or sectors that may have a negative impact on communities and into those that are seen as having a positive impact. One example of this strategy in action would be investments made in companies that promote a circular or regenerative economy, or in businesses whose core purpose is to advance social impact, either through practices/ policies, products, or both. Social change organizations also employ this strategy when they organize or participate in “invest/divest” campaigns, such as the movement to pressure endowments and other investors to divest from fossil fuels and channel resources into renewable energies instead.

Web3 has already demonstrated its ability to transform how investment capital is raised and distributed, and who can take part in those processes. One oft-cited example is ConstitutionDAO, which raised over US\$47 million in a matter of days through a decentralized funding mechanism, bringing together thousands of participants to collectively bid on a historical artifact at auction.¹¹ Between 2019 and 2022, Gitcoin Grants has raised more than US\$50 million in funding from 270,000 unique supporters, each of whom had a say over how that funding was then distributed.¹²

DAOs can be formed to invest in local businesses, sustainable agriculture, renewable energy, and other projects or sectors that are important to a given community. AFADAO, as an example, was formed as a means of crowdfunding investment to close the US\$330 billion gap that has left roughly 40 million startups on the African continent without appropriate financing. Komorebi Collective DAO was created with a mission of diversifying the crypto space while proving the potential of decentralized finance, and the DAO invests explicitly in female and non-binary founders in the sector.

DAOs set up with a specific purpose in mind — whether it’s channeling resources to a particular project or social cause, or driving innovation in a specific industry — can, because of their relatively low start-up costs and decentralized nature (free from legal and regulatory burdens of traditional non-profit or for-profit corporations), be dissolved once the goal has been achieved or the purpose fulfilled. This saves community resources by avoiding the need for prolonged administrative overhead and contributes to a regenerative economy by fostering adaptability, allowing resources to be reallocated to new initiatives and areas where they are most needed. This dynamic process of creating and dissolving DAOs promotes efficiency, innovation, and the continuous regeneration of resources, enabling communities to tackle evolving challenges and seize emerging opportunities.

This strategy addresses power dynamics in investments by increasing access to investment capital, channeling resources to causes, companies, and sectors that are of import to a community. The introduction of Web3 technologies and the use of Web3 crowdfunding mechanisms further addresses access by reducing barriers to entry for individuals to become investors. By implementing this strategy, investors and communities — and communities as investors — can demonstrate their commitment to inclusion.

11 Patel, N. (2021, December 7). From a meme to \$47 million: ConstitutionDAO, crypto, and crowdfunding. The Verge. <https://www.theverge.com/22820563/constitution-meme-47-million-crypto-crowdfunding-blockchain-ethereum-constitution>

12 Impact Results | Gitcoin. (n.d.). <https://impact.gitcoin.co/>

Use the system by influencing the benchmarks against which the success of the investment is measured.

This strategy focuses on how to change the goals or benchmarks against which the success of investments is measured. While this strategy works within the current financial system, it also challenges the system and holds it accountable for the outcomes it creates, including unintended consequences. This strategy could entail creating or participating in new financial models where the goal of an investment is not to maximize profit but community revitalization or environmental protection.

Different types of investments have different goals. It is easy to assume that the goal of all investing is to maximize profit, but in fact investors make decisions based on a variety of personal or institutional factors — their appetite or tolerance for risk of financial loss, their desired timeline for potential returns, their social or environmental impact goals, the time they have made available to implement and monitor transactions, and more.

DAOs are increasingly being utilized to raise investment capital with the explicit goal of preserving natural resources for future generations. Carbonland DAO is an investment DAO formed with the goal of scaling protection and conservation of forests. According to Carbonland DAO's model, investors may purchase tokens, and the funds raised by the token sale are utilized to purchase forest land. Purchasing tokens grants investors the ability to participate in decisions about where land is purchased and what kinds of improvements and conservation efforts will be made.¹³ Active participation in the DAO's conservation efforts is rewarded with Carbon Removal Credits, which can be sold on voluntary carbon markets, with the proceeds reinvested in additional forest land, land improvements, and the various costs of operating and administering the DAO.¹⁴ In this way, the goal of the DAO is not to maximize profits — which might entail developing real estate or industrial manufacturing on the land — but to preserve the natural environment.

Implementing this strategy can also mean contributing to the design of indicators by which the impact on communities of an investment is measured, or the evaluation of an investment's performance against those indicators.

Tokenizing assets is one way that investors are using the blockchain to track and measure the impact and outcomes of their investments. Among these so-called impact tokens, Fishcoin is a prime example. By tokenizing fish from the point of catch to the end consumer, Fishcoin ensures that every step of the supply chain is transparent and traceable, overcoming the fragmentation and lack of transparency in the seafood industry which makes it difficult to trace illegal, unregulated, and unsustainably caught fish in supply chains.¹⁵ Fishcoin's token system enables consumers to make informed decisions about the seafood they purchase and ensure its authenticity, sustainability, and ethical sourcing.

“...we believe there is an opportunity to build a web3 that lives up to the proposed values and virtues that it can — and in fact, must — achieve. We can build web3 the right way if we combine a systems-level understanding of human rights with a technical understanding of cryptography. Building this correctly will not only empower vulnerable communities, but it can also serve as a barrier that blocks authoritarian regimes and criminal actors from weaponizing web3 technologies to oppress and abuse others. This ultimately keeps these malicious factions operating in the internet of the past, thus widening the future competitive advantage for democratic freedom, prosperity, and security.”

-The Future of Human Rights on web3:
A Vision for a Survivor-Centered Internet

<https://polarisproject.org/wp-content/uploads/2022/06/The-Future-of-Human-Rights-on-web3.pdf>

13 CarbonlandDAO — A Club to Save Trees. (n.d.). <https://carbonlanddao.com/>

14 See footnote 13.

15 Trace Protocol - Fishcoin Project. (n.d.). Fishcoin Project. <https://fishcoin.co/fishcoin-protocol/>

This strategy directly addresses power dynamics around knowledge, transparency, and alignment of incentives. Implementing initiatives with this strategy can demonstrate a commitment to integrity and accountability.

Change the system by introducing or advocating for new data or eliminating bias in how data is assessed in order to shift how value is assigned in finance

This strategy delves more deeply into how financial systems analyze and assign value, and how that analysis can be influenced. At its most basic level, finance looks back to past data to see patterns and trends, looks out to the future to imagine and predict where those trends are headed, and uses this analysis to determine the expected value of a transaction at a future point in time. Data about communities, marginalized individuals, and a variety of social issues is relevant in all aspects of that equation, even if bias has kept it from being widely recognized as such.

This strategy focuses on the introduction of new information or new data points that can uncover hidden risks or overlooked opportunities. It also entails eliminating bias in how analysis is traditionally carried out, challenging existing assumptions and the conclusions drawn from them.

Blockchain facilitates the implementation of this strategy as it is revolutionizing how data is collected and how value is assigned in financial and economic systems. The strategy is utilized by a number of Web3 initiatives that are seeking to close the global credit gap by shifting the data traditionally utilized to determine whether a person or individual is “credit worthy.”

Jia, for example, describes itself as a [“financial co-op that is owned and operated by its members, where each person contributes to the common good, and everyone benefits from low-cost financial services.”](#)¹⁶ Its model is rooted in the traditional values of community financing, where informal lending circles still tend to fill the financing gaps left by formal banks and financial institutions. In addition to data that may be available from local credit bureaus and banks, Jia utilizes data provided by the borrower — including income, expenses, and the purposes of the loan — as well as a borrower’s references (such as suppliers) that can attest to the borrower’s sales, inventory, and revenue. That combined data is utilized in Jia’s underwriting process to determine optimal loan terms that are tailored to the needs and conditions of each borrower.

This model places value in the relationships an entrepreneur or merchant has and the trust they’ve built through their contributions to their community. As the loan is paid back, the borrower builds their credit history — enabling them to be seen as credit-worthy by other financial institutions on and off the blockchain — and receives JIA tokens, ownership of which can unlock lower interest rates, larger loan amounts, longer durations, and the ability to sponsor loans for other borrowers who may not have references that can vouch for their data. In exchange, the sponsor receives a portion of the interest upon loan repayment.

Similar principles have been employed by other blockchain-enabled platforms that are enabling individuals to build an on-chain credit score regardless of whether they have a formal credit history or reside in a market that lacks credit services. Bloom, for example, allows users to determine which data sources are used to verify their trustworthiness — for instance, utilities companies or cell phone service providers to whom they may regularly make payments, or other Bloom users that can attest to their identity — and grants them the ability to correct inaccurate information before it negatively impacts their credit score.¹⁷

Blockchain enables these decentralized data sources to be verified and securely stored while granting individuals more control over the data that is used to determine their ability to access credit.

16 Marks, Z. (2023, May 23). Introducing Jia: The Key to Unlocking Financing for Millions of Entrepreneurs. Medium. <https://medium.com/jia-xyz/introducing-jia-the-key-to-unlocking-financing-for-millions-of-entrepreneurs-c7b329cdd43d>

17 Wu, S. (2019). Introducing Bloom: The Future of Credit. Bloom Blog. <https://bloom.co/blog/introducing-bloom--the-future-of-credit/>

With the rise of impact tokens described above, there is a valuable role for community-based organizations to play in verifying information, ensuring transparency, and building trust in that data. The REDD-Chain Project, which monetizes and monitors forest conservation, engages local actors in submitting information about local conservation via mobile apps.¹⁸ These local actors are the best placed to conduct assessments, collect data, and raise concerns if stories being told about impact do not match up with on-the-ground realities. In exchange for their contributions to the REDD-Chain Project, local actors are rewarded with tokens, demonstrating a new way for community-based organizations to have their knowledge of local context and access to datasets valued in the investment ecosystem.

Web3 technologies are also changing how risks are priced and how behavior is incentivized. Celo, inspired by Sacred Economics — summarized as the idea that “if you back money with more of the things you want to see in the world, you’ll get more of those things” — explains programmable money, or tokens, as a means of monetizing externalities, creating an incentives system in which positive externalities are rewarded and negative externalities fined.¹⁹ In the same way that the Carbonland DAO described above rewards conservation efforts, projects like Veridium aim to tokenize carbon credits, turning the environmental impact of reducing carbon emissions into a tradable asset. Plastic Bank has similarly tokenized the collection and recycling of plastic waste. This allows organizations to monetize their efforts in combating climate change and reducing plastic waste, respectively, incentivizes the adoption of sustainable practices, and disincentivizes socially and environmentally harmful behavior.

Implementation of this strategy directly addresses issues of transparency, knowledge, and alignment of incentives in investments and demonstrates a commitment to inclusion.

Change the system to shift the structure and terms of an investment in order to change who holds what power in the relationship.

This strategy centers on the power dynamics that exist between investors, prospective investees, members of impacted communities, and the broader investment ecosystem. This strategy seeks to change who traditionally holds power in determining how capital flows, over what timelines, and with what terms attached. It recognizes that moving capital may not in itself lead to positive impact if the underlying power dynamics are not addressed. For instance, a loan can be either empowering or exploitative depending on the interest rate and other terms of the loan agreement. Too often, the structures and terms of investments are determined by investors, driven by their needs and timelines, in ways that place disproportionate risk on investees.

“I see these examples as the vanguard leading the way in what will become a thriving ecosystem of community-focused finance projects in Web3. Future projects can build upon this infrastructure to help regenerative economies grow and flourish — especially in historically marginalized communities, where the only source of capital for community members is from the people around them. For example, members of a community might provide loans to local businesses and neighbors, invest in local enterprises through community investment vehicles, or participate in lending circles with families and friends.”

- DeFi’s Role In Creating a Regenerative Economy

<https://blog.celo.org/defis-role-in-creating-a-regenerative-economy-ac34676ff957>

¹⁸ See footnote 3.

¹⁹ McCormick, P. (2022, April 25). Celo: Building a Regenerative Economy. Not Boring by Packy McCormick. <https://www.notboring.co/p/celo-building-a-regenerative-economy>

²⁰ Zerucha, T. (2023). VC3 brings DAO benefits to venture capital. Fintech Nexus News. <https://news.fintechnexus.com/vc3-brings-dao-benefits-to-venture-capital/>

Challenging these power dynamics is at the heart of decentralized finance and the investment DAOs that have emerged in the space. Through DAOs, participants can directly engage in governance, vote on proposals, and allocate resources to projects aligned with their objectives, fostering a democratic and community-driven approach to fundraising and investment that promotes transparency, accountability, and inclusivity.

Investment DAOs can be intentionally designed with governance structures that distribute power (via tokens and/or voting rights) equitably among investors, investees, and other actors.

Governance structures that include both investors and impacted communities, ensuring decisions regarding project selection, funding allocation, and impact measurement are made collectively, involving the perspectives and input of the communities affected by the projects.

In the Jia model described above, the issuance of tokens in exchange for loan repayments values the borrower's contributions to the loan fund and the broader community where their business operates, and recognizes each borrower as an owner and builder of the global financial community. While this model would be difficult to scale in traditional financial systems, smart contracts and tokenization of assets enable near instantaneous transfer of shares, unlocking greater potential for scale.

Similarly, VC3 — a DAO that is creating a new investment model for venture capital based on the principles of decentralization — gives tokens to limited partners who invest in the fund, entrepreneurs as well as investors, which they state has transformed the power dynamics between the investors and investees.²⁰

In theory, communities could design a governance structure tailored to their needs and with input from a vast array of stakeholders. For instance, communities could determine that anyone is able to donate, invest, or otherwise contribute time, knowledge, and financial resources to the DAO, but only members of the physical community that will be impacted by the investments have decision-making authority to determine what initiatives receive investments.

This strategy directly addresses the power dynamics of decision-making, with the potential to transform who holds power over timing, risk sharing, and other aspects of investment design. Implementing the strategy demonstrates a commitment to accountability.

“Historically, venture capital funds have generally relied on their network of general partners and the projects that they fund to secure deal flow. The funds with the best deal flow have tended to generate the best returns. That said, networks of small groups of people are limited and as a result traditional venture capital often overlooks incredible projects simply because they aren't sourced from their network. As a result, projects that have the ability to improve people's lives simply are not funded, because an entrepreneur drew the wrong lottery ticket and was born outside the United States or because they have a background that makes it difficult to join the network of venture capital funds.

That can all change with DAOs... One of the perhaps unemphasized aspects is that we're able to create participatory and democratic means to sourcing and finding deals.”

- The LAO Scout: Launching a token curated registry to crowdsource the best blockchain projects

<https://medium.com/@thelaoofficial/the-lao-scout-launching-a-token-curated-registry-to-crowdsource-the-best-blockchain-projects-75cc48fda352>

20 Zerucha, T. (2023). VC3 brings DAO benefits to venture capital. Fintech Nexus News. <https://news.fintechnexus.com/vc3-brings-dao-benefits-to-venture-capital/>

Change the system by expanding what expertise is trusted in investment decision-making and what processes are seen as valid approaches to making investments

This strategy focuses on shifting the legitimacy of whose expertise is trusted and what processes are seen as valid to financial design and decision-making. Finance consists of a set of processes that guide activities. These include, for example, the development of a pipeline of prospective investees, the creation of due diligence questions and screens to assess the risk of an investment, and the structuring of the type of financing that will be provided or the terms that will guide the investment.

There are dimensions of power to what are considered standard processes within finance. Those who are already in power tend to benefit from existing processes and therefore reinforce them through their actions, whether intentionally or unintentionally, while those who are seen as acting outside of those processes are discounted. Transformative change requires the power dynamics in those processes to be addressed.

Web3 completely disrupts the processes and authorities that typically hold authority in conventional finance and investment. For example, creating a pipeline of potential investments for a traditional venture capital fund typically involves a hierarchical process driven by a centralized team. The team actively sources opportunities through their network such as banks, prior investees, or other venture capital firms seeking additional capital for their investees. This approach often relies on the expertise and connections of a few individuals within the fund, overlooking valuable opportunities outside their immediate network and generally limiting funding candidates to entrepreneurs who have already received funding and developed a trusted relationship with a capital holder in the network.

A number of investment DAOs are turning this model on its head, transforming pipeline development into a more democratic and inclusive process by allowing members and, in some cases, the entrepreneurs themselves, to propose and collectively determine who is eligible for funding. The LAO, for example, leverages blockchain technology and smart contracts to create a transparent, accessible, and efficient application process for organizations seeking funding. The LAO utilizes a token curated registry — a digital token system that determines the inclusion or removal of items based on community consensus — to source and evaluate potential investments.²¹ Nominating a project is as simple as tweeting about it, and community members are then able to share their experiences with projects and vote on whether or not it aligns with their investment objectives.

What is a token-curated registry?

A token-curated registry is a decentralized system for curating and maintaining a list or registry of items, entities, or resources. It operates based on a community-driven voting mechanism, where token holders participate in the curation process by staking their tokens to support or challenge the inclusion of items in the registry. The goal of a token-curated registry is to create a reliable and trusted list that reflects the preferences and expertise of the community. Token holders have incentives to make accurate judgments and maintain the integrity of the registry as they stand to gain or lose tokens based on the outcomes of their votes. Token-curated registries find applications in various fields such as curating high-quality content, validating the reputation of service providers, certifying sustainable products, or identifying trustworthy recipients of an investment.



21 The LAO. (2021, December 14). The LAO Scout: Launching a token curated registry to crowdsource the best blockchain projects. Medium. <https://medium.com/@thelaoofficial/the-lao-scout-launching-a-token-curated-registry-to-crowdsource-the-best-blockchain-projects-75cc48fda352>

This strategy has the potential to directly shift whose knowledge is valued and who holds power in investment decision-making. It demonstrates an investor's commitment to inclusion and the will to act to challenge their own power and cede it to other members of the investment ecosystem.

It should be noted that the very act of designing community-owned and governed investment DAO redefines the notion of leadership and influence within finance and the Web3 ecosystem. Elevating individuals and communities as leaders and builders of a DAO directly challenges conventional notions of who has the power to create a DAO and shape the rules and future of decentralized finance.

Opportunities and Next Steps

Social change organizations have a unique opportunity to envision community-centered Web3 applications and use their influence to shape the trajectory of this transformative technology. By engaging now, these actors can help ensure that Web3 is harnessed to benefit communities and fundamentally shift power dynamics in the traditional finance and investment landscape. The recommendations captured in this section are intended to illustrate potential next steps for social change organizations, including community-based organizations and the foundations and philanthropists who support them. The recommendations are expressions of what is possible now, with a recognition that each step taken today has the potential to uncover an exponentially greater number of new possibilities for the future.

Issue grants to civil society, including local community organizations and those without traditional technology backgrounds, to experiment with using Web3 for community finance

Many community organizations require dedicated funding to be able to experiment with new ideas, technologies, and strategies, including the implementation of the recommendations outlined below. Grant-making institutions like foundations can issue grants to community-based organizations to meaningfully engage in the space. This could be funding for a small first step, such as attending conferences on technology and finance, or organizing side events, workshops, and discussions about Web3 financial innovations at conferences and convenings on community issues. More specific grantmaking could be made to support community organizations in forging innovative collaborations with groups that are active in the Web3 space and collaboratively designing a DAO or other Web3 financial innovation.

Grants-making initiatives do not necessarily need to rely upon a single institution with large grant-making capabilities. Instead community organizations can come together to design a crowdfunding platform that leverages Web3 technology to raise and distribute funds.

Host a Hackathon that brings together diverse community members to design Web3 enabled solutions to community issues

A Hackathon can serve as a platform for diverse community members to collectively explore the transformative potential of Web3 technology and apply it to solve local challenges. Social change organizations can design a collaborative environment where individuals and organizations across disciplines, sectors, and backgrounds can contribute their unique skills, knowledge of local challenges, and ideas for potential solutions. Hackathons can be organized digitally to enable the involvement of online communities who are already deeply engaged in Web3 applications, who may have more technological expertise and/or experience creating DAOs. This inclusive approach allows participants to learn from one another, build relationships, and create a sense of shared ownership in shaping the future of their community.

Design a community-owned and governed investment DAO

Designing a community-owned and governed investment DAO according to the framework and strategies outlined above can send a strong signal to the world of what is possible for Web3 financial innovation and who has the power and authority to create new ways of investing. The DAO can demonstrate best practices and model potential standards for community finance, setting a powerful example for impact investing, innovative finance, and related fields. Such a fund would enable community members and community-based organizations to pool their resources, knowledge, and expertise and to collectively design investment strategies that align with their shared values and goals. Community members would have the ability to design the governance structure and application processes, propose and vote on investment opportunities, and ensure that decisions are made collaboratively to reflect the consensus of the community. Additionally, the DAO's design could incorporate mechanisms for incentivizing ongoing engagement and participation, fostering a culture of active involvement and supporting the realization of community-driven initiatives with long-lasting impact.

Design standards for Web3 community finance

While Web3 technology has the potential to revolutionize community finance, the field lacks standards for what is considered best practice for using Web3 to drive positive outcomes and ensure the mitigation of risks and unintended consequences. Standards, particularly those developed with insight and input from community groups, would instill trust and confidence in Web3 technologies, attracting more participants and fostering greater innovation and collaboration among community members. As the potential of DAOs and Web3 continues to unfold, and more actors continue to experiment with the technology, the development of comprehensive standards becomes crucial to ensuring the technology is harnessed for the best possible social outcomes and does not unintentionally reinforce existing injustices and inequalities. Social change organizations can play a key role in designing standards for Web3 community finance initiatives, defining what a localized, community-centered approach to Web3 financial innovation would look like and what indicators would signal success.

The background of the entire page is a deep blue space filled with numerous small, bright white stars. In the lower half, there is a glowing, digital representation of the Earth's continents, primarily showing North and South America, composed of a grid of light blue dots and lines.

Conclusion

Web3 is advancing at an ever-accelerating pace. With that comes tremendous potential for the technology to support the development of new financial vehicles, to solve social and environmental issues, and to help create a more just and equitable world. Fully realizing that potential requires social change organizations to meaningfully engage in the space, bringing their knowledge and experience to the design of new solutions. By actively participating in the development and design of Web3 financial innovations, social change organizations can shape the trajectory of the technology, ensure solutions being developed have a positive and lasting impact on their communities, and demonstrate the different kinds of actors that are able to drive innovation in this space.