

# **SOCIAL ENTERPRISES, Part I**

## **Blockbuster Social Enterprises Are Run Like Successful Commercial Companies**

**"It's crazy that there are huge engineering teams figuring out how we can add a different filter to our photos, but there are so few people using the Internet and technology to bring education or health care to the world. It's absolutely mind-boggling to me."**

Chase Adam, founder, Watsi

**" 'Startup' has always meant a for-profit company, but a charity can operate much like one."**

Paul Graham, founder of the Y Combinator accelerator

**"The World Bank has a bird's eye view of the world. Grameen Bank has a worm's eye view."**

Muhammed Yunus, founder, Grameen Bank

**"These children don't need a cup, they need a cow."**

Dan West, founder, Heifer International

**"Somewhat ironically, as we become less needy of donor funding, we become even more attractive to donors."**

Fazle Abed, founder, BRAC

What's the difference between a social enterprise and a commercial enterprise?

Does a social enterprise need to be a nonprofit?

What percent of children in Bangladesh study in BRAC schools? How many are girls?

What's the market cap of BRAC Bank?

What are Grameen's "village phone ladies"?

What's the purpose of Heifer's Passing on the Gift tactic?

What is a Theory of Change?

Nonprofit and for-profit companies used to be worlds apart. Nonprofits were considered cumbersome and inefficient, driven by mission of charity more than efficient delivery, and dependent on donors. For-profits, driven by revenues and quarterly earnings from value creation, were dependent on consumer adoption and shareholder investors.

But a funny thing is happening on Startup Planet—in many ways, the two worlds are converging. New nonprofits are beginning to think, act, and talk like for-profit startups. Today's startup nonprofits talk about "philanthropic seed rounds," business models, analytical metrics, "hiring top talent," and "scaling"—just as for-profit startups do. "'Startup' has always meant a for-profit company, but a charity can operate much like one," says Paul Graham, founder of the Y Combinator accelerator that has started investing in and mentoring nonprofits.

Consider Watsi, a crowdfunded medical charity that was the first nonprofit to be included in a Y Combinator accelerator class. Watsi allows people to donate small amounts of money to fund medical treatments for individuals in 20 developing countries. "All we focus on [is] growth and impact—at the end of the day, we just need to make the numbers go up and to the right," said Chase Adam, founder of Watsi.

Adam's focus on growth is emblematic of startup culture. As a San-Francisco-based technology platform, Adam says Watsi's setup is nearly identical to that of for-profit startups. "We are completely surrounded by for-profit tech companies," noted Adam, who was recently honored as a White House Champion of Change. "We are trying to hire the same talent, we want our website to be just as good as any for-profit site—everything is the same. It's crazy that there are huge engineering teams figuring out how we can add a different filter to our photos, but there are so few people using the Internet and technology to bring education or health care to the world," he says. "It's absolutely mind-boggling to me."

Even venture-capital terminology is making its way into Watsi's lexicon. In 2015, Watsi raised \$1.2 million in a so-called "philanthropic seed round" and in 2016 it raised \$3.5 million in a "philanthropic growth round"—the same way a tech startup might reveal the close of its Series A round. Overall, thanks to individual donors, it has roughly \$7 million. Watsi's press releases list "investors" (notably Y Combinator founder Paul Graham and venture capitalist Vinod Khosla), growth metrics ("since 2013 Watsi has grown 20x, funding health care for more than 5,000 patients"), and big-name hires ("the nonprofit has already recruited engineers from NASA, Microsoft and Palantir").

Like most startups, Watsi is hyper digital. "We have a rule at Watsi that at least half of our team is able to code," says Adam. The 11-employee nonprofit recently hired three engineers and plans to hire a few more. Watsi's engineers are building a platform that enables its care providers to upload and manage patient information. "These people have varying degrees of technical literacy – we need to make a system that is simple enough for everyone from a nurse in Haiti to a doctor in Cambodia to use."

Another business-minded social startup is Pencils of Promise, which raises money to build schools in developing countries. Founder Adam Braun, a former consultant, believes nonprofits can learn a thing or two from big business. "We don't just ask for money, we earn it," says Braun, who set up Pencils of Promise in 2008. "We're able to bring real value to companies through marketing efforts and expanded social-media following."

By partnering with for-profit entities to run campaigns, Pencils of Promise has been able to break ground on over 180 schools. In 2015, the latest financial report available, Pencils raised more than \$8 million from foundations, individuals, and corporations. Pencils expects local communities to put in about 10-20 percent of funding (usually made up by providing labor and materials).

Braun, who refers to Pencils of Promise as a *for-purpose* organization rather than nonprofit, insists they remain focused on a bottom line—but instead of gross profit, its gross efficacy. “We’re seeing students in our schools outperform peer schools in test scores, 85 percent of communities are reporting increased literacy, and 88 percent are reporting an increase in numeracy,” Braun noted. Pencils of Promise this year spent 6 cents for every dollar raised, and 85 percent of its total dollars went into programming.

“I bootstrapped from \$25 dollars into an organization that raises millions of dollars, and that was done with a startup-based mentality,” Braun says.

## **CAN STARTUP NON-PROFITS SCALE IMPACT?**

Y Combinator is primarily a for-profit startup accelerator that has mentored a few non-profits. Fast Forward, on the other hand, is an accelerator that specializes in “tech non-profits.” Fast Forward’s definition of a tech nonprofit is an organization “building original software or hardware that has selected a nonprofit business model in order to scale social impact, not profits. Tech nonprofits funded by Fast Forward have raised ~\$60 million in follow-on funding.

Google.org, Google’s non-profit arm, has partnered with Fast Forward, providing space for its annual demo day and donating \$20,000 to each startup, as does Fast Forward, as well as contributing to the larger Fast Forward fund. Fast Forward has also pulled together a roster of advisors and mentors that includes venture capitalists, and employees from Google, Apple, Facebook, Adobe, and many more.

Looked at in this light, it is clear that social enterprises are subject to many of the same rules as commercial value-adders. They need to attack big problems with a story and mission—based on a compelling theory of change—that will attract employees, volunteers, and donors. They need to build a platform that will attract partners that can reach into remote rural areas. They need to continually test and improve their business design, willing to fail *en route*, to develop a long-term sustainable enterprise. They need to create value—social value that derives from changing peoples’ lives. And they need intense productivity, applying leverage to achieve asymmetrical gains. Just as today’s asymmetrical commercial warriors like Airbnb and Didi Chuxing, high-flying social enterprises like Khan Academy, Kiva, and Wikipedia have scaled fast to reach hundreds of millions with minimal resources.

This new world of nonprofit tech startups that are following the mold of for-profits that scale fast is exciting, but it’s also an experiment. Will today’s social startups like Watsi actually scale? Will they create measurable impact that changes lives? Do they have a theory of change that actually works? (See sidebar, “A Theory of Change Is Like a Rudder.”) A theory that says if we do X it will precipitate Y and lead to Z outcome. Because if they don’t, and they are just providing charitable services, the money will eventually stop flowing.

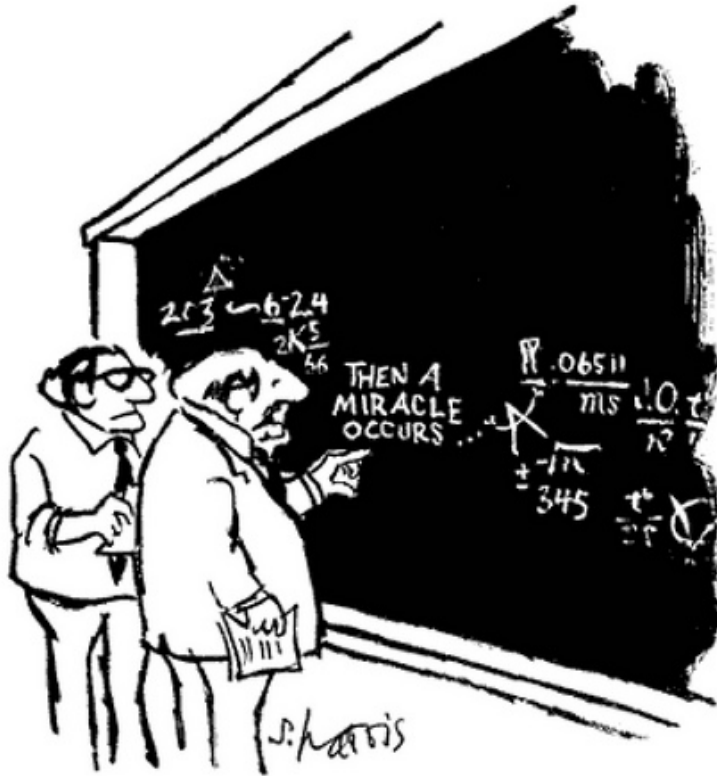
In that regard, it’s instructive to look at several blockbuster social enterprises from the 20<sup>th</sup> century (BRAC, Grameen Bank, Heifer International, in Part I) and early 21<sup>st</sup> century (Kiva, Wikipedia, Khan Academy, in Part II) that have achieved impact and longevity. Their theory of change is working. In their own world, in their own way, they are as sophisticated and adding as much value as 20<sup>th</sup> century rock stars Amazon, Apple, Google—and as 21<sup>st</sup> century superstars Airbnb, Didi Chuxing, Alibaba, Facebook, Netflix, and Uber.

## **SIDEBAR**

### **A Theory of Change Is a Rudder for a Social Enterprise**

A Theory of Change is a comprehensive description and illustration of how and why a desired change is expected to happen in a particular context. It is focused in particular on mapping out the “missing middle” between what a program or change initiative does (its activities or interventions) and how these lead to desired goals. It does this by first identifying the desired long-term goals and then works back from these to identify all the conditions (outcomes) that must be in place (and how these relate to one another) for the goals to occur.

The idea of Theory of Change emerged from the field of program theory and evaluation in the mid-1990s as a new way of analyzing initiatives to promote social change in the not-for-profit and government sectors.



"I think you should be more explicit here in step two."

Image credit: Sidney Harris

The innovation of Theory of Change lies in making the distinction between desired and actual outcomes—and in requiring stakeholders to model their desired outcomes before they decide on forms of intervention to achieve those outcomes. For example, many may think that providing an unemployed person a job, any kind of job, solves a problem. It might and it might not. BRAC's Fazole Abed says that giving people a job with subsistence wages as far as the eye can see does little to change his or her social standing, which is why BRAC's theory of change focuses on changing the social dynamic (through education and access to markets) to allow more flexibility and upward mobility. As for an enterprise like Kiva, the San Francisco-based microlender that has been very successful at mobilizing millions of dollars in loans from the West to individuals in developed countries, the theory of change focuses on institutions, not individuals. To date, they have shown that their loans have been repaid at a ~99 percent rate,

but Kiva realizes that while the impact improves resilience at the margins, it does not necessarily create impactful long-term change. Rather, it is the microfinance institutions and farmer cooperatives through which they disburse the loans that are likely to push the boundaries and lead to long-term social change.

Theory of Change can begin at any stage of an initiative, depending on the intended use. A theory developed at the outset is best at informing the planning of an initiative. Having worked out a change model, practitioners can make more informed decisions about strategy and tactics. As monitoring and evaluation data become available, stakeholders can periodically refine the Theory of Change. Sal Khan, founder of Khan Academy, probably had no theory of change when he started tutoring his younger cousin and then started creating YouTube teaching segments for the world at large. As Khan Academy has scaled, Khan has realized that his teaching methods will achieve even more if integrated into classroom teaching, to allow students and teachers a personal one-to-one connection in addition to the daily rote work.

Without a Theory of Change, an organization is vulnerable to wandering aimlessly. Without a definition of what success means—and what metrics will be used to measure that success—it’s impossible to build a strategy. Communities and their partners have too much at stake to be aimless, amorphous or random in their actions. A Theory of Change is a practical and essential part of a successful transformation effort.

Sources: Annie E. Casey Foundation, Center for Theory of Change, Wikipedia

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## **20<sup>th</sup> Century Blockbusters**

BRAC (Bangladesh Rehabilitation Assistance Committee) and Grameen Bank, both started in Bangladesh, in 1972 and 1983, respectively, but now operating in countries around the world, are blockbuster social enterprises aimed at eradicating poverty. In both cases, their



foundational building block is a bank (BRAC Bank and Grameen Bank), both of which are for-profit enterprises that drive internal revenues that fuel a series of businesses. Thus, while both were initially dependent on Western donors, they are now internally generating enough (Grameen) or almost enough (BRAC) money to support their far-flung global operations. Heifer International, founded in 1944, is pure nonprofit, totally funded by (mostly) individual contributors. All three are models of operational efficiency, and show that social enterprises are, at heart, businesses that create value—just with a different way of measuring value.

## **BRAC**

BRAC is the largest collaboration network of social businesses in the world. Started to help Bangladeshis resettle after devastating floods and cyclones in 1972, a year after Bangladesh gained independence from Pakistan, BRAC now has 120,000 full-time staff in Bangladesh and in 10 countries in Asia, Africa, and the Americas.

In Bangladesh, BRAC is active in 70,000 villages in all 64 districts, reaching an estimated 75 percent of the entire population (110 million people annually). In 1974, BRAC started offering microloans, and has since loaned \$2 billion to 7 million people with a repayment rate of 98 percent. BRAC Bank, a for-profit sister company that is publicly listed (with a market cap of \$1 billion) has lent more than \$4 billion since its inception, more than half to small and medium businesses.

In its early days, BRAC moved beyond lending into education, health, water and sanitation, and food security. All these programs operate on a very large scale. BRAC is also an internet-service provider; it runs a university; and its 37,000 primary schools educate 11 percent of Bangladesh's children (70 percent are girls). BRAC runs feed mills, chicken farms, tea plantations, and packaging factories. And it is the majority owner of bKash, a for-profit mobile-money operator in Bangladesh.

“We have 16 social enterprises in BRAC, which started as a way to give people access to better market, better prices and development,” Asif Saleh, a BRAC director of strategy and communications, told a magazine in 2014. “Over time, it became quite profitable since we operate on a large scale” (see “BRAC’s 16 Social Enterprises”).

## BRACS’S 16 SOCIAL ENTERPRISES

Social Enterprise	Employees	Revenues (Euros)	Description
<b>Aarong</b>	3238	51.1mm	From clay pots to diamond jewelry, Aarong’s vast range of innovative products, backed by robust supply chains and distribution networks, makes Aarong a household brand in Bangladesh
<b>Seed</b>	503	14.6mm	Two modern scientific automatic seed processing and packing plants Bogra where annual capacity is around 5,500 metric tons
<b>Artificial Insemination</b>	106	2.2mm	BRAC’s artificial insemination enterprise has a bull station with 72 bulls producing semen that is distributed to depots across Bangladesh
<b>Poultry Farms</b>	239	2.1mm	To introduce both poultry vaccinations and high-yielding varieties of poultry into the Bangladeshi market, BRAC initiated its poultry project
<b>Poultry Rearing</b>	69	0.8	To introduce both poultry vaccinations and high-yielding varieties of poultry into the Bangladeshi market, BRAC initiated its poultry project
<b>Feed Mills</b>	216	11.1mm	BRAC Feed Mills work with independent dealers. The sales team coordinates with the dealers, and farmers receive feed from the dealers
<b>SNDK</b>	231	0.8	Providing a solution for female personal hygiene in poor households across the country through the Nirapod Sanitary Napkin and Kollani Delivery Kit enterprise
<b>Salt</b>	158	0.6	Iodine deficiency in rural populations led BRAC to start a salt making enterprise in Cox’s Bazaar
<b>Cold Storage</b>	18	0.2	BRAC Cold Storage has enough space for 60,000 bags of potatoes, each bag holding approximately 80 kilograms
<b>Sericulture</b>	37	0.4mm	Currently BRAC has 13 cocoon production centers and two silkworm rearing centers
<b>Fisheries</b>	140	1.5mm	Making quality fish spawn easily available to the fish cultivators of rural Bangladesh

<b>Social Enterprise</b>	<b>Employees</b>	<b>Revenues (Euros)</b>	<b>Description</b>
<b>Dairy</b>	1618	28.1mm	BRAC Dairy processes 170,000 liters of milk per day and holds 22 per cent of the national market share. It is one of the largest BRAC enterprises.
<b>Chicken</b>	176	4.2mm	BRAC Chicken acquires its supply from BRAC commercial broiler farms and sells the prepared meat to a variety of restaurants, hotels, and supermarkets
<b>Printing Pack</b>	136	2.7mm	BRAC's enterprises demand a high quantity of quality waterproof sealable packaging which the BRAC Printing Pack provides
<b>Tea Estates</b>	64	0.5mm	Four tea estates were set up to serve as model estates that would improve the lives of the tea laborers by providing health care and education
<b>Handmade Paper</b>	80	0.1	Made for the corporate urban market to recycle their paper waste, the project also provides jobs for local women at the production facility
<b>TOTAL</b>	<b>7325</b>	<b>121mm</b>	

Source: brackuk.net

This combination of development programs, social enterprises, and social investment, all focused on improving the lives of the poor, stems from founder Sir Fazle Abed's theory of social change: To reverse poverty, you need to change society. Reversing poverty does not require growth (in the sense of more of the same), but development (meaning new and different activities by hitherto excluded people). That is, growth alone will line the pockets of the middle and upper classes; new business creation by first-time entrepreneurs, alongside opportunities for education and healthcare, will reduce poverty.

Fazle Abed originally funded BRAC by selling his London flat when he left his position as a Shell executive to launch BRAC soon after Bangladesh's war-torn independence. Around 1980, funding was nearly 100 percent from donors. By the mid 1990s, BRAC had already reduced external funding to about 50 percent. In 2016, BRAC generated \$646 million of internal revenue, 82 percent of its total income, and more than enough to fund its operations. BRAC Bank is extremely profitable. In the first half of 2017, profits were \$28 million.

Back in 1974, BRAC's first social business was a printing press that supplied materials to schools. From the outset, this business provided jobs and valuable job training for BRAC's members. In its first year of operation, the press made \$17,400 in profits. In 2007, it was generating \$340,000 in profits.

BRAC used the profits from its printing business to pilot a novel oral-rehydration program for children with diarrhea. BRAC initially trained 4,000 oral-rehydration workers (ORWs) and sent them out to educate some 30,000 families. Within 10 years, BRAC's oral-rehydration program had reached 14 million of Bangladesh's 19 million households. The program played a major role in halving the country's infant mortality rates, which had been as high as 20 percent. Government surveys show that 70 percent of families in Bangladesh use BRAC's oral-rehydration solution.

Another social business, Aarong Craft Shops, helps 65,000 rural artisans market their handicrafts and has become the most popular handicraft marketing operation in Bangladesh. Its brand is as fashionable as any for-profit corporation can offer. Aarong's annual sales have reached \$28 million.

BRAC Dairy started in 1998, to provide borrowers who were milk producers with a reliable distribution outlet. Today, BRAC Dairy not only secures fair prices for its rural dairy farmers, but also has expanded to offer cattle development and technical training, vaccination, feed-cultivation facilities, and other services. Through its 101 chilling centers, BRAC Dairy collects milk from more than 50,000 registered farmers and sells it nationwide under the Aarong Dairybrand. The enterprise accounts for 24 per cent of the national dairy-products market, and its profits have allowed program expansion.

## **BRAC microfinance in Bangladesh (from 2016 annual report)**

BRAC microfinance around the world

<b>Village Organizations (VOs)</b>	<b>283,955</b>
<b>Total members</b>	<b>5.4 million</b>

<b>Total Borrowers</b>	4.9 million
<b>Outstanding Loan</b>	USD 1.4 billion
<b>Savings Deposits</b>	USD 476 million

<b>Countries</b>	<b>Total Outstanding (USD)</b>	<b>Borrowers</b>
<b>Pakistan</b>	12 million	53,000
<b>Liberia</b>	2 million	13,000
<b>Sierra Leone</b>	3 million	22,000
<b>Tanzania</b>	24 million	133,000
<b>Uganda</b>	31 million	181,000
<b>Myanmar</b>	1 million	11,000

## The Ultra Poor

BRAC's two main targets are women and the ultra-poor. Many of the ultra-poor households tend to be headed by women who have been widowed or abandoned. Their children are malnourished and ultimately join the ranks of the unskilled workforce, with no assets or basic education. Without land, they set up shacks on the land of their patrons.

"They needed grants rather than loans," says Abed of the ultra-poor. BRAC designed a program that would "hold the hands" of Bangladesh's poorest 10 percent by giving them grants and stipends for two years. Then, most of the clients "graduate," becoming full-fledged microfinance borrowers. The percentage of participants who reported going without food for entire days has fallen from 60 percent to 15 percent. Since the program started in 2004, more than 1 million have graduated from poverty, with half taking out microloans. (Interest rates are in the mid-20s percent.)<sup>1</sup>

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<sup>1</sup>Microfinance providers charge interest rates that are significantly higher than commercial banks to cover greater operating costs, and the higher costs of lending. Operating costs are higher than other financial institutions because we the poor borrow

BRAC's work often achieves market leadership. Its channels are what British author Alan Mitchell terms "right-side up." In other words, the channels are designed to be the lowest cost to serving, distributing, communicating, and innovating in communities in most critical need of sustainable development solutions.

BRAC is older and larger than Grameen Bank, although not as well known, mainly due to the larger-than-life status of Grameen's founder and Nobel laureate, Muhammad Yunus. In a book on BRAC entitled "Freedom from Want," Ian Smillie calls it "undoubtedly the largest and most variegated social experiment in the developing world. The spread of its work dwarfs any other private, government, or nonprofit enterprise in its impact on development." David Korten, author of "When Corporations Rule the World," called it "as near to a pure example of a learning organization as one is likely to find." *Fortune* magazine has called BRAC "the world's most effective poverty fighter."

## **GRAMEEN BANK**

In 1976, Muhammad Yunus, a young professor of economics at the University of Chittagong, lent \$27 to 42 landless people to begin a crafts business. The loans were quickly repaid, and Yunus continued the practice. Requiring no collateral, he started lending to groups, which enforced peer pressure to repay the loan.

This mini-experiment in microcredit worked well, but lending from his own pocket was clearly impractical. Yunus tried to interest banks in adopting his idea of lending without collateral, but bankers said the poor were not creditworthy. "How do you know they're not credit-worthy if you've never tried?" he asked. "Perhaps the banks are not people-worthy."

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small amounts. Small loans take longer to process. In the absence of a credit bureau, employment history or the collection of collateral, BRAC provides a high-touch service that sends thousands of field officers to the doorsteps of rural clients.

In 1979, the Central Bank agreed to operate the “Grameen Project” (“grameen” means “village” or “rural” in Bengali) from seven state-run banks. In 1983, when Grameen had 59,000 clients in 86 branches, Yunus left academia to start Grameen Bank. It started with loans from the Central Bank and capital from groups such as the Ford Foundation. By 1995, Grameen was self-sufficient.

As a bank, Grameen Bank is a for-profit corporation, but Yunus refers to it as a “social business” or a “business owned by the poor.” In 2016, the Bank had 2,500 branches serving 80,000 villages, spanning virtually the entire country. The total number of members (borrowers) is 8.9 million. Borrowers are shareholders, holding more than 90 percent of the Bank; the other 10 percent is owned by the government. In 2017, profits were \$26 million, the best results in its history. The cumulative amount of disbursement since the inception of the Bank snowballed to a staggering \$20.67 billion by the end of 2016. Disbursement doubled between 2011 and 2016.

“When I look back, my strategy was, whatever the banks did, I did the opposite,” Yunus said some years before he won the Nobel Prize in 2006. “If banks lent to the rich, I lent to the poor. If banks lent to men, I lent to women. If banks made large loans, I made small ones. If banks required collateral, my loans were collateral free. If banks required a lot of paperwork, my loans were illiterate friendly. If you had to go to the bank, my bank went to the village. Yes, that was my strategy. Whatever banks did, I did the opposite.”

Besides microloans (which carry a 20-25 percent interest rate), Grameen also disburses micro-enterprise loans to those who have “graduated” from poverty, to date \$4 billion at an average size of \$443. The average size of housing loans is \$166 at an interest rate is 8 percent, repayable over five years. During 2016, housing loans amounting to \$3.23 million were provided to build 5,578 houses, bringing the total number of houses built to 702,730.

GrameenPhone, the largest telecom provider in Bangladesh, was started as a joint venture between Grameen Bank and Norway’s Telenor in 1993. The initial spark to distribute telephony in a country that had virtually no residential phones was lending money to poor women (“phone ladies”) so they could buy phones and lease them to villagers (at the time, mobile

phones cost more than the per capital GDP of Bangladesh). By 2016, Grameen Bank had provided loans to 1,688,956 “phone ladies.” (Telenor runs the commercial side of the operation.) Village phones generate revenue for Grameen, even though village phones use a mere 2.22 percent of the company’s airtime. GrameenPhone went public in 2009, and now (June 2018) has a market cap of \$6 billion!

Grameen Foundation, started in 1997, has provided financing and mentoring to establish a network of more than 50 microfinance institutions in Africa, the Americas, Asia, and the Middle East that have provided loans to more than 10 million people. In 2016, Grameen Foundation merged with Meals for Millions, founded in 1946.

Finally, just as BRAC serves the “ultra-poor,” Grameen serves beggars through its Struggling Members Program. Since 2002, 109,000 beggars have borrowed \$2.26 million (at 0 percent interest), and 85 percent has been repaid. Grameen Bank reports 18,000 former beggars are now making a living as door-to-door salespeople. And 9,000 former beggars are now mainstream Grameen Bank borrowers.

Grameen Bank is now in 58 countries, including the US, with a theory of change that is quite different than that of BRAC. “Some economists have suggested that the solution to the problem of poverty lies in job creation. However, if employment is not designed correctly, it can just perpetuate poverty,” Yunus said years ago. “A wage-earning job could probably keep a person in poverty forever if his income doesn’t generate enough in excess of his basic needs. Thus, you could say that self-employment, supported by credit, has a greater potential to improve the resource base than a wage-earning job.”

Yunus was ousted as head of Grameen by the Bangladeshi government in 2011 due to “age” (he was 70 at the time), but the move was widely seen as the result of Yunus’s stated desire to enter the political arena.



## HEIFER INTERNATIONAL

Heifer International is a donor-funded, nonprofit organization headquartered in Little Rock, Arkansas.<sup>2</sup> Inspired by the "teach a man to fish" philosophy, Heifer aims to end world hunger and bring communities together by giving families in need a sustainable source of food and income: livestock. Heifer's 7 M's of livestock represent the valuable benefits that farm animals supply to people: milk, manure, meat, muscle, money, materials, and motivation.

Since inception in 1944, Heifer has helped 30 million families in more than 125 countries improve their quality of life and move toward greater self-reliance. Farmers working with Heifer showed an average income increase from \$1,898 in 2015 to \$2,249 in 2016.

Heifer International began as Heifers for Relief in 1944. Its founder, an Ohio farmer named Dan West, was a Church of the Brethren relief worker during the Spanish Civil War. Working with Quakers and Mennonites, West directed a program to give hungry children rations of milk. In 1938, West was ladling out milk to hungry refugee children and wrote later that he thought, "These children don't need a cup, they need a cow."

Back home, West took the idea to his neighbors and church. This led to the formation of the Heifers for Relief Committee in 1939. In 1942, West was approved by the US Department of Agriculture to pursue the idea as a national project. The charity was incorporated in 1944 and sent its first shipment of 17 heifers, donated by local farmers, to Puerto Rico.

The first heifers were named, "Faith," "Hope," and "Charity," and recipient families had to promise that they would donate the first female calf to another poor family. (Today, donors can donate funds to give goats, sheep, cows, chickens and even honeybees.) This Passing on the

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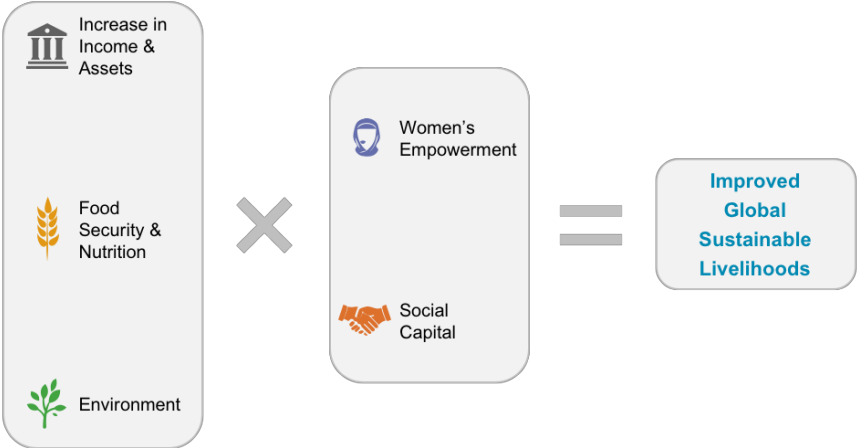
<sup>2</sup>In the early 1970s, Heifer consolidated its US distribution network by buying several large farms, including a 1,200-acre ranch in Perryville, Arkansas, as livestock holding facilities. The organization moved its headquarters to Little Rock, near the Perryville ranch, in 1971. Livestock are now sourced from within country or regionally.

Gift, a hallmark of the Heifer approach, transforms recipients into donors. This practice, at minimum, doubles the impact of the original gift; Heifer says that it has a 9x return.

Over time, farming families have reinvented the pass-on idea. In Heifer's Asia projects, original self-help groups are passing on the gift to multiple groups, going far beyond the one-to-one model. In Cameroon, families from one project invested \$13,000 into community projects as part of fulfilling their pass-on obligation. And in the US, farmers have developed an incubator program where each new farmer agrees to mentor the next generation of participants.

Heifer's theory of change, which it has continually honed throughout its history, is that by increasing income and assets, by providing food security and nutrition, and protecting the environment for eco-agriculture and reforestation, two foundational elements will result: women's empowerment, and social capital. Both will be multipliers of future change, just as the Passing on of the Gift multiplies a donor's contribution.

# HEIFER'S THEORY OF CHANGE



Unlike BRAC and Grameen, which generate internal revenues, Heifer is totally dependent (except for minimal craft sales) on donors. In 2017, Heifer raised \$126 million, the vast majority from individual contributions. Expenses were \$116 million. Heifer ranked #98 in Forbes' 2017 top 100 US charities.

Heifer's mission and theory of change is very similar to that of BRAC and Grameen—develop an integrated skill set and infrastructure that will strengthen individuals' resilience and thus that of their communities. And Heifer, like BRAC and Grameen, delivers asymmetrical impact for dollar spent. But its donor-funded business design is quite different, largely because it is a US-based charity, supported by a large middle-class population that has disposable income, a sense of charity, and a tax law that makes donations to nonprofits tax-deductible.

## DOES IT MATTER IF A SOCIAL ENTERPRISE IS FOR-PROFIT OR NON-PROFIT?

Heifer is decidedly nonprofit, dependent on donors. BRAC and Grameen Bank run multiple for-profit businesses that throw off millions in cash to subsidize social businesses. Does the legal structure matter?

Grupo Positivo, for example, is a for-profit Brazilian [holding company](#) with revenues of \$900 million in 2017, with 10,000 employees. Despite its legal status as a for-profit, it has been a social enterprise since its founding in 1972,

Positivo was founded by a group of idealistic teachers who wanted to help students get a more effective learning experience in preparing for university exams, and more broadly in the field of technical education. They started to set up schools to help students do better. They soon discovered that textbooks and teaching materials were, well, awful. So, they started a small publishing firm to print books and teaching materials that were far more effective for their students.

Both businesses grew, and Grupo Positivo became a major player in the field of technical education. And then, the PC came along. The teachers knew immediately that their students – technical and engineering students – needed PCs. They also knew that PCs were far too expensive for the families they served. “We’ll have to build our own PCs,” they said. And they did. When it was spun off as an independent publicly traded company, Grupo’s [Positivo Tecnologia](#) was the leading provider of PCs in Brazil.

The logic of the development path did not stop there. Grupo Positivo built a major engineering university, and a host of associated organizations and businesses designed to help do a better job for their students and families—the customers they started serving nearly five decades ago. that currently offers 27 undergraduate programs, a doctoral program, three master's degree programs, and extension courses. It originated in 1988 with Positivo College; in 2008, it was authorized by the Ministry of Education to be transformed into a University. In 2013, it started Positivo Online University a Distance Education segment

The commercialization of the education system grew so much that it became the main business of the group. Today, Grupo A Educacao operates in approximately 14,000 schools across Brazil and in over 40 countries, serving more than 800,000 students. It has partnerships with leading companies in their industries, such as Blackboard, Kaltura and McGraw-Hill Education. Editora Positivo, the publishing arm of the group founded in 1979, develops textbooks, children's and youth literature, dictionaries and educational systems, with emphasis on Aurelius, the most important dictionary in the Portuguese language. School and publishing together account for 57 percent of the group's revenues, while colleges and universities contribute 43 percent.

Like BRAC and Grameen, Grupo has functioned as a for-profit social enterprise for decades. Whether BRAC, Grameen, Heifer International, or Grupo Positivo, consider what's going on here (and will go on in Part II). People don't care whether they're a nonprofit, a for-profit, a hybrid, a B Corps, or whatever other legal structure they might choose.

Rather, their thought process works something like this:

- We want to help people.
- What hassles and problems do we want to obliterate?
- How is this improvement supposed to happen? What's my theory of change?
- What's the right model and legal structure to use?
- We're cash poor. How do we get hyper-efficient?
- How do we find a way to create value asymmetrically?
  - How do we do things differently, or even the **opposite** of what others do?
  - How do we find ways to multiply the impact of our meager resources?
- How do we need to evolve/develop to do a better job for our customers?

For-profit or nonprofit is not the key question. The key question is: How can we do a better job for our customers?

If we looked inside the heads of these extraordinary enterprise builders, the stream of thought we hear might sound something like this:

“I don’t care about profit, non-profit, B Corps, or whatever. I really care about a group of customers, and I want to help them a LOT, and I don’t have a lot of money (or a lot of anything), so I have to be really smart, and I have to learn new things to help my customers because the pile of hassles and problems they live with is still huge, and we have to keep getting smarter/more capable to help them effectively.”

## **CAN TODAY’S SOCIAL STARTUPS MATCH YESTERDAY’S BLOCKBUSTERS?**

BRAC, Grameen, and Heifer are stalwart social enterprises that have honed their variant theories of change over decades. Because they were started well before the internet, let alone AI algorithms, big-data analytics, or machine learning, they grew slowly. But grow they did, into multinational enterprises serving hundreds of millions of people. What these stalwarts show is that a successful social enterprise needs to be a successful business, as well as a hyper-productive organization, if it is to generate social impact.

The landscape now is much different, as noted at the beginning of this chapter. Today’s social startups, fueled by the internet and digital engineering toolkits, are in competition with commercial ventures for talent. With new blockbuster role models, today’s social startups are firing out of the gate, going global at “blitzscale” speed (see “Social Enterprises, Part 2,” with profiles of Kiva, Wikipedia and Khan Academy). These social enterprises, too, have theories of change. They, too, have different methods of funding and self-funding. They, too, aim for asymmetrical impact with minimal inputs. But whether they survive as long, and achieve the scale and scope of BRAC, Grameen, and Heifer, remains to be seen.