INVESTING IN IMPACT
A LOOK AT MARKET-BASED SYSTEMS CHANGE

WITH GENEROUS SUPPORT OF THE: TRICO CHARITABLE FOUNDATION
PREFACE

Like many of our colleagues in the citizen sector, we believe that social finance can significantly increase the impact of innovative solutions. And, like many others, we believe that social investing has not reached the realm of what is possible.

For a number of years, Ashoka Social Financial Services has sought to address critical obstacles and foster innovation by supporting social entrepreneurs and collaborating with social investors to create new investment vehicles and funds.

In the process of reviewing the innovations and investment potential of the Social Investment Entrepreneurs in Ashoka’s Global Fellowship Program, it became clear that social entrepreneurs are beginning to use the market to address social challenges on a large scale.

This process guided us towards social finance opportunities, shed new light on common challenges in the sector, and, most importantly, pointed us towards opportunities for significantly greater impact.

Thanks to the generous support of the Trico Charitable Foundation, the following pages communicate our initial understanding of how people are using markets to address social challenges at scale, and the opportunities and implications for social finance.

We hope you find this vision as helpful as we have, and look forward to your thoughts on how we may push our thinking further.

Sincerely,

INTRODUCTION

Over the last 30 years, the citizen sector has increasingly turned to the market to address social challenges. The breadth of the resulting innovations has been profound.

Social entrepreneurs use a variety of market-based innovations to solve a broad range of social challenges. For example, a social entrepreneur in Zambia is helping protect wildlife by providing poachers with a financial interest in preserving biodiversity. Another social entrepreneur is empowering Americans to buy the property under their pre-fabricated homes. Home ownership has provided these individuals with increased economic security and the opportunity to improve and even transform their communities. Finally, a social entrepreneur in India changed the manufacturing cost of lenses in order to provide everyone, regardless of ability to pay, with high-quality, affordable cataract surgery.

Market-based innovations enable social entrepreneurs to break away from traditional funding models. Philanthropic and government funding are now complemented, and often replaced, by revenue-driven models that range from international license agreements to forward commodity contracts.

The rise of market-based solutions is focusing attention on new possibilities for investing in social change. These innovations are mobilizing new pools of capital and engaging a new set of stakeholders in social change.

While market-based innovations create great opportunities, these innovations also introduce new degrees of complexity. The emergence of social finance has been characterized by real growing pains as this sector has witnessed almost as many missteps as achievements. There are many cautionary tales. For instance, there are social entrepreneurs that have become small business owners, social businesses that have abandoned their mission to pursue profit, and financial services organizations that have left their clients poorer and more indebted than when they began.

We have much to learn in order to successfully harness the power of markets to address social challenges at scale. Social entrepreneurs, investors, and other participants of social finance are adeptly recognizing historical mistakes and are building on the lessons of the past. But these are still the early days. As a sector, we need to move beyond ill-fitting comparisons with the private sector, deepen our understanding of how and when we can use the market to address social challenges, and develop the competencies to do so effectively.

Fortunately, the sector is evolving quickly, attracting new thinkers, innovations, and entrepreneurs. Social finance has grown from a few pioneers to a nascent industry at the intersection of commercial finance and social action.
Social finance is spreading across the world, attracting mainstream players even while creating new institutions. It is inspiring entrepreneurs and corporations alike.

Thanks to the generous support of the Trico Charitable Foundation, this paper reflects the commencement of a new effort by Ashoka to contribute to the understanding of social finance. As the world’s largest association of leading social entrepreneurs with over 3,000 Fellows worldwide, and an annual evaluation of over 10,000 entrepreneurs from more than 70 countries around the world, Ashoka has a distinct opportunity to look for patterns in the field and identify powerful new ideas. In this new effort, Ashoka Social Financial Services is specifically looking at how social entrepreneurs are using market forces to address social challenges.

Although the analysis is preliminary, we hope it will introduce readers to important social entrepreneurs with whom they may not already be familiar, surface important trends in the application of market forces across geographies, and suggest useful frameworks and concepts to help readers navigate this quickly-evolving landscape.

THE DISCOVERY PROCESS

Ashoka Social Financial Services (SFS) is exploring how social entrepreneurs are using market forces to address social challenges. While the scope of this effort will eventually be global, the SFS team started by examining the work of Ashoka Fellows from more than 70 countries around the world. Ashoka has a distinct opportunity to look for patterns in the field and identify powerful new ideas.

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SELECTION OF ASHOKA FELLOWS

Ashoka is the world’s largest association of leading social entrepreneurs, with over 3,000 Fellows worldwide. After reviewing an initial pool of over 10,000 candidates annually, Ashoka selects approximately 150-200 of the most promising candidates as Ashoka Fellows. In order to be elected a Fellow, each candidate undergoes an extensive interview process with Ashoka leadership and global sector experts. Each Ashoka Fellow must meet the following five criteria:

1. **New Idea:** The work of a Fellow must be genuinely unique, with the potential to cause disruptive systems change.

2. **Social Impact:** A Fellow’s idea must have clear social impact on a national, regional, or even global scale. It must address the deep, systemic problems facing society.

3. **Creativity:** A Fellow must creatively approach a situation, devise unique solutions to overcome obstacles, and build networks and partnerships for success.

4. **Entrepreneurial Quality:** A Fellow must be passionate and dedicated to his work. He or she will not rest until the social problem is completely resolved.

5. **Ethical Fiber:** A Fellow must act ethically, and have a high level of integrity and commitment to the social cause.

Through this five-step process, each entrepreneur is thoroughly vetted for his or her character and capability to create systemic change. The process is long but also fruitful. In fact, many candidates have a new idea about creating social change.

Using an iterative analytic process, we studied the work of nearly 300 Ashoka Fellows, looking for the utilization of market forces in their organizational models. We examined each Fellow’s impact approach, model for generating income, and strategy for mobilizing investment capital. This analysis forms the basis for the following report.

WHAT IS A SOCIAL ENTREPRENEUR?

One of our first observations about the work of Ashoka Fellows using market forces was that they were not all running social enterprises. The term ‘social enterprise’ was both too broad and too narrow to adequately describe the innovations we observed.

Social enterprises are typically thought of as organizations with a commitment to a social mission that use earned revenue models to support their efforts. They are also frequently willing to accept lower returns or reinvest their profits in order to increase their impact.

In contrast, while many social entrepreneurs use earned income revenue models, this is not the case for all. Similarly, many social entrepreneurs accept lower returns, some entrepreneurs deploy models that allow them to earn market rates without any social impact trade-off.

The common thread throughout all of the innovations we looked at, apart from meeting Ashoka’s stringent standard for social entrepreneurs, was the use of market forces to address social challenges. At the time of election, each social entrepreneur was believed to have a new idea with the potential to change society’s systems and create impact at a regional, or even global, level.

Stated differently, in the words of Sally Osberg, President of the Skoll Foundation, and Roger L. Martin, social entrepreneurs are individuals who:

a. Identify an unfortunate but stable equilibrium that causes the exclusion, marginalization, or suffering of a group of people;

b. Address problems through inspiration, direct action, creativity, courage, and fortitude;

c. Establish a new stable equilibrium that benefits the target group and society at large.

To gain a better understanding of how social entrepreneurs do this effectively, our review sought to understand design principles social entrepreneurs use to engage the market and the corresponding barriers, which social entrepreneurs overcome to achieve social impact.

We study the innovations of Ashoka social entrepreneurs to surface the most powerful and frequently used design principles, as well as identify successful implementation strategies. Through this work, we hope to contribute to the social finance sector new ideas about creating social change.
THE KEY INSIGHT

Our challenge in this analysis was to find concrete, actionable patterns that could be of relevance to the larger sector. We observed that social entrepreneurs often utilized market-based approaches to answer three distinct but related how-to questions:

1. How do I impact this social issue?
2. How do I generate income to fund my operations to address this social issue?
3. How do I mobilize the investment needed to scale my impact in the future?

For example, a social entrepreneur that decides to create and sell a good or service to a target population in order to create social value would be said to be using a market force-driven Impact strategy. A social entrepreneur that relies on grants or donations in order to run his organization is using a non-market Income strategy. Finally, a social entrepreneur who funds his growth with return-seeking capital is considered to be using a market force-driven Investment approach.

Importantly, we came to recognize the interdependence of a social entrepreneur’s answers to each of these three strategic questions. The examples we reviewed suggest that a social entrepreneur’s ability to have an impact not only depends on mobilizing enough capital through the investment strategy, but also on the fit between the Impact, Income, and Investment strategies that he or she employs.

To reflect the importance of these relationships, we developed the Alignment Framework, which we use throughout this paper to establish a deeper understanding of how social entrepreneurs are addressing social challenges.

We found that focusing on social entrepreneurs’ responses to these questions not only helped us further our understanding, but also helped us organize the key ideas of our work. Further, we found that social entrepreneurs may use market forces to answer any or all of these key questions.

THE ALIGNMENT FRAMEWORK

The Alignment Framework focuses attention on the importance of a social entrepreneur’s Impact, Income and Investment strategies. It also represents the critical relationship between these strategies. The following discussion will examine how social entrepreneurs are using market forces in each of these strategies and explore the critical Impact – Income and Impact – Investment alignment.

STRUCTURE OF PAPER

IMPACT

The paper begins with a look at the variety of design principles social entrepreneurs use to animate market forces and impact social challenges at large scale. It continues with a discussion of the barriers that social entrepreneurs seek to overcome. It concludes with an overview of the field that points to important trends in how social entrepreneurs use market forces to create an impact.

INCOME

The Income section focuses on how social entrepreneurs fund their ongoing operations. The discussion starts with social entrepreneurs’ increasing reliance on earned revenue streams as a natural extension of their approach to using the market to create social change. The section continues with a discussion of how social entrepreneurs align their impact and income by using different earned revenue models and corresponding market forces.

INVESTMENT

The Investment section considers the role of investment capital, as well as social finance innovations that increase social entrepreneurs’ access to growth capital. In the section on tempered and unleashed design principles, we discuss how social entrepreneurs maximize social impact by varying the intensity of market forces deployed. Finally, we consider and discuss social impact alignment, or the connection between impact and investment.

LOOKING FORWARD

In Looking Forward, we offer reflections on the different strategies social entrepreneurs use to answer the three entrepreneurial questions: Impact, Income, and Investment. We suggest that by focusing on these strategies and their relation to one another, the citizen sector can significantly scale its impact and make meaningful progress in surmounting the obstacles currently impeding social finance. We end by sharing guidelines for practical products the citizen sector can create to lead to concrete action and scale impact.
When looking at social entrepreneurs who turn to the market to answer the first entrepreneurial question of ‘How do I impact this social issue?’, our work was guided by the following questions:

- Is the social entrepreneur animating market forces to impact a social issue?
- How does the social entrepreneur animate those market forces?
- Why does the social entrepreneur choose those animating principles?
- What specific challenges does the social entrepreneur overcome?

Social entrepreneurs are using market forces to address social challenges at large scale. Our review of nearly 300 social entrepreneurs in the United States, Kenya, and India suggests that there are important commonalities to strategies they are using across geographies. In this section, we use examples of specific social entrepreneurs to illustrate the obstacles (barriers) they overcome to address social challenges, and the levers of change (design principles) they use to do so.

Evaluating the potential of systems-changing new ideas over the last 30 years, Ashoka has learned that it is much more useful to understand which aspects of a system can be changed than to focus on an extensive description of the problems. We often find it helpful to move away from traditional definitions of sectors or issue areas and instead look at the systems-changing strategies social entrepreneurs utilize. Focusing on these strategies suggests a lens of solutions that points us towards powerful insights and a deeper understanding of the opportunities for change.

The first component of the Alignment Framework is Impact, which is the top vertex of the triangle.
INVESTING IN IMPACT

Approximately 70% of Kenya’s population consists of farmers who rely heavily on agro-dealers for access to inputs such as seeds, pesticides, veterinary drugs, and appropriate technology. While aware of farmers’ needs, agro-dealers are often unable to stock inputs cheaply and in a timely fashion due to the lack of access to capital. Recognizing this dilemma, Ashoka Fellow Madison Ayer realized that agro-dealers had to become professionally managed businesses if they were to better serve farmers’ needs and contribute to farmers’ success. He launched Farm Shop to provide agro-dealers with access to suppliers and capital, information systems, marketing support, and management capacity training. Each agro-dealer receives a computer with Internet access and accounting, inventory management, and supply chain management software. Armed with these tools, agro-dealers can operate more efficiently by delivering timely, relevant, and quality inputs to farmers at affordable prices. In addition, Farm Shop created a supply chain management system to enable farmers to place bulk orders at lower prices. With Farm Shop’s support, the families of agro-dealers have been able to increase their incomes and influence within communities, and farmers have been able to access more affordable, high-quality agricultural goods and improve their productivity. In the next few years, Madison aims to double Farm Shop’s impact and expand to ten African countries.

THE NEW IDEA

Established 12 shops, each of which serves more than 1,000 farming households
Reaches 12,500 farming households
Increased agro-dealers’ sales of inputs by 250%

THE IMPACT

Using an iterative analytic process, we explored the work of nearly 300 Ashoka Fellows, looking for the utilization of market forces in their organization models.

After examining each Fellow’s impact approach, operating model, and funding strategy, we identified a recurring set of market-enabling mechanisms utilized by Fellows to create social impact. We call these mechanisms design principles.

While this exercise helped uncover nearly twenty-five distinct design principles, we focus our attention here on ten market-enabling mechanisms we considered particularly noteworthy because of their frequency of use or demonstrated effectiveness.

THE TEN DESIGN PRINCIPLES WE FOCUS ON ARE:

1. Market Linkages
2. Distribution Channels
3. Financing as a Catalyst
4. New Product
5. Producer Aggregation
6. Consumer Aggregation
7. Value Capture
8. Alternative Currency
9. Market Maker
10. Changing Cost Structure

While the concepts that underpin these design principles are relatively familiar in the commercial arena, their role in systemically addressing social challenges is relatively new and less widely understood.

In this next section, we explore these principles in detail.

DESIGN PRINCIPLES

TRADITIONAL DEFINITION
Creation of new connections between different parts of a value chain.

DESIGN PRINCIPLE
By establishing new links in a value chain, social entrepreneurs create a means for themselves or their beneficiaries to access a higher premium for a product or service. Linkages either offer access to a new market or reinforce relationships in existing markets.

KEY CHARACTERISTICS
• May be created in an international or domestic context (or both). We observed more domestic than international market linkages in our review.
• Beyond providing a new set of more profitable customers, the increased market access also improves access to information and an organization’s resiliency in the market. As a result, the links are more enduring and the social entrepreneur is empowered to build on these links in the future.

Example:
Ashoka Fellow Madison Ayer’s Farm Shop (www.farmshop.co.ke) has helped revolutionize the agro-dealer industry in Kenya by standardizing a franchise model for small agricultural products dealers. This model develops new links in the value chain by creating new connections between agricultural products and high-potential rural farmers. Farm Shop overcomes the previously prohibitive cost of providing access to quality seeds, farm products, and agricultural training to rural farmers through the creation of this low cost franchise model.
INVESTING IN IMPACT

THE NEW IDEA

Nearly 70% of India’s population uses wood-powered stoves, including more than 70,000 street food vendors in the state of Tamil Nadu alone. These stoves are hazardous, unsafe, and expensive. They release smoke which causes severe respiratory ailments among vendors and pollutes the environment with greenhouse gas emissions. Buying fuel for the stoves costs vendors more than a third of their yearly income.

Ashoka Fellow Svati Bhogle worked with Technology Informatics Design Endeavour (TIDE) to alleviate the economic, environmental, and health problems faced by Indian street food vendors. She designed a safe, smokeless, environmentally friendly, and fuel-efficient stove. She then launched Sustaintech Private Limited to create a new distribution network that would enable vendors to own fuel efficient stoves. Sustaintech partners with banks to provide vendors with zero down-payment loans to purchase the stoves. The stoves reduce vendors’ fuel costs, dramatically increasing their take-home income. Svati’s plan is to sell 65,000 stoves over the next few years, offering vendors a safer, cooler, and healthier working environment.

THE IMPACT

- Each stove saves 7-10 tons of firewood per year
- Each stove saves vendors 30-50% on fuel costs
- Sold over 1,700 fuel efficient stoves in 24 districts of India

SUSTAINTECH

Founder, Promoter & Managing Director
www.sustaintech.in

2 Distribution Channels

TRADITIONAL DEFINITION
Motivating intermediaries or agents through incentives in order to make goods and services available for use or consumption by a target consumer.

DESIGN PRINCIPLE
Social entrepreneurs often reduce the cost of distributing to remote markets (that are expensive to reach or serve) by leveraging the trust and legitimacy conferred by the existing channels. By utilizing existing distribution channels in new ways, they can reach populations that were previously un-served or under-served by a critical good or service.

KEY CHARACTERISTICS

1. Repurposing or further purposing of existing intermediaries and channel partners to serve a previously excluded population.
2. Disintermediation of an existing channel – removing the middle man in the value chain.

Example:
Sustaintech (www.sustaintech.in), Ashoka Fellow Svati Bhogle’s organization, achieves distribution of its safe and affordable smokeless commercial cook stoves by utilizing the network of street vendors in major Indian cities. As Sustaintech sells its product to street vendors, word spreads about the benefits of smokeless cook stoves via an established vendor network. Customers learn about this new technology through the vendors, and because they know and trust the vendors, they are more likely to adopt smokeless cook stoves in their own homes. In this way, Sustaintech leverages the vendor network as a knowledge distribution channel. This allows Sustaintech to not only increase its market penetration and widen its reach, but to also capitalize on the legitimacy street vendors lend to the uptake and adoption of the new technology.

3 Financing as a Catalyst

TRADITIONAL DEFINITION
Using tomorrow’s productive capacity to unlock today’s purchasing ability.

DESIGN PRINCIPLE
Social entrepreneurs often address access to finance in their communities through Catalytic Financing. The target population is often unable to access credit because of an inability to demonstrate credit-worthiness or offer traditionally accepted collateral for a loan. By either shifting the understanding of what is appropriate for collateral, or by identifying alternative systems to provide financing through nontraditional channels, social entrepreneurs unlock the productive capacity of their communities.

KEY CHARACTERISTICS

1. Stretch, modify, and adapt various aspects of traditional finance agreements (extended return horizons, modified return expectations, alternative collateral, or guarantee arrangements) to enable excluded individuals and small businesses access to capital.

Example:
Ashoka Fellow Vijay Mahajan founded BASIX (www.basixindia.com), an umbrella organization based in India that provides a comprehensive set of livelihood promotion services for poor rural households, disburses microcredit and employment training to the microfinance organizations and microenterprises that serve the resource poor, allowing them to access a market from which they were previously excluded. These microloans enable recipients to, for example, purchase initial equipment or retail space, significantly expand a portion of an existing service, or otherwise invest in their organization in order to grow.
In South Africa, there are 6 million people living with HIV/AIDS, many of whom are also infected with tuberculosis (TB) and resistant to drug treatments. If patients with HIV and TB had access to nutrient replete foods, then their risk to infections would be reduced and they would be better able to respond to drugs. Unfortunately, most South Africans cannot afford a healthy, well-balanced diet, and food aid offers them foods which do not contain the micronutrients that their bodies need. Basil Kransdorff and his wife Rose witnessed how pre-cooked fortified foods acted like miracle workers, helping HIV patients in South Africa attain a higher level of physical wellbeing. Consequently they created Econocom Foods to manufacture and distribute e’Pap, a ready-to-eat, pre-packaged fortified food supplements are an important support tool as a first line of defence against opportunistic diseases and e’Pap contains 28 nutrients in bio-available form. Nutritious fortified porridge available for only $0.16 per packet that is easy to manufacture and distribute e’Pap, a ready-to-eat, well-balanced diet, and food aid offers them foods which do not contain the micronutrients that their bodies need. Basil Kransdorff, is a pre-cooked fortified food supplement originally created to help HIV patients ameliorate the effects of AIDS and HIV treatment by enriching their food and thereby helping to boost their immune response. Basil quickly found that when used properly as a nutritional supplement, e’Pap had immense value as a nutritional supplement, helping to boost their immune response.

**New Product: Introducing a product or service into the market to meet an underserved need.**

**Input or Process Innovation:** An alteration in raw material use or processing, or an improvement on current methodology.

**Example:**

Fair Trade USA (originally TransFair USA) to encourage product providers are brought together in a way that increases purchasing power, efficiencies in economies of scale, knowledge sharing, and collective bargaining.

**DESIGN PRINCIPLE**

Social entrepreneurs often help individuals or groups of small producers aggregate and coordinate their production and marketing strategies. This often requires building credibility through knowledge transfer, which involves substantial local cultivation and coordination. Aggregation helps increase their negotiating power in the marketplace and often allows them to disintermediate selling channels. Aggregation regularly changes how they see their function as a community, as producers learn to rely on their neighbors as business partners.

**KEY CHARACTERISTICS**

- Often utilized as a first step toward adopting an additional design principle, such as value capture.

**Example:**

Fair Trade USA, founded by Ashoka Fellow Paul Rice, aggregates small cooperatives of commodity producers (such as coffee, cocoa) in order to negotiate higher prices for them. However, through aggregation, Fair Trade can also set high standards for production, introduce and improve production processes, help distribute health care and other critical services to farming communities. Healthier, more educated farmers combined with improved production standards contribute to better quality products, which demand higher prices in the marketplace.

**THE IMPACT**

- Sold in 15 African countries
- Distributes over 2 million food packets per month
- Sold over 120 million food packets

**THE NEW IDEA**

Nearly 30 million small coffee farmers worldwide are trapped in cycles of poverty and desperation and are struggling to survive. While their coffee is sold well below the cost of production, gourmet coffee companies in the U.S. are making substantial profits. Working with coffee cooperatives in Nicaragua, Paul discovered that development programs’ focus on increasing production levels did little to improve farmers’ income. He recognized that farmers faced the larger challenge of exploitative middlemen who prevented them from selling their products directly to the market. Paul realized that the best way to help improve producers’ livelihoods was by guaranteeing them direct market access and a fair price for their goods. To this end, Paul founded Fair Trade USA (originally TransFair USA) to encourage product providers to vote for a better world and support economic justice. Companies can charge customers a premium in return for the Fair Trade guarantee that they pay farmers fair prices. Because of Paul’s efforts, millions of small farmers worldwide are earning additional income and communities are using premiums to invest in building schools, funding educational scholarships, improving businesses, and providing health care for farmers and their families.

**THE IMPACT**

- More than $1.5 billion in retail sales of Fair Trade-labeled products
- Registered 574 Fair Trade producer organizations globally
- $115 million in product premiums for small farmers
- Partnered with over 800 U.S. companies
6 Consumer Aggregation

**TRADITIONAL DEFINITION**
Bringing buyers together as a group to express preferences, negotiate prices, and demand alternative products.

**DESIGN PRINCIPLE**
An inability to demonstrate negotiating power has traditionally left some consumers without access to affordable essential goods and services. By coming together to articulate demand, these consumers can negotiate better prices or request better quality products or services.

**KEY CHARACTERISTICS**
- These “consumers” are often small producers, who need to access inputs for their production activities (i.e., farmers who come together to buy bulk seed) or supplementary services that would increase their productivity and livelihood.

**Example:**
Freelancers Union (www.freelancersunion.org), an organization founded by Ashoka Fellow Sara Horowitz, aggregates freelance workers in order to increase their ability to negotiate for high quality health care and other insurance packages. Since these freelancers do not have access to the infrastructure normally provided by employers, they come together in order to create a buying entity for benefits. The intentional community also benefits members by providing mutual support as they reshape the understanding of the growing independent worker sector.

7 Value Capture

**TRADITIONAL DEFINITION**
Strategy or mechanism that enables a party to capture an increased share of the financial benefit created by a value chain.

**DESIGN PRINCIPLE**
Creation of a framework, process, law or mechanism that enables producers to realize a greater portion of the value generated by markets (i.e., market price). These mechanisms may be enforced through international laws, branding, or certification. Often, this value is captured by a group of producers in a geographic region who produce the same product. These producers regularly operate in commodity markets and value capture is critical for them to differentiate their products.

**KEY CHARACTERISTICS**
- The knowledge and ability to navigate the intellectual property system opens channels of revenue not previously accessible.
- It is critical to effectively mobilize market demand for intellectual property rights (IPR).

**Example:**
Light Years IP (www.lightyearstsp.net), an organization founded by Ashoka Fellow Ron Layton, is dedicated to alleviating poverty by helping producers in developing countries capture more of the value of their product through IPR. Light Years IP assists these producers in navigating a complicated legal system to help them obtain patents, trademarks, and other forms of intellectual property for their products. This allows producers to charge much higher prices for their goods, cultivate greater demand for their branded products, and otherwise protect their product in a way that allows them to pull optimal financial value from it.

8 Alternative Currency

**TRADITIONAL DEFINITION**
Supplementing traditional monetary systems with an alternate monetary system outside of formal recognized currency.

**DESIGN PRINCIPLE**
Utilizing an alternative currency is frequently most useful to social entrepreneurs and their target population when the target population or community possesses under-utilized productive capacity but the initial asset endowment is insufficient to initiate exchanges.

**KEY CHARACTERISTICS**
- Frequently a short- or medium-term approach.
- Currency can exist in several forms, including tangible assets, such as clothing, or intangible assets, such as hours in a time bank.

**Example:**
Ashoka Fellow Anshu Gupta founded GOONJ (www.goonj.org), which leverages the power of alternative currency by facilitating a system of clothing-for-work. The system not only provides a basic need, clothing, but it also boosts the local economy through the completion of vital local infrastructure building projects. GOONJ first works to inculcate a culture among well-resourced classes in India of donating used clothing, rather than throwing them away. GOONJ then coordinates with local CSOs to identify clothing and infrastructure needs in poor rural communities.

9 Market Maker

**TRADITIONAL DEFINITION**
Provides liquidity in a new product by offering to be the buyer of last resort.

**DESIGN PRINCIPLE**
Making a market removes a low-resource producer’s liquidity risk as he or she moves up the value chain or disengages from a broker or intermediary. This increases their ability to diversify a product or service, or to take greater risk in introducing a new product or service into the market. This is especially important for the target population for social entrepreneurs, as the products or services being introduced often lack a cultivated market, but once adopted, could result in an important increase in quality of life, income generation, etc.

**KEY CHARACTERISTICS**
- Guarantees a market for a product, either by providing the primary market for the product, or by promising to buy any surplus.
- Cultivates a market for the product by unlocking latent demand.

**Example:**
Honey Care Africa (www.honeycareafrica.com), founded by Ashoka Fellow Farouk Jiwa, supports subsistence farmers in building supplemental sources of income by training them in beekeeping, honey production, and marketing, as well as by helping them cultivate a local market for quality honey. Honey Care Africa further acts as a market maker by buying all surplus honey from the new honey producers, guaranteeing them revenue. This guarantee encourages subsistence farmers to diversify their activities and thereby increase their net income, leading to increased total honey production and growth of the commercial honey market.
10 Changing the Cost Structure

KEY CHARACTERISTICS

- We see this kind of innovation most often in critical high-fixed-cost industries such as health care or education, where, if successful, the benefit can be extraordinary.
- This kind of innovation can require specific expertise and significant capital.

Example:
In 1992, Ashoka Fellow David Green directed the establishment of Aurolab (India), the first nonprofit manufacturing facility in a developing country to produce affordable intraocular lenses (IOLs). The affordability of these lenses changed the cost of cataract surgery. Aravind Eye Hospital then passed on the savings to their patients in the form of lower prices. In changing the cost for the production of IOLs and contributed to changing the cost of eye surgery.

Over the years we have learned the value of paying attention to which barriers social entrepreneurs focus on; as well as the design principles they use to overcome them.

BARRIERS

To make the point by simple analogy: to unleash the potential of social change, it is as important to identify the keys (Design Principles) as it is to clearly see the locks (Barriers) which shackle change.

When addressing a complex or entrenched social challenge it is easy to get mired in descriptions of the problems and their numerous causes. To begin to see the possible solutions it is vital to understand which aspects of the problem are the barriers, i.e., those impediments that, if overcome, could result in a systemic response to a social challenge.

The current review of Ashoka Fellows led us to identify dozens of critical barriers. In the following section we focus on ten barriers that were of particular interest because of their prominence or their relationship to important design principles.

- **Exclusionary legacy system** is an important societal participatory system that due to outdated rules or characteristics has, over time, become exclusionary. The causes of these exclusions are various and have financial, cultural, legal, social, and political factors. The system in question conveys essential benefits and as a result, exclusion can have significant negative economic and social consequences.

- **Information rather than uptake orientation** is an implementation challenge that occurs with institutional approaches to knowledge transfer. Many organizations fail to achieve absorption and adoption of knowledge transfer strategies because they see the challenge as lack of information. Often the actual challenge is the culturally ineffective presentation of information or absence of a vehicle for which the local population has some degree of affinity and trust.

- **Lack of economic incentive** occurs when a proposed change would diminish economic value or not sufficiently compensate an affected population for participation. Even without economic diminishment, uncertainty in any shift from the status quo can discourage activity or action. As a result, lack of economic incentives can hinder the adoption and acceptance of new and valuable ideas and opportunities.

- **Lack of economically viable alternative** often leads to behavior with sub-optimal long-term outcomes. It occurs when individuals, who have high cash-discount rates and very high risk aversion, adopt short-term economically appealing options that have adverse long-term economic consequences.

- **Prohibitive cost** refers to limited access to essential goods or services for portions of the population due to income level gaps which affect the cost structure of said goods and services.

- **Underutilized resource** is normally observed when labor is not being used effectively or most promisingly. Often, changing the employment model can unlock greater economic potential and value for the worker or collective of workers to create more than transactional value (i.e. longer term value in addition to immediate payment that can change economic horizons).

- **Weak negotiating power** refers to a person or group’s limited ability to influence the outcomes of a bargaining arrangement.

- **Exaggerated risk aversion** results from a lack of familiarity with a market counterparty, good, or service.

- **Excluded relationships** due to intermediation can lead to weak engagement, which can diminish otherwise robust market interactions due to lack of confidence, lack of trust, and even lack of understanding.

- **Underrepresented** refers to a market counterparty, good, or service.

- **Excluded relationships** due to intermediation can lead to weak engagement, which can diminish otherwise robust market interactions due to lack of confidence, lack of trust, and even lack of understanding.

- **Underrepresented** refers to a market counterparty, good, or service.
This matrix summarizes how the Ashoka Fellows we studied employ various Design Principles to address a set of commonly-occurring Barriers.

<table>
<thead>
<tr>
<th>DESIGN PRINCIPLES</th>
<th>Barriers</th>
<th>Exclusionary legacy system</th>
<th>Information as opposed to uptake</th>
<th>Lack of economic incentive</th>
<th>Lack of economically viable alternative</th>
<th>Prohibitive cost</th>
<th>Underutilized resource</th>
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TREND ANALYSIS

PURPOSE:
The Design Principle/Barriers Matrix naturally lends itself to arriving at insights. It focuses attention on the most frequently identified barriers and the most commonly used design principles. Nevertheless, empty spaces on the matrix can be as informative as full spaces. In the best instances this is a tool that raises as many questions as it answers, and leads to productive avenues of inquiry.

OBSERVATIONS AND TRENDS:

1 Social entrepreneurs introduce new products to change the systems in society. While product design is a distinctive competency of the private sector, social entrepreneurs are particularly successful in designing products that overcome the barrier of prohibitive cost and that fulfill a functional need while addressing an information uptake barrier. The prominence of these approaches is promising for those looking for market-based solutions to social challenges.

2 Social entrepreneurs make work profitable. For many people, their productive relationship (such as employment) does not provide an adequate surplus, which creates a multitude of problems. It is no surprise so many Fellows’ efforts focus on this relationship. To address these challenges, Ashoka Fellows seek to overcome the individual or group’s weak negotiating power through producer aggregation and/or value capture.

3 Social entrepreneurs unlock market potential. Many people in resource-poor communities cannot make the most of their productive capacities because no one has the resources to compensate them for this effort. Social entrepreneurs realize that once they get a series of transactions started, these exchanges can take on a life of their own. As a result, a surprising number of social entrepreneurs are introducing alternative currencies to unlock the market potential of resource-poor communities.

Among their innovations, for instance, is a microfinance mechanism that lends nearly $2.5 million per week funded entirely by donations of approximately $25. Through their innovations, social entrepreneurs now lead the conversations in how to address the most intractable social challenges.

Social entrepreneurs not only surface powerful new ideas, they also introduce new operational models. These pioneers recognize the potential of using market forces to change systems in society and address social challenges. Over the last 30 years, they have increasingly turned to earned-income revenue streams as a natural extension of their approach to creating social change. As a result, the citizen sector has shifted its sources of operational income.

Citizen sector organizations conventionally utilized contributed revenue models, relying on large gifts, grants, cash, and in-kind donations in order to fund organization activities. This reliance on contributed revenue streams made citizen sector organizations dependent on charitable foundations, individual donors, and public sector funders. Moreover, contributed revenue models lacked the feedback mechanisms by which organizations could assess effectiveness of their strategies. Additionally, significant cutbacks in government support, a decline in private philanthropic funding, and increased competition for philanthropic funding also impacted how citizen sector organizations looked for funding. Realizing the need to diversify their sources of revenue, citizen sector organizations increasingly pursued earned-revenue models.

Today, social entrepreneurs use earned revenue as a core piece of their income strategy. They have devised innovative new approaches to generating revenue which create a dedicated base of support and provide a source of enduring and flexible funding. This section looks at the variety of earned revenue models adopted by social entrepreneurs.

Frequently, citizen sector organizations utilize both earned and contributed revenue concurrently, and they have pioneered a new wave of hybrid organizations which seek to combine parts of both contributed and earned revenue approaches. The discussion of Willy Foote’s Root Capital model on the next page explores this idea more fully.

Lack of access to capital leads the rural poor to make short-term decisions for food and income security that harm the environment and slows long-term economic development. But current lending policies exclude small and growing businesses (SGBs), keeping rural communities in poverty. At the same time, there is a growing demand by international companies, such as Starbucks and Whole Foods, to serve their customers high-quality goods produced by rural farmers. Willy Foote understood how affordable, accessible loan finance could end the vicious cycle of environmental and social degradation faced by rural producers. He founded Root Capital to provide working capital and deliver financial training to farmers in agricultural SGBs in Africa and Latin America. SGBs are more stable with access to finance and other resources: they can pay their members on time for their goods, attract more producer members, and reliably deliver high-quality goods to international consumers. Willy’s ground breaking activities have enabled rural SGBs to realize their potential, increasing production levels, farmers’ profits, and the supply of goods to consumers around the world.

While Root Capital charges interest for the capital it provides, it also provides important education and training services to farmers and producer groups for free. As a result, it uses a hybrid revenue model in order to deliver its product to the target market. Root Capital uses donations and philanthropic funding to fund agricultural extension services and training programs, strengthen value chains, and build capacity. It simultaneously charges interest on its loans to these farmers and cooperatives. These two revenue models work in tandem to provide access to financing and other tools to those who are traditionally marginalized from the formal economy. Organizations may employ a hybrid revenue model, simultaneously using both earned and contributed revenue streams if their strategies have complex hybrid components.

THE NEW IDEA

Deployed more than $500 million in cumulative credit in Africa and Latin America since inception

Reached over 3 million household members since 1999

Helped rural enterprises in Root’s portfolio generate nearly $600 million in revenue in 2012

THE IMPACT

While many citizen sector organizations will continue to rely on contributed revenue, in this section we are focusing on the social entrepreneurs who are using earned revenue as a key element of their approach to systems change. This focus stems from our recognition that market forces can offer an alternative, effective mechanism to create lasting social impact.
Children obesity in the U.S. has more than tripled in the past thirty years and is particularly prevalent among low-income Americans. Contributing to the obesity problem is the fact that 60 percent of American students participate in the National School Lunch Program, which often includes processed foods that are high in trans-fats and contain high-fructose corn syrup and offer little nutritional value. Kirsten Tobey and Kristin Richmond are two moms who wanted children to have the nourishment they needed to lead successful and healthy lives. They founded Revolution Foods to provide healthy, portioned school lunches in low-income communities. Through innovations in the supply chain, Revolution Foods is able to supply schools with locally-made, low-cost meals that use fresh ingredients. Kirsten and Kristin are transforming nutrition in low-income schools around the country, one meal at a time.

1. **Direct Service Provision**
   (Product Sales, Service Sales, Contracting)

   Ashoka Fellow Basil Kransdorff’s organization Econocom Foods sells nutrient-replete food supplements in 15 countries in Africa.\(^1\) Basil recognized that his target consumers needed more nutrient-replete food but absent a food scarcity, giving this food away was not an effective way to achieve market penetration of his product. Instead, Basil decided to market and sell his product, believing that it was the best way to create an on-going revenue stream and determine demand. His approach gives him unique insight and immediate feedback regarding the demand for his products, enabling Econocom Foods to sell millions of food portions of ePap, eDrink, eSoup, and eSpread per month.\(^1\)

2. **Licensing Fees**

   In this model, CSOs charge individuals, groups, or organizations fees for the provision of a license, brand, or certificate. For example, Ashoka Fellow Paul Rice launched the Fair Trade Certified label so that small-holder producers that meet certain quality and environmental standards can obtain better prices from their customers. These companies (customers) are willing to pay more for coffee and other commodities because through licensing this label, they differentiate their product in the retail market place and can sell to higher price consumer segment that wanted fairly traded products. There are currently 800 U.S. companies that pay Fair Trade USA service fees for licenses to sell officially certified Fair Trade goods.\(^4\)

3. **Financing**

   Financing organizations provide individuals, families, or small and medium businesses with monetary resources, credit, capital, and/or insurance products with the expectation of monetary return in the form of interest payments or ownership of an organization. BASIX, Ashoka Fellow Vijay Mahajan’s organization, supports the livelihoods of over a million poor rural households in India by creating and expanding financial services. It offers poor rural households microcredit and companion savings programs, insurance plans for life, health, crops, and livestock, and agricultural and business development services. In return, it receives repayments of the principal plus interest on its loans, and payments for its insurance products. BASIX creates products that are accessible and affordable to the target population, yet requires payback in order that it may recycle its capital. \(^2\)

4. **Consulting Fees**

   Ashoka Fellow Hilm Quraishi’s ZMQ Software Systems is using mobile gaming to educate people about public health and population issues, climate change, and Indian history. To support the development of new educational software, ZMQ offers companies and CSOs its technological expertise. In exchange for consulting fees, it designs tailored websites, customized online management systems, client-server solutions, simulated learning modules, and trainings for these clients.

5. **Franchising**

   In this model a CSO plays the role of a parent organization that sells the template of a successful, proven social enterprise model to new entrepreneurs to replicate in new markets. Ashoka Fellow Paul Basil’s organization Vilgro Innovation Market Pvt. Ltd. (VIPML) is a unique retail chain for innovative agricultural and household products targeting the rural poor in India. It franchises rural Vilgro Stores to Village Level Entrepreneurs who are in charge of running the stores and selling VIPML’s products.

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Ashoka Fellows use different earned revenue models to support their activities. These revenue models can work with specific design principles. In the Earned Revenue Matrix, we show the association of the five earned revenue models with nine design principles:

### Table: Type of Revenue Models

<table>
<thead>
<tr>
<th>Design Principles</th>
<th>Direct Service Provision</th>
<th>Licensing Fees</th>
<th>Consulting Fees</th>
<th>Franchising Fees</th>
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<td><strong>Market Linkages</strong></td>
<td>Paul Rice</td>
<td>William Foote, Satyan Mohra</td>
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<td>Paul Basil (Village)</td>
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<td><strong>Distribution Channels</strong></td>
<td>Sameer Sawarkar, Irfan Alam, Pradip Sarmah, Sati Bhole, Farouk Jwa, Bibhu Mohary</td>
<td>Brent Kopperson, Gautham Bharadwaj, Irfan Alam, Pradip Sarmah</td>
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<td>Paul Rice, Kailash Satyarthi</td>
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<td><strong>Value Capture &amp; Certification Creation</strong></td>
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<td><strong>Financing as a Catalyst</strong></td>
<td>Pranjal Baruah, Farouk Jwa, Bibhu Mohary</td>
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<td><strong>Market Maker</strong></td>
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<td>Brent Kopperson, Billy Parish</td>
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### IMPACT ALIGNMENT

The Earned Revenue Matrix suggests an important point. An organization’s revenue model affects its ability to achieve its social mission in more ways than merely providing the necessary resources. An organization’s revenue model places demands on the organization’s staff and time, creates performance pressures and accountability, establishes relationships, and limits flexibility. As a result, it becomes incredibly important to create alignment between an organization’s impact strategy and its strategy for generating income.

**Impact – Income Alignment** is represented by the first leg of our triangle: the connection between Impact and Income. Our review of Ashoka Fellows helped us discern key characteristics that lead to strong, weak, or poor Impact – Income Alignment.

- **Strong Impact – Income Alignment** occurred in cases in which the driver of the organization’s impact was also the driver of its revenue. This alignment profoundly empowers an organization to be effective. It helps to focus an organization on a single outcome, ease governance concerns, and tends to create rapid feedback loops that are taken seriously. It is no surprise that organizations with strong Impact – Income Alignment tend to be fast-growing high performers.

- **Weak Impact – Income Alignment** occurred in cases in which the driver of the organization’s impact was somewhat independent of the driver of its revenue, and the revenue driver had less of a market orientation than the impact driver. For example, philanthropically funded social investment organizations may have weak Impact – Income Alignment. One benefit of this is that the organization may be able to fund operations that would not be feasible on strictly market terms. On the other hand, the funding is likely to come at an organizational and financial cost that inhibits impact. Experience shows that there is frequently a limit to the scale these organizations reach at the balance between costs of generating income and the potential of achieving impact is difficult to maintain.

- **Poor Impact – Income Alignment** occurred in cases in which the driver of the organization’s impact was independent of the driver of its revenue, and the revenue driver had more of a market orientation than the impact driver. For example, citizen sector organizations that offer new products can have poor Impact – Income Alignment. The difficulties these organizations face are frequently exacerbated with scale. As the revenue driver becomes increasingly successful it begins to attract attention and pressure builds to maximize resources. As a result, success frequently increases the challenges of maintaining fidelity to mission, which may appropriate governance structures all the more important.

A preliminary assessment of social entrepreneurs’ Impact – Income Alignment can be found in the Alignment chart at the end of the Investment section.

### CONCLUSION

Social entrepreneurs are innovating new strategies to generate income. By increasingly turning to earned income models they are lifting the constraints of traditional philanthropy and creating new avenues to scale their impact. Our review suggests that there are important similarities to the income strategies social entrepreneurs used across different geographies. And even more importantly there are lessons to be learned about how the alignment between the Impact and Investment strategies accelerates or inhibits the scale of impact. As a sector there is an opportunity to develop new competencies and more effectively mobilize the resources needed to achieve impact.
By changing the funding landscape for the citizen sector, social investing has the potential to help answer the third entrepreneurial question, “How do I mobilize the investment needed to scale my impact in the future?”

While there is a wave of new innovations, even well-established approaches can have a significant effect. For example, program-related investments (PRIs) allow foundations to leverage their philanthropic funds. Mission-related investments (MRIs) can unlock vast new resources by enabling foundations to align the investment activities with their mission. And social investment vehicles are attracting new investors and the commercial players that support them.

These developments are having a profound effect on the citizen sector, and it is not just because of the amounts of capital they can mobilize. It is also because of the uses to which the capital will be put.

Until recently, with a few exceptions, citizen sector organizations relied on organic growth to achieve scale. That is to say that they would re-invest incremental income in productive capacity to expand their operations. The cost-plus funding model that is common in the citizen sector makes finding this incremental income very difficult. As a result, growth is limited and slow for the vast majority of citizen sector organizations.

In contrast, when a citizen sector organization accepts a social investment, it frequently enables and requires a quicker rate of growth to provide the returns that justify the investment. As a result, social entrepreneurs who accept investments need to rethink their scaling trajectories, which can include: the level of impact they plan to have, the geographies they work with, the people they bring in to the organization, and the income they seek to generate. Since many of these changes depend on other players in the ecosystem, a social entrepreneur’s ability to adapt may be limited by the rate at which the ecosystem on which he or she depends can adjust.

Understandably, the slow pace of change is leading some to be frustrated and question social investing’s potential. At Ashoka Social Financial Services, we are not amongst them. On the contrary, we believe that we are just scratching the surface of what is possible. And we have much more to learn about how to successfully invest in social change. To push our own thinking at Ashoka SFS, we looked at the most powerful examples we could find: Ashoka Fellows using market forces to address social challenges.

Our review helped us articulate a key insight that is more powerful than we had previously appreciated.

**TEMPERING OR UNLEASHING MARKET FORCES**

As we examined the design principles social entrepreneurs were using, a striking difference came to light. While all the social entrepreneurs we looked at were harnessing the power of market forces, their relationships to the market forces were quite distinct.

Some social entrepreneurs focus on overcoming an obstacle or barrier that inhibits market activity or on improving the position of players within market arrangements, but the market activity itself is not tempered in any way. These social entrepreneurs are addressing a social challenge by unleashing market forces that were not previously working as effectively as possible. We might think of this as correcting a market failure.

The signature characteristic of a social innovation that unleashes market forces is that each transaction in the value chain that the innovation relies on can be undertaken for purely market-based considerations.

For example, Willy Foote of Root Capital uses financing as a catalyst to provide working capital to smallholder farmers at rates below ‘market’. Since Root Capital’s model depends on providing financing at below ‘market’ rates to achieve his intended outcome, we see Willy’s approach as relying on tempering market forces to create a social impact.

Understanding the extent to which, if at all, an organization tempers the application of a market force gives us a basis to explore and understand their income strategy and range of viable investment options.

For instance, there are two immediate organizational implications that arise from Root Capital charging below market rates to the farmers it serves: first, these revenue haircut have to be accounted for when Root Capital considers its operational expenses; second, Root Capital’s capital raising strategy also has to account for this and they are likely precluded from soliciting investments from investors that want to maximize financial returns. On the other hand, companies such as Cargill or Dole Foods that utilize the Fair Trade label are full market players.

Our goal is not to recommend that an entrepreneur temper or unleash market forces, but rather to highlight the significance of doing so in considering possible social investments. We discuss this further in the next section.
Recognizing how critical Impact – Income – Investment alignment is for successful social investing, the Ashoka SFS team set out to turn these insights into actionable tools and applied them to the Ashoka Fellows discussed throughout this paper.

While the findings are preliminary and rely on qualitative judgments, the following chart demonstrates the results of assessing an organization’s Impact – Income Alignment and Market Orientation.

For individual social entrepreneurs, this could provide vital insight into the relevant income strategies and the investors that may be relevant. For investors, this kind of analysis provides critical information when developing an investment thesis and identifying a potential investment pipeline.7

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7 Please note that the following exhibits are for demonstration purposes only. This does not constitute advice or guidance for any investment decisions.
**LOOKING FORWARD**

Market-based innovations have the potential to systemically address social challenges at large scale.

Social entrepreneurs are leading the way, demonstrating how familiar market strategies can be used to address social challenges by overcoming critical barriers. To support these innovations, social entrepreneurs are increasingly turning to earned revenue models that complement traditional forms of philanthropic funding. And social finance’s promise to accelerate these innovations by leveraging philanthropic funding, engaging new players, and mobilizing new pools of capital has firmly focused attention on investing in social change.

This is the beginning. We have much further to go. But some are frustrated with the obstacles the sector has encountered. Others question whether social entrepreneurs can be investable or whether investors understand social impact.

Our review of the market-based innovations of over 300 leading social entrepreneurs from three different continents suggests these obstacles may be far more tractable than we had thought. But addressing these obstacles will require new competencies.

The Alignment Framework helps bring this to light. It is not enough to evaluate the Impact, Income and Investment strategies. We also need to consider how each of these components affects the others. Is there strong alignment between the Impact and Income strategies? Is the market orientation of the Impact strategy aligned with the Investment strategies?

Developing the competencies to answer these questions will help overcome the obstacles limiting the growth of social finance, and in so doing will help scale the impact of the citizen sector.

To help take this step forward, Ashoka Social Financial Services plans to broaden and deepen its review of the market-based innovations of leading social entrepreneurs. We believe this will not only lead to new insights, but that it could also enable us to create practical new tools that point to concrete opportunities. The following three categories represent where we may focus moving forward:

**MARKET-BASED STRATEGIES FOR SOCIAL CHANGE**

We intend to develop a framework that incorporates a more extensive review of barriers and design principles by examining a broader base of Fellows. This would then be linked to the revenue models most commonly used to implement each design principle. This could help produce a tool that demonstrates the variety of design principles and related revenue models that social entrepreneurs use to address a specific barrier.

For specific social challenges this tool would identify the barriers social entrepreneurs identified as critical, the design principles they used to overcome those barriers and the income model they used to fund the operations.

**MARKET ORIENTATION**

Recognizing how challenging it can be to create Impact – Investment alignment, we think it would be helpful to create a primer that demonstrates successful alignment strategies and offers investors and social entrepreneurs, a comprehensive set of suggestions and guidelines for developing viable go-to-market models.

**OPPORTUNITY SEGMENTS**

Social entrepreneurs employing similar design principles to overcome similar barriers tend to face similar obstacles and have similar organizational trajectories, even if they are working in what would traditionally be considered very different sectors such as health, education and renewable energy.

We think it would be helpful to create an opportunity pipeline strategy that reflects segmentation by design principle and hope to demonstrate and implement this strategy through collaboration with a selected group of pioneering investment partners.