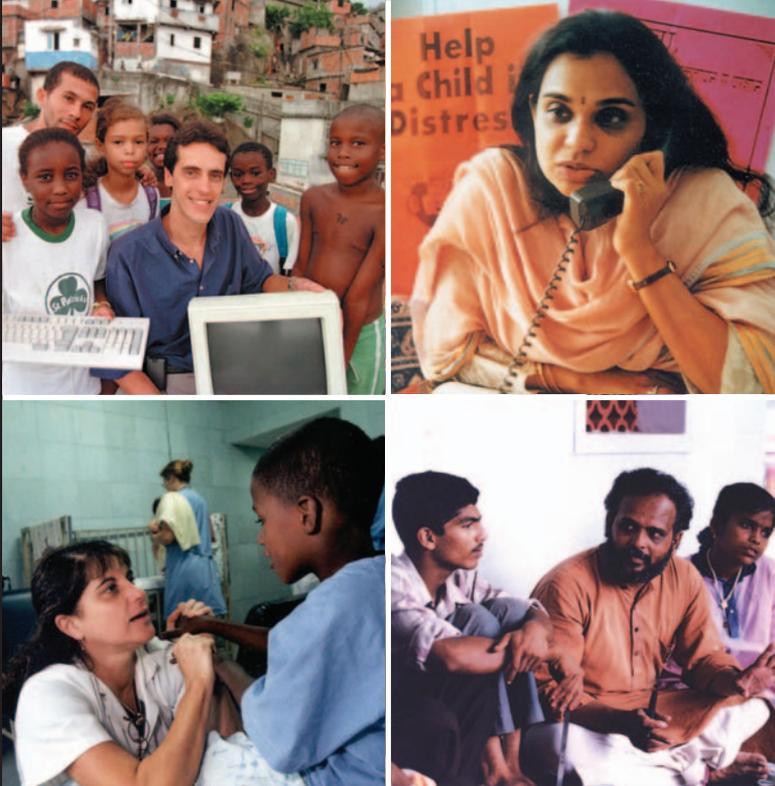


# Everyone A Changemaker

Social Entrepreneurship's Ultimate Goal

by Bill Drayton



*Reprinted from the Winter 2006 edition of*

**innovations**

TECHNOLOGY | GOVERNANCE | GLOBALIZATION

*Published by MIT Press with Harvard University and George Mason University.*



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# Everyone a Changemaker

## Social Entrepreneurship's Ultimate Goal

Rodrigo Baggio grew up in Rio de Janeiro loving computers. As he matured into an extraordinarily tall, thin man with a hugely wide smile, he became a computer consultant. However, from early on, he was one of the few in his generation who noticed—with concern—that the young people growing up in the favelas on the hills overlooking his middle-class neighborhood had no access to this digital world.

Because he has the great entrepreneur's tenacity of observation and thought as well as action, he decided he had to take on the digital divide—well before the phrase came into currency—and he has been pursuing this vision relentlessly ever since. While beginning to work toward this dream as a teenager, he learned just how motivated and capable of learning the young people in the favelas were. And also how competent the favela community was in organizing. This respect underlies the central insight that has allowed Rodrigo to have a growing multi-continental impact.

Rodrigo provides only what the community cannot: typically computers, software, and training. The community does the organizing, finding space, recruiting the students and faculty, and providing ongoing administration. The result is a uniquely economical model, and also one where, because the investment strengthens the broader community, it is self-sustaining and a foundation for other initiatives long into the future.

Rodrigo's chain of hundreds of community-based computer training schools now serves hundreds of slums across Latin America and Asia. These schools now have 700,000 graduates.

I got a sense of Rodrigo's power when he came to Washington shortly after being elected an Ashoka Fellow. Somehow he convinced the Inter-American Development Bank to give him its used (but highly valuable) computers. Somehow he convinced

the Brazilian Air Force first to warehouse and then to fly these computers home. And then he somehow managed to persuade the Brazilian customs authority to allow all these computers in at a time when Brazil was trying to block computer imports.

Several years later, I got a further sense of how his mind worked, when I asked him why he was starting his work in Asia in Japan. Japan, he said, was the only large Asian source of computers where he could imagine getting people to give them to him. Therefore, as his first step, he had to demonstrate the value of his program to the Japanese in several of their own slums.

That is how entrepreneurs work. Having decided that the world must change in some important way, they simply find and build highways that lead inexorably to that result. Where others see barriers, they delight in finding solutions and in turning them into society's new and concrete patterns.

That much is easy to observe. However, there is more to it. Somehow, an unknown, young, lanky Rodrigo, the head of a new and unknown citizen organization, persuaded the managers of one after another of society's big institutions to do things they never would have imagined. He knew they were the right and logical things to do. Somehow they sensed that inner confidence and found it surprisingly persuasive.

What were they sensing? Rodrigo's words and arguments no doubt helped, but few people are willing to step out beyond the safely conventional merely on the basis of good arguments.

Rodrigo was persuasive because his listeners sensed something deeper.

What Rodrigo was proposing was not just an idea, but the central logic of his life—as it is for every great entrepreneur. He mastered and came to love the new digital world from the time he was a young boy. More important, his values from early on drove him to care about the poverty and inequality he could see on the hillsides rising behind the middle-class Rio in which he was growing up. His values and his temperament had him taking on the digital divide before the term was invented.

As a result, when Rodrigo sat across the table from the much older, powerful officials he needed to move, they were confronting

not just a good idea, but deeply rooted and life-defining values: non-egoistic, kindly determination and commitment.

This values-based faith is the ultimate power of the first-class entrepreneur. It is a quality others sense and trust, whether or not they really fully grasp the idea intellectually. Even though they would not normally want to step out in front of the crowd, a quiet voice tells them to trust Rodrigo and go with his vision.

Any assessment of Rodrigo's impact that stopped with his idea, let alone his business plan, would not have penetrated to the core of his power. Our field has been impoverished by too many assessments that never get to the essence.

Nor is Rodrigo's most important impact his schools or the life-changing independence and mastery he provides his students.

Consider the impact Rodrigo has on a community when he introduces his program. It is not a school created by the government or outsiders. It is a school created by, funded by, managed by, and staffed by people in the community. The students are responsible for learning and then



*Rodrigo Baggio's students in a Brazilian favela.*

making their way. Think how many patterns and stereotypes are crumpled by these simple and very obvious facts. The psychological impact is a bit like India emerging from 50 years of falling behind to suddenly being recognized as the new challenger at the cutting edge of the most advanced part of the world's economy.

Accompanying this disruption of old patterns of action and perception is another contribution, and I believe it is the greatest one of Rodrigo and every entrepreneur: the idea of catalyzing new local changemakers into being. Unless the entrepreneur can get someone in one community after another to step forward and seize his or her idea, the entrepreneur will never achieve the spread that is essential to his or her life success. Consequently,

the entrepreneur presents his or her idea to the local community in the most enticing, safe, understandable, and user-friendly ways possible.

Of course, the entrepreneur's own life story is in itself a beacon encouraging hundreds of others to care and to take initiative. This also increases the number of local changemakers.

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*Ten years ago, the probability of an idea from Bangladesh affecting a community in Brazil, Poland, or the U.S. was very limited. Now it is common (the best-known example being Muhammad Yunus's impact on the global spread of microcredit) and becoming more common every year.*

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Moreover, when these local champions then build the teams they need to launch the idea they have adopted, they are providing not only encouragement but also training to potential next-generation local changemakers.

As the field of social entrepreneurship has grown and

multiplied and wired itself together across the globe over the last 25 years, the rate of this plowing and seeding at the local level has accelerated dramatically. Ten years ago, the probability of an idea from Bangladesh affecting a community in Brazil, Poland, or the U.S. was very limited. Now it is common (the best-known example being Muhammad Yunus's impact on the global spread of microcredit) and becoming more common every year.

As the number of leading pattern-changing social entrepreneurs has been increasing everywhere, and as the geographic reach of their ideas has been expanding ever more rapidly, the rate of plowing and seeding therefore has multiplied. As have the number of local changemakers.

This whole process is enormously contagious. As the number of large-scale entrepreneurs and local changemakers multiplies, so does the number of support institutions, all of these make the next generation of entrepreneuring and changemaking easier. Not only do people not resist, but in fact,

they respond readily to this change. Who wants to be an object when they could be changemakers, when they could live lives far more creative and contributory and therefore respected and valued?

As important as Rodrigo's impact is on the digital divide and on the lives and communities he serves, I believe this second dimension of his impact is far more important—especially at this transitional moment in history.

The most important contribution any of us can make now is not to solve any particular problem, no matter how urgent energy or environment or financial regulation is. What we must do now is increase the proportion of humans who know that they can cause change. And who, like smart white blood cells coursing through society, will stop with pleasure whenever they see that something is stuck or that an opportunity is ripe to be seized. Multiplying society's capacity to adapt and change intelligently and constructively and building the necessary underlying collaborative architecture, is the world's most critical opportunity now. Pattern-changing leading social entrepreneurs are the most critical single factor in catalyzing and engineering this transformation.<sup>1</sup>

## EVERYONE A CHANGEMAKER

The agricultural revolution produced only a small surplus, so only a small elite could move into the towns to create culture and conscious history. This pattern has persisted ever since: only a few have held the monopoly on initiative because they alone have had the social tools.

That is one reason that per capita income in the West remained flat from the fall of the Roman Empire until about 1700.

By 1700, however, a new, more open architecture was beginning to develop in northern Europe: entrepreneurial/competitive business facilitated by more tolerant, open politics. The new business model rewarded people who would step up with better ideas and implement them, igniting a relentlessly expanding cycle of entrepreneurial innovation leading to productivity gains, leading to ever more entrepreneurs, successful innovation, and productivity gains.

One result: the West broke out from 1,200 years of stagnation

and soon soared past anything the world had seen before. Average per capita income rose 20 percent in the 1700s, 200 percent in the 1800s, and 740 percent in the last century.<sup>2</sup>

The press reported the wars and other follies, but for the last 300 years this profound innovation in how humans organize themselves has been the defining, decisive historical force at work.

However, until 1980, this transformation bypassed the social half of the world's operations.<sup>3</sup> Society taxed the new wealth created by business to pay for its roads and canals, schools and welfare systems. There was no need to change. Moreover, no monopoly, public or private, welcomes competition because it is very likely to lose. Thus, the social sector had little felt need to change and a paymaster that actively discouraged it.

Hence, the squalor of the social sector. Relative performance declining at an accelerating rate. And consequent low repute, dismal pay, and poor self-esteem and élan.

By the nineteenth century, a few modern social entrepreneurs began to appear. The anti-slavery leagues and Florence Nightingale are outstanding examples. But they remained islands.

It was only around 1980 that the ice began to crack and the social arena as a whole made the structural leap to this new entrepreneurial competitive architecture.<sup>4</sup>

However, once the ice broke, catch-up change came in a rush. And it did so pretty much all across the world, the chief exceptions being areas where governments were afraid.

Because it has the advantage of not having to be the pioneer, but rather of following business, this second great transformation has been able steadily to compound productivity growth at a very fast rate. In this it resembles successful developing countries like Thailand.

Ashoka's best estimate is that the citizen sector is halving the gap between its productivity level and that of business every 10 to 12 years.

This rapidly rising productivity means that the cost of the goods and services produced by the citizen sector is falling relative to those produced by business—reversing the pricing pattern of the last centuries that led to the much-criticized “consumer” culture.

As a result, as resources flow into the citizen sector, it is growing explosively. It is generating jobs two and a half to three times as fast as business. There are now millions of modern, competing citizen groups, including big, sophisticated second-generation organizations, in each of the four main areas where the field has emerged

most vigorously: Brazil-focused South America, Mexico/U.S./Canada, Europe, and South and Southeast Asia. (The field is also growing vigorously in Africa, the Middle East, East Asia, and Australia/New Zealand, but these are much smaller clusters.) All this, of course, has dramatically altered the field's élan and attractiveness. This is where the job growth

is, not to mention the most challenging, value-rooted, and increasingly even well-paid jobs. Just listen to today's "business" school students.

Given the results-based power of this transformation of the citizen sector, more and more local changemakers are emerging. Some of these learn and later expand the pool of leading social entrepreneurs. To the degree they succeed locally, they give wings to the entrepreneur whose idea they have taken up, they encourage neighbors also to become changemakers, and they cumulatively build the institutions and attitudes that make local changemaking progressively easier and more respected. All of which eases the tasks facing the next generation of primary pattern-change entrepreneurs.

This virtuous cycle catalyzed by leading social entrepreneurs and local changemakers is the chief engine now moving the world toward an "everyone a changemaker" future.

No matter how powerful this dynamic is, however,

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*[S]ociety cannot significantly increase the proportion of adults who are, and know they are, changemakers and who have mastered the necessary and complex underlying social skills until it changes the way all young people live.*

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several other changes are necessary if society is to navigate this transition successfully:

- Most important, society cannot significantly increase the proportion of adults who are, and know they are, changemakers and who have mastered the necessary and complex underlying social skills until it changes the way all young people live.
- Although it is normal for support areas like finance to lag behind change in the operating areas they serve, the emergent citizen sector is now at significant risk unless it can quickly engineer major structural changes in both its institutional finance sector and the broad grassroots sources of support in its post-breakeven zone.

## TRANSFORMING THE YOUTH YEARS

There are well over 400 Ashoka leading social entrepreneurs whose primary goal is getting society to do a far better job of helping all children and young people to learn and grow up successfully. Each has a powerful, proven, society-wide approach. (Between 49 percent and 60 percent of those elected by Ashoka have changed national policy within five years of their startup-stage election.)

However, each of these approaches is a partial answer. It is built around one insight or principle, works through one delivery system, and addresses one or two client groups. Ashoka's "mosaic" process brings all these powerful elements together, draws out the few universal principles that open major new strategic opportunities for the key decision makers in a field (e.g., in this case, those who run schools and youth programs), and then markets these principles. In effect, these mosaic collaborations promise our community the ability to entrepreneur together, an advance that produces far bigger impact than anything the sum of our solo ventures could achieve.

Roughly two-thirds of these 400-plus youth-focused Ashoka entrepreneurs have learned the same three powerful principles. Because they need human resources to implement their vision and cannot realistically get more teachers, they turn to young people. That young people are a huge, and in fact usually the only significant available human resource is the first insight. The other two follow logically: first, the unconventional

assumption that young people are or can be competent; and second, the idea that one must transform youth communities (e.g., in schools) so that they become competent at initiating and organizing, and then train and reward their young people in these skills. Applying these three principles in hundreds of different ways and across the globe produces strikingly similar and powerful results: motivated students, better academic results, and young people who are experiencing being in charge. And a very different feel to those schools and programs from the moment one walks in.

Whether these social entrepreneurs discovered and developed these principles to solve their staffing problems and/or with broader educational purpose, collectively they have created a most powerful set of tools to transform the youth years. Moreover, the repeated success they have had in large-scale and highly diverse applications of these principles leaves one with enormous confidence in the power and practicability of these principles.

Ashoka's young people's mosaic also identified another principle that fits closely with this first cluster: anyone (or any group) who does not master the complex social skill of guiding his or her behavior through applied empathy will be marginalized. Since this is the enormously cruel, destructive state of perhaps 30 percent of the world's people, helping young people master empathy is proportionately important.<sup>5</sup> One of the best ways of doing so is by encouraging them to build teams to contribute important changes and/or services. If their team is to succeed, they must master teamwork, which in turn rests on applied empathy.

Ashoka began developing its mosaic process and the pioneer young people's application in 1990. It was, however, only quite recently that Ashoka realized that its ultimate purpose, an "everyone a changemaker" world, is an unreachable fantasy unless the youth years become years of practicing being powerful and acquiring the required underlying skills: applied empathy, teamwork, and leadership. This realization suddenly puts the mosaic's core principles in a new light: They are as powerful as they are in large part because they are so key to unlocking this historical transition.

If young people do not grow up being powerful, causing change, and practicing these three interlocked underlying skills,

they will reach adulthood with a self-definition that does not include changemaking and a social skill set that largely precludes it. Just as one must develop strong emotional foundations in the first three years of life or suffer for a lifetime, young people must master and practice these social skills and the high art of being powerful in and through society while they are young.

Consider how sophisticated the learned skill of applied empathy is: As we contemplate each action, we must comprehend how it will impact everyone at several removes around us and long into the future—and then guide our behavior accordingly. Our



*Youth Venturer Jason Upshaw trains neighborhood young people in bike repair leading to bikes and jobs.*

world now requires that skill as the ticket of admission to most simple levels of society. A dependably good person can no longer rely only on rules because they are increasingly in conflict, changing, or have yet to be developed.

Those without this complex skill will be marginalized. Moreover, mastering it is only the first step toward learning teamwork and leadership. Like ballet, these skills require extensive and real practice.

The children of elite families grow up at home and usually in school being expected to take initiative and being rewarded for doing so. This confident ability to master new situations and initiate whatever changes or actions are needed is in essence what defines the elite. Entering adult life with confidence and mastery of empathy/teamwork/leadership skills is what ultimately has given this small group control of the initiative and therefore of power and resources for millennia.

However, the other 97 percent grow up getting very little such experience with taking initiative. Adults control the classroom, work setting, and even sports and extra-curricular activities. And this situation, coupled with society's attitudes,

drums home the message to this majority: “You’re not competent or perhaps even responsible. Please don’t try to start things; we can do it far better.” Teachers, social workers and others are comfortably in control; and, in fact, most school and other youth cultures are not competent and do not train and support and respect initiative-taking. Instead, the peer group culture, not surprisingly, is resentful and in the worst cultures, quite negative.

Do these inarticulate, frustrated youth cultures bring analogous prior situations to mind? Over the last century, many other groups—including women, African Americans, those with disabilities, even colonial peoples—had to make their way from debilitating stereotypes and little prior practice in taking the initiative to becoming fully accepted, capable contributors. These groups, although very different from one another, had to travel strongly similar human and community transformation paths.

Young people are the last big group to set out on this journey. They are also different; but, in the underlying psychological and organizational transitions ahead, they can learn a great deal from the experience of these other groups.

Building on the history of these earlier movements and also on the accumulated experience of hundreds of leading social entrepreneurs working with young people, Ashoka and many partners<sup>6</sup> have prototyped and are beginning to launch at scale the equivalent of a women’s or older person’s movement for young people.

Although this movement must ultimately change how everyone thinks about and relates to young people, it is young people and their peer communities who will have to change most and who have the most to gain. Therefore, as with all the earlier similar transformations, it is essential that they be central actors—both in actually shifting to the new pattern (because the best learning comes from action) and in championing the change (because people in any class are most likely to hear and trust peers).

This emergent movement will be far bigger than Ashoka, and once it is past the next six to ten intensely entrepreneurial years, it will require extensive operating management that is culturally inappropriate for Ashoka’s “collegial/intrapreneurial”

essence. Ashoka has therefore created an independent but close partner, Youth Venture. Working closely with Ashoka's young people "mosaic" team, it has the lead in major spread and emerging operating work.

How to launch and build such a movement?

Ashoka, Youth Venture, and their partners are following a strategy that exercises enormously powerful jujitsu-like leverage; leverage that works on four mutually reinforcing levels. They are summarized in Table 1.

<i>Actions</i>	<i>Impacts</i>
In any school, community, or country each year, ½ of 1 percent of the young people have a dream and create a lasting venture.	By leading, these young Venturers become lifelong leaders. They have mastered the essential skills of empathy, teamwork and leadership—and irrefutably know it.
Each venture engages a team (typically 3-5 in the core group plus 20 who tutor, coach, broadcast, etc.) <sup>7</sup>	Everyone learns what teamwork, that they can lead, and how to do so. This further multiplies the next generation's proportion of "natural" leaders.
1% of a school or youth community launches Ventures with on average 25 participants. Over two years: 20% to 25% of the whole institution are engaged, likely "tipping" its youth culture.	As Venturer peer groups recruit and sell their work, they can both tip their school or neighborhood youth culture and also will wear down old attitudes and logistic barriers (e.g., space, insurance).
Society questions the current disempowering pattern, builds a women's/disability movement for young people. Youth Venture participants provide role models and champions. The press joins in.	Everyone redefines the youth years and lives them as a time of expected initiative, competency, and contribution.

Each of these four levels in Table 1 needs the others. But they will not snap into place together or everywhere in society instantly. This makes the job facing the pioneers much harder than

it will be for their successors; and it requires a phased, several-stage strategy.

The central challenge is getting to the scale where the synergies between these four levels—and across schools, neighborhoods, and regions—kick in and become irreversibly self-multiplying. Ashoka/Youth Venture, recognizing this is the heart of the matter, has been experimenting with a dozen different avenues and is gaining increasing traction. Here are some examples:

- Partnering with national organizations with many chapters (e.g., the Girl Scouts) or broad reach (e.g., Youth Services America).

- Co-venturing with public-spirited corporate partners, including experimenting with engaging staff, local units, and key customers as nominators, Youth Venturer Allies, and local organizers. (Most recently with Staples in Europe and Latin America).

- Communicating the stories of Youth Venturers broadly and encouraging others through media partners (including a growing relationship with MTV in the U.S. and Mexico).

- Using Internet avenues to recruit, help, and network Venturers, Allies, and local Partners.

- Extending Youth Venture's online "Virtual Venturer" program, which allows young people to become Venturers even in communities without an established organizational presence.

- Replicating the successful United Way model developed in North Central Massachusetts.

After two years, almost all the schools have multiple Youth Venture teams; the area's community college gives college credit for high school Venture work; and virtually all young people in the area experience multiple Venture models. Four other local United Ways are moving to follow, hopefully followed by many others and also community foundations.

- Partnering with a subject matter segment of the citizen sector (e.g., the environment) to support Youth Venture teams in its field as a means of seeding future leadership.

- Building a network of stand-alone, volunteer-led local Youth Venture organizations akin to the vast majority of Scout, 4-H, and Little League groups (experiments underway in four

metropolitan areas).

- Breaking through with groups of schools, e.g., those served by an Ashoka Fellow or where we can get support from the leaders of a school system. This is more leveraged than working school by school although we welcome individual schools as long as the leadership comes from them.

- Building links to youth communities (e.g., punk rock bands, debate groups) built around a common interest and that cut across institutions and geography.

- Getting to scale locally: Using all avenues in a few medium-sized metropolitan areas or small provinces or states (e.g., New Hampshire).

Although the movement is far up the learning curve, all that means is that the pace of experimenting/learning is accelerating and broadening. It needs many more partners who are excited by this movement-building challenge of accelerating to scale, and who will join in experimenting, adapting, and pushing.

And it needs to communicate its alternative vision for the youth years and ultimately for a rapidly multiplying proportion of the population who have the power to change things.

As the number of young leaders increases and spreads, this job becomes easier and easier, not least because such Venturers usually gain confidence once they see that, in addition to being the founders of a newspaper or a program to help new immigrant youth or a peer-to-peer counseling service, etc., they are pioneers in an historic moment.

## NEEDED: NEW SOCIAL FINANCIAL SERVICES

Citizen organizations of all types and sizes urgently need a new social financial services system.

Where can two 15-year-old African American girls go when they need \$900 seed funding to launch a teen-to-teen late-afternoon confidential telephone hotline? Or a 14-year-old who needs \$800 startup and working capital to buy t-shirts to imprint and sell in order to fund an Ecuadorian support group of young people with diabetes? Or a group of boys who need funds to seed

what eventually will become a successful effort to build a municipal skateboard park?<sup>8</sup>

They cannot go to a foundation or a government agency. They typically cannot even open their own bank account. What if their parents cannot or will not pay? Or if it is important to the young people to do it on their own (so they can do it their way)?

As we have just seen, society's core interests are in making it easy, not impossible, for young people to take initiative and build ongoing services. But our existing financial services institutions fail us.

This is only one of many such failures of today's social financial institutions.

Going to the other end of the sophistication scale, consider how the structure of government grant agencies and foundations makes it extremely difficult for either institution to serve leading social entrepreneurs. The people try hard, but the structural barriers

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are formidable and firmly set. Again, given how central social entrepreneurs are to what is society's greatest historical opportunity now, this failure is extremely costly.

What leading social entrepreneurs need and what today's dominant social financial institutions—governments and foundations—can provide conflict point by point:

Social entrepreneurs need social investors who will value new ideas. The most important innovations cut across the disciplinary and organizational boundaries created to solve old problems. Governments are bound by narrow, rigidly and impermeably bounded "stovepipes" defined by legislation and refined ever more narrowly by the organizations and regulations that follow. Foundations are captive to internally formulated "strategies," their institutional stovepipes, and staffs who typically

follow specialist lateral career paths. Moreover, a program officer confronting a crosscutting idea will have to learn more, think harder, and consult and share decision-making much more than when facing a familiar idea that neatly fits his or her program. (Can you imagine what would have happened to the digital revolution if its entrepreneurs had to fit similar strategy/stovepipe straightjackets created by Deutsche Bank or Bank of America?)

Social entrepreneurs need and deserve loyalty. Their work is not a job; it is their life. And they are, day by day and year after year, central to the iterative process of creation that is the essence of the value being built. But making and sustaining the commitments that would constitute loyal partnering requires judgment, very-long-term perspective, and true understanding of entrepreneurship—all of which are difficult for large institutions to muster.

Social entrepreneurs need medium- to long-term and often substantial investments. They must test and refine an idea (an inherently unpredictable process), learn how to market it and cause many other institutions to change (also resistant to tight scheduling), and then build an institution and movement. Almost all governments and foundations, guided by their own internal one-year budgeting imperatives, provide one-year funding.

Social entrepreneurs need support in building strong, major institutions; governments and foundations avoid the “overhead” this would entail.

To some degree, it is natural for change in financial and other support services to lag behind a transformation of the operating institutions. There is, however, considerable risk that these financial institutions will not adapt adequately or at all.

Unlike business financial firms, neither governments nor foundations must respond to their clients.

Governments are sensitive to political stimuli, but these synapses often do not come from the clients being served. Development agencies are an extreme case: Their end clients have no leverage; it is the contractors who do. In this case, the resulting misalignment of incentives may be worse than in the typical foundation case, where clients are as a rule no more than supplicants.

There are further systemic reasons why governments and foundations fail the citizen sector. Their structure keeps them from seeing and often from serving whole classes of potential clients well. Moreover, because they are not subject to competitive discipline, they do a poor job of rewarding high performing citizen groups and closing or merging poorly run ones. Society's resources are, consequently, allocated poorly. Worse, the citizen sector cannot become as productive as business as long as this undisciplined condition continues.

A notorious example is the dramatic variation in performance between the numerous microcredit institutions in the Chicago area. Some have almost perfect payback rates and low general administration and sales ratios. Others perform dismally. So far, the institutions investing in these funds barely seem to notice.

However, commercial competitive microcredit investment funds could not afford such inattention. A fund that invested in any of the losers would end up with a lower return for its investors and only one or two stars (out of five) on the Morningstar mutual fund rating service.

If the incumbent institutions seem unlikely to transform themselves to provide the types of services a rapidly evolving and increasingly diverse citizen sector now needs so urgently, where can the sector look? To the enormous, highly competitive, client-focused for-profit financial industry. It provides business a kaleidoscopic diversity of services that are minutely fitted to client needs and that change, if anything, faster than the clients.

The first for-profit financial firms that recognize that there is a huge, highly attractive new business waiting to be born here and that open it up will profit handsomely—and make a profound contribution.

There are many factors coming together now that make such a move timely. The citizen sector is now both very large and the fastest growing sector of society. It also has many large, solid institutions.

At the same time, there is huge existing, and more latent, demand for quality social investments, with varying mixes of social and economic return and in different subject matter and geographic areas. There also is huge actual and latent demand

for engagement in the social sector. People want access to quality personal opportunities ranging from volunteering and internships to full careers for themselves and their families and friends. They also want to spot and land the new business/ social opportunities that are now developing. A smart bank will develop a web of products and services that will allow its bankers to serve every investor client's individual needs with a tailored package of varying mixes of financial, social, and engagement values.

Along with my colleagues in Ashoka's Business Entry program, I have identified roughly 40 building-block financial and service products that, when combined orchestra-like in varying combinations and with varying pricing, can offer banks and other financial institutions a very large, profitable

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*The transaction costs of government and foundation grant-making, taking into account only the direct (not opportunity) costs to donor and donee, now run 20 to 45 percent, roughly ten times what is normal for business finance.<sup>11</sup> This difference offers huge scope for financial firms to find efficiencies and capture some of the savings through fees.*

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new business. This business will enable these institutions to bring huge value to a very wide range of clients—from teen beneficiaries of a skipping trust<sup>9</sup> to a high active net worth entrepreneur ready to sell his/her business and redeploy both resources and career.<sup>10</sup> The strategy here is to demonstrate just how profitable and attractive this business is to new clients. The immediate work is to develop and refine the building block products in the crucible

of the full product-development process and, most critical, to direct client feedback.

This is not about a new product. Or even a number of new products. It is about building a major new business that will link varying types and classes of investors with diverse investee needs

through equally diverse (and varying over time) channels. At one time the banks did not invest in art or even real estate. Now those areas are integral, and clients expect them.

The transaction costs of government and foundation grant-making, taking into account only the direct (not opportunity) costs to donor and donee, now run 20 to 45 percent, roughly 10 times what is normal for business finance.<sup>11</sup> This difference offers huge scope for financial firms to find efficiencies and capture some of the savings through fees.

Although some components of this new business's product orchestra will be labor intensive and custom-tailored, it is critical to have a large number of high-volume component products. Large volumes are necessary to drive down per-transaction costs, which is essential for modest or merely wealthy investors and competitively key even for the sophisticated very wealthy.

The now-huge socially responsible investment industry achieved this scale chiefly by investing in subsets of existing financial stocks and bonds that exclude objectionable (e.g., tobacco, arms) securities. The new commercial microcredit funds that have been introduced over the last few years are the first major example of the next step: the for-profit finance industry profitably providing direct investments in citizen-sector work to the broad public. They are able to do so because there are 120 to 150 large, safe, well-established microcredit lenders, with clear, stable track records, in whose securities these funds can invest large sums safely without incurring significant expense (relative to investment) in case-by-case due diligence reviews.

Although this success is enormously encouraging, it is far, far from enough. It illustrates the principle, but it cannot provide either the volume or the choice the huge latent demand needs, let alone what is required to build a substantial business for the industry overall.

Therefore, a critical part of the Ashoka strategy to encourage for-profit finance firms to enter the social financial services business is to catalyze the development of many, very large, reasonably uniform and safe, and therefore securitizable, new classes of social investment. The single most important source of these new investment opportunities flows from our

gracefully named business/social “hybrid value-added chain” (HVAC) work. This work originated in another major “mosaic” collaboration, this one across roughly 400 Ashoka social entrepreneurs whose work is focused on ensuring full economic citizenship to everyone. A good many of those working toward this goal have found powerful leverage in reconnecting business with the newly entrepreneurial/competitive citizen sector through new value added chains involved in design, production, distribution, servicing, and parallel supports including finance. The new, more productive value added chains draw for each step in the chain whatever each side can contribute most effectively and efficiently. However, this work has typically been limited to one product or service in one country; and these early cases were held back by the relative immaturity of the citizen sector organizations at the time.

Ashoka’s HVAC strategy is to get four very different products/services quickly to the point where the customers, businesses, and citizen groups are all benefiting enormously from the new cooperative value-added chains. Once the businesses in an industry see one of their competitors gaining important new markets and making significantly higher profits, they cannot afford not to follow. The same is true for the organizations that compete with the pioneer HVAC citizen groups, once they see how much their competitors are benefiting from large, stable, nonpolitical, new revenues and their new, unique ability to provide valued new services to their clients. This competitive dynamic is key to the jujitsu that allows Ashoka, a small force, to set in motion so large and irreversible an historical change.

Setting this same, huge structural change in motion in four very different industries will make it clear that something far bigger than an industry-specific innovation is at work. The HVAC principle will apply to most, probably all, areas of human endeavor. Once this framework becomes clear and is widely grasped, everyone can begin looking for possible applications to their areas of work.

A key example: many a smart management consultant will make partner by building his/her firm’s HVAC practice. They will seek out such high-yield opportunities, bring them to

potential clients, and then do the required design and institutional adaptation work. Because they will do this work regularly, they will be able to build practices serving managers who do not have this experience. This response is key because it will institutionalize the catalytic work Ashoka now has taken on.

Business schools and business writers will also be key players in helping spread awareness of the HVAC idea and in reporting on and helping to systematize the knowledge underpinning the field as it develops. There is also extensive work for the emerging institutions of the citizen sector to do here.

Sketching the story of one HVAC on which Ashoka is working will help make this change more concrete:

Over most of the planet small farmers do not have access to drip irrigation equipment. It is not profitable for the piping and irrigation firms to serve them. The companies' costs are too high for the poor rural economy, and the companies do not understand or trust the small farmers or their environment.

In Mexico, a partnership between Amanco (the leading piping company in Latin America), Ashoka, and local citizen groups is now beginning to demonstrate how to close this gap.

Over the last decade, large, competent citizen groups have developed to serve small farmers. Their cost structure is that of the "other Mexico," that of the poor and of the rural areas. They understand and have the trust of their clients. Moreover, the sector has increasingly mastered relevant skills ranging from large-scale/low-cost organizing to knowing how to help poor people save reliably.

These now large, skilled, economic citizen groups can provide the missing bridge between the company and a huge untapped new market, between the farmers and access to a technology that will provide them with more income, more stable income, water conservation, and environmental benefits.

Everyone benefits enormously.

The farmers earn much more, more securely.

The environment benefits, and the country produces more, more reliably.

The first citizen groups to join are the only source, at least for a while, that can provide these benefits to their farmer

clients. This gives them a huge competitive advantage vis-à-vis both government and other citizen groups. Moreover, they get the same markup that businesses playing similar roles in bigger markets receive—a huge (especially relative to their cost structure) and growing revenue flow that is also independent of governments and foundations.

Amanco will be the first into this market and should settle in long term with a significant share, even recognizing that competitors will follow. The company has established key relationships and is quickly coming up the learning curve to mastering this new market, which is making it harder and harder for others to catch up quickly.

Nonetheless, competition will come. Citizen groups that said no when Ashoka first approached them, fearing the risks (and in some cases feeling uncomfortable partnering with business), are watching and beginning to wonder where they can find such a deal. Business will probably respond even more quickly. In a second HVAC area, slum reconstruction, a major global competitor to the company with which Ashoka began this work decided it had to jump on this new approach four months after the first HVAC collaboration began if it was not to fall behind in accessing this huge new market.

Each of the HVACs creates very large, reasonably uniform financing needs across the globe. These eminently financeable needs in turn become a critical source of the attractive new products needed to fuel the new businesses waiting to be born in the for-profit finance industry.

To the degree these needs come from a business/social marriage, they will be even more attractive to the finance industry and to many clients. This will reduce the price discount that risk-averse investors attach to anything unfamiliar. It also builds in a further acceleration of learning and therefore of productivity growth for both business and citizen sectors.

Learning will accelerate further as the two sides overcome the differences in style, language, and clothing, and the mutually suspicious stereotypes that developed over the last several centuries of deepening division. The people on both sides will bridge these gaps, not because doing so is socially nice, but because it is essential

for their respective core interests: business wants these markets, and the citizen groups want to deliver these goods to their clients and gain financial and political independence.

The HVAC delivering drip irrigation to smaller farmers generates two sound lending opportunities:

The large, stable, competent citizen groups providing the bridge between company and farmers need bridge financing when starting up until they reach breakeven.

Far bigger is the need to help the farmers obtain credit so they can buy this substantial capital asset. Loans to farmers for drip irrigation should be attractive to lenders for two reasons: (1) there is security and (2) the farmers will stop making many other payments long before this one, given how central this equipment is to their economics. Once the mechanisms are developed, such loans could quickly become a gigantic financial product class given that capital equipment and many millions of modest farms are involved.



*Street improvements in the Agua Fria settlement of northern Guadalajara where Ashoka and Cemex's Patrimonio Hoy program has speeded and cut the cost of housing.*

The same pattern holds true for the urban slum reconstruction HVAC, where Ashoka's work is also far advanced. Similar logic but somewhat different specifics will produce yet more financing opportunities in one HVAC after another. Each requires extensive financial engineering and then marketing; but the cumulative effect, especially as the competitive jujitsu in each area kicks over, will be a tsunami of large-volume, low-unit transaction cost, profitable for everyone, and offering new investment opportunities.

Getting the for-profit finance industry to enter the social financial services field is entirely critical if the citizen sector is to obtain the inventive, adaptive, responsive, and efficient institutional services it so urgently needs.<sup>12</sup> Investor demand does not create the bottleneck. The chief obstacles are: first,

inadequate flows of high volume, diverse, attractive investment opportunities; second and simply, insufficient imagination to see so large a strategic opportunity.

If anything, the need for profound change is even greater when it comes to how the citizen sector supports itself once groups pass beyond the early years when institutional finance is key.

Citizen groups, very much like businesses, have a three-stage life cycle. They start with a self-financing “garage” incubation period. Then they gear up for a time of service and product testing and refining and also of institutional formation that often requires significant institutional investment. Eventually they move onto a “post-breakeven” mature phase, where citizen base or grassroots resources coming in must at least equal expenditures. Outside the U.S. and a handful of other countries, this citizen base is entirely inadequate.

This inadequacy poses a profound strategic risk to both individual groups and the citizen sector overall. As we have seen, the sector is now large and growing explosively. Foundations cannot touch this scale of need. Governments, if they were not increasingly under pressure to retrench, could provide the needed resources. In many cases they would like to do so, both to ensure the provision of needed services and to reestablish control over the citizen sector. This is, of course, a danger the groups and the sector cannot afford to run. Dependency on government was precisely what caused the sector to fall so far behind business from 1700 to 1980.

The only alternative is to build the sort of broad base of citizen support that underlies every sector of society that does not have the power to tax and that has become secure and steady: business, religion, trade unions, social clubs, even the schools of samba that enable poor neighborhoods in Brazil to prepare and mount Carnival groups every year.

This base has four main components: people’s time, money, information in and out, and captive businesses. The mix that works will vary by field and institution. However, any institution that cannot find a mix that works for it is unlikely to survive long.

The challenge here is not to get Brazilians or Poles to be more generous. They give generously now, but only to groups that ask, and ask intelligently—be they the churches or the schools of samba.

The citizen sector is new. In most countries it is just now reaching the stage where there are a significant number of reasonably stable, mature, clearly focused institutions ready to build such broad citizen bases. The challenge, then, is closer to home. It has to jolt the citizen sector itself to grasp that it must and can go out and build this new sustainable, long-term foundation.<sup>13</sup> And, at the same time, to help it learn how.

## WHERE WE ARE GOING

The daily news is chronically dispiriting, a reportage of follies that seem to be taking place in a world without a compass.

That is probably so in part because this is a time when deep historical tides are moving with unprecedented speed and force.

The millennia when only a tiny elite could cause change is coming to an end. A generation hence, probably 20 to 30 percent of the world's people, and later 50 to 70 percent, not just today's few percent, will be changemakers and entrepreneurs. That world will be fundamentally different and a far safer, happier, more equal, and more successful place.

To get there, we must end the infantilization of young people. They and the rest of us must enable all young people to be fully creative, initiatory, and powerful changemakers.

We must also build the wisest possible financial and other institutions so that, as these young people become adults, the new citizen sector will draw them fully into an "everyone a changemaker" world.

*We invite reader comments. Please send an email to  
<editors@innovationsjournal.net>*

1. As Ashoka has come to understand this more clearly, it has clarified its ultimate goal. Challenged several years ago by eBay's Pierre Omidyar, Ashoka came to understand, given its understanding of these historical forces it came into being to serve, that its ultimate goal is an "everyone a changemaker" world. Before that, it had talked chiefly in terms of the intermediate goal of building an entrepreneurial/competitive citizen sector.

2. Interview with economist Will Baumol in his office. See also, William J. Baumol, *The Free-Market Innovation Machine* (Princeton University Press, 2002).

3. The "social" or "citizen" half of the world's operations includes education (students, faculty, organizations), health, environment, emergency relief, rural and slum development, human rights of all sorts, and all the other areas of human and environmental needs—except when these needs are served by the business other half. Eventually the distinction will fade as the accidental division created over the last three centuries of rapid business productivity growth and social-sector stasis erodes. Ashoka and a growing number of other citizen sector organizations ask that everyone stop defining us as not government (NGO) and not business ("nonprofit"), respectively, the European and American first reactions to our newly emerging sector. It does not make sense to define half of society by what it is not. We suggest the use of "citizen sector" and "citizen organization" instead. One or more citizens caring and organizing to provide a service or spark a change are the active ingredients. And, as this paper articulates, our most important impact is our "everyone a changemaker"—aka citizen—role.

4. Ashoka was conceived in the 1960s to serve this historic transformation, but it only began work in 1980 when it perceived that the time was ripe.

5. Canadian Ashoka Fellow, Mary Gordon, and her Roots of Empathy program, is one example of the innovation building in this area. See Mary Gordon, *Roots of Empathy: Changing the World Child by Child* (Thomas Allen Publishers, 2005).

6. These partners in the U.S., for example, range from the Girl Scouts to Staples, from MTV to a growing number of local United Ways and schools.

7. Youth Venture's experience in the U.S.

8. These are typical of the sort of venture Youth Venture has found among teens in the U.S.

9. A skipping trust gives income from capital for a generation, but not the capital. Skipping a generation, the principal is distributed to the grandchildren of the person who created the trust.

10. Ashoka is engaging with partner institutions to pioneer/demonstrate this new business. As this product and business development work proceeds and partners agree, it will report on these developments at <[www.ashoka.org](http://www.ashoka.org)>.

11. William F. Meehan III, Derek Kilmer, and Maisie O'Flanagan explain the reasons for this, in *Investing in Society, Stanford Social Innovation Review* (Spring 2004): "For starters, [government and foundations do] not have cost efficient transaction processes, when compared to for-profit benchmarks.

## *Everyone a Changemaker*

In the for-profit capital market, companies spend between \$2 and \$4 raising capital (e.g., legal, marketing, and administrative expenses) for every \$100 they raise. In the social capital market, however, nonprofits spend between \$10 and \$24 for every \$100 they earn through fundraising (e.g., obtaining donor lists, sending direct mail, or making phone calls). Nonprofit chief executives, meanwhile, spent between 30 and 60 percent of their time pursuing donations with such 'soft costs' unevenly accounted for in fundraising costs. Foundations and government grantors, meanwhile, spend about \$12 to \$19 on administration (including general overhead and reviewing grant applications) for every \$100 they allocate. Federated givers, those intermediary organizations such as the United Way and Jewish Community Federation that collect individual donations and then allocate dollars to charities, spend approximately \$13 million for every \$100 to cover their expenses. That means that in the social capital market, the cost of raising capital consumes roughly 22 to 43 percent of the funds raised, a dreadfully inefficient process.”

12. Ashoka is also pursuing several other, complementary strategies. One is its new Social Investing Venture (SIV) program. The SIV program seeks out leading entrepreneurs anywhere in the world who are championing major structural change in social finance. It helps them get started and succeed and will work to enable them to share and collaborate with one another, with leading operating social entrepreneurs, and with thought leaders in the social investment field.

13. Ashoka's Citizen Base Initiative is pursuing three specific strategies to help tip the citizen sector's perception and behavior. See <<http://www.citizenbase.org>>.

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**Ashoka: Innovators for the Public**

Bill Drayton is a social entrepreneur. As a student, he was active in civil rights and founded a number of organizations, ranging from Yale Legislative Services to Harvard's Ashoka Table, an interdisciplinary weekly forum in the social sciences. He graduated from Harvard with highest honors and went on to study at Balliol College in Oxford University, where he attained his M.A. with First Class Honors.



He is also a 1970 graduate of Yale Law School and has been a professor at both Stanford Law School and Harvard's Kennedy School of Government. In 1970 he began his career at McKinsey and Company in New York. From 1977 to 1981, Mr. Drayton served in the Carter Administration as Assistant Administrator at the U.S. Environmental Protection Agency where he launched emissions trading (the basis of Kyoto) among other reforms.

After his term at the EPA ended in 1981, he returned to McKinsey half-time and launched both Ashoka and Save EPA and its successor, Environmental Safety. At McKinsey, he helped the firm develop tax and regulatory design work and then its use of industry strategy (an increasingly useful first step to company strategy). With the support that he received unexpectedly when elected a MacArthur Fellow at the end of 1984, he was able to devote himself full time to Ashoka. Mr. Drayton is currently the Chair and CEO of Ashoka: Innovators for the Public. He is also Chair of Youth Venture, Get America Working!, and Community Greens.

Mr. Drayton has won numerous awards and honors. Most recently in 2005, he was selected one of America's Best Leaders by *US News & World Report* and Harvard's Center for Public Leadership. In the same month he was the recipient of the Yale Law School Award of Merit, the school's highest honor. In 2004, he received the National Wildlife Federation's Conservation Achievement Award International. Mr. Drayton has also received the Vanguard Award for Contributions and Achievements in Nonprofit Law from the American Bar Association, the Common Cause Public Service Achievement Award, and the National Public Service Award from the National Academy of Public Administration and American Society for Public Administration.



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