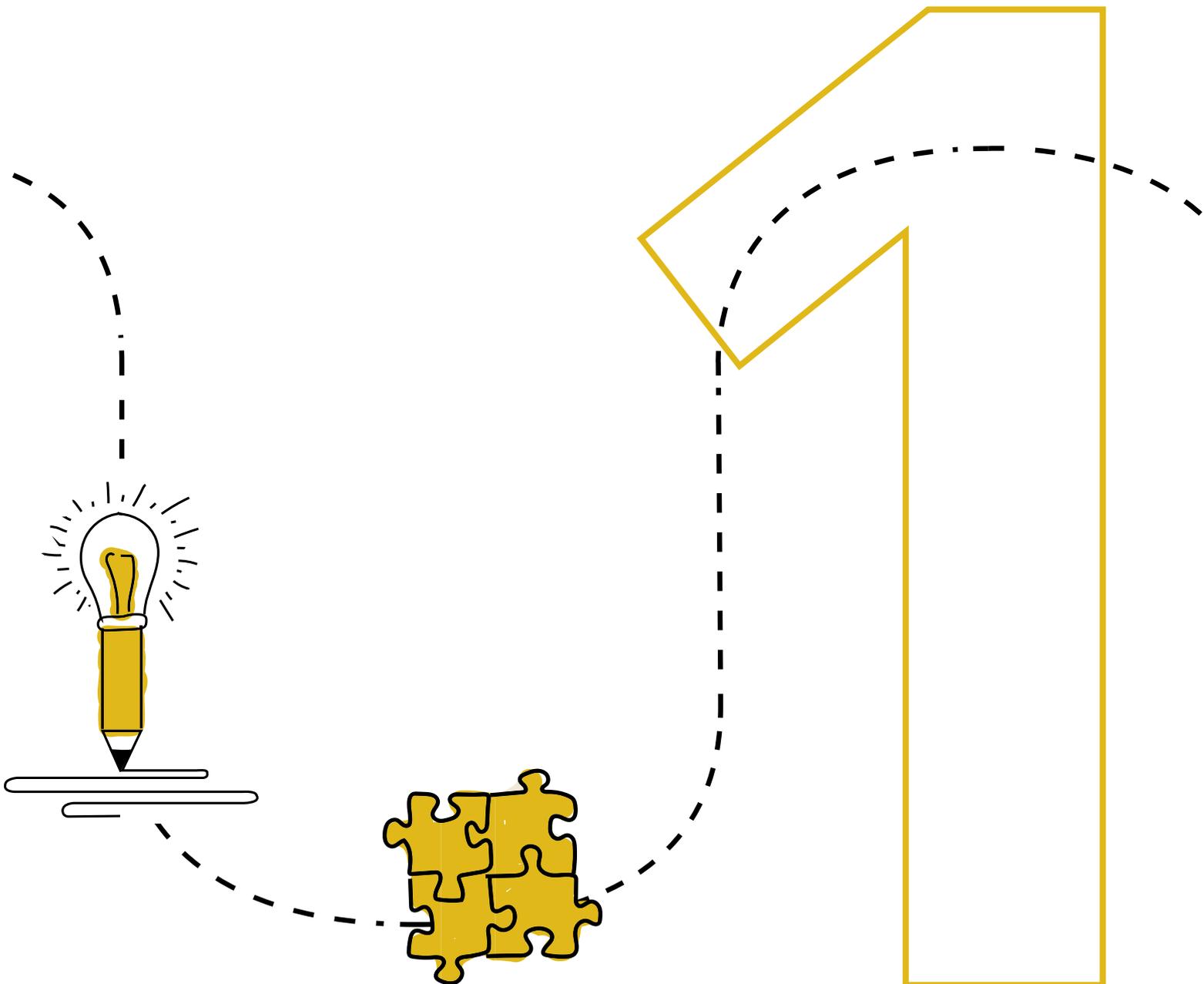


Social Change

Social Investment Toolkit | Module 1



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In this module we will cover:

- Defining the social problem
- Your vision
- The solutions to solving the problem
- The mission
- 3 types of Social Business Model

By the end of this module you should be able to express the problem you are trying to solve, your solution, your vision and mission, and be able to articulate how your actions will create the impact that you seek. You will also understand different types of social business models, and the relationship between your business model and your social change model.

The module will enable you to spell out your impact clearly, which helps to attract investors (external effect). It will also enable you to direct your organization (internal effect) by giving it a clear social mission.



**We are keen to
receive your feedback
for the Social
Investment Toolkit.**

Introduction

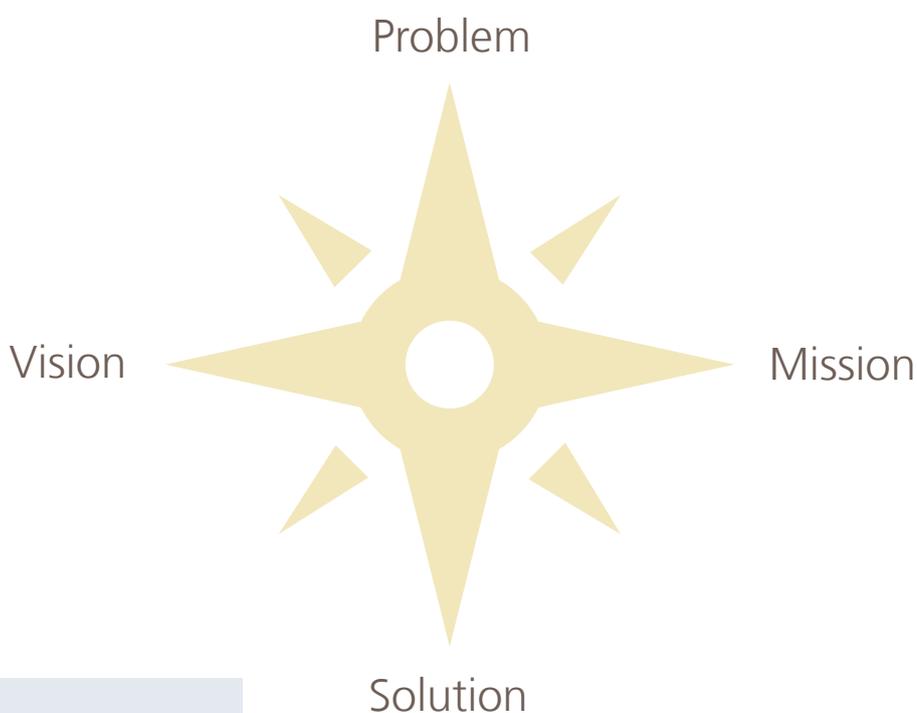
Social entrepreneurs don't just want to acquire profits or build a successful venture, they want to change their world. Their aim is to achieve lasting impact in tackling a social problem, with entrepreneurship as the means to do so.

The first step in any social venture then should be to define your ultimate social impact goal. This means that you need to define:

- the **Problem** (what is the social challenge you are addressing?),
- your **Vision** (what is the change in the world that you would like to bring about?)

- the **Solution(s)** (what can be done to address the root causes of the problem?)
- your **Mission** (how specifically will you achieve this?).

Problem, Solution, Vision and Mission are the critical components of what we call your Theory of Change. They are your compass to steer by. All decisions made by the social venture should be rooted in asking 'Does this help us achieve our Vision? Is it consistent with our Mission?' Without this compass, social entrepreneurs risk going adrift when confronted with the myriad of tough business decisions that will come up daily.



Investor Tip

A clear Theory of Change is critical for bringing on board social investors. Think of social investors as people who wish to back ventures that achieve specific social outcomes. It is not just your ability to generate profits that will attract social investors; it is also your ability to spell out clearly how you will impact the world and achieve those outcomes.

Problem > Vision > Solution > Mission

Which problem are you trying to solve?

A social entrepreneur is someone who has identified a social or environmental problem that they wish to tackle. A good analysis of any problem should include the following:

- A clear **description** of the problem, including the people affected
- An understanding of the **root causes** of the problem
- A sense of the **costs to society**, both monetarily and in terms of impact on lives and / or environment;

- Who the stakeholders are (e.g. community, government, business) and what their involvement in the problem is (e.g. are they hindering or helping the situation, who could be a good ally).

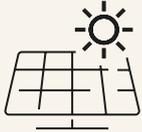
In effect, this analysis is the social entrepreneur's equivalent of a market study. It defines the scale of the challenge (= scope of the market), and hence the venture's potential for growth and impact.



Investor Tip

If you have personal involvement with the issue, this will be appealing to an investor. If you are addressing a problem that you don't have any, or much, personal involvement with (particularly if it is for a community that isn't your own) then it is important to show how you have "apprenticed with the problem" and really built up your understanding of the nuance of the context. This topic has been insightfully explored by Daniela Papi-Thornton and can be found here: <http://tacklingheropreneurship.com/>

Problem > Vision > Solution > Mission



Example: SolaRise Problem

SolaRise started because its founders saw the immense health issues caused by kerosene first-hand, while working as teachers in rural villages. When researching about the issue they found that 4.3 million people die annually because of diseases directly caused by indoor burning of fossil fuel (WHO). Also, kerosene is expensive and inaccessible for many, leading to a loss in productivity – children aren't able to study in darkness while adults have to stop working at nightfall. Tanzania has about one million households without electricity: small villages, far away from cities and power grids. SolaRise identifies these households as the beneficiary group, collects data on how much income they earn, number of family members, number of children in school etc to really understand the context of the people who will buy and benefit from their products.



Exercise: Define the Problem

Write the answers to the questions below onto post-its and create a visual overview of the problem.

Which geography are you addressing?

What is the cost of the problem to society?

Can you describe in detail the communities that you would be serving?

– Predominantly men or women? Age group?

– Income level? Which livelihoods?

Can they access credit?

– How do they receive information?

What is the magnitude of the problem?

(Number of people affected, directly and indirectly)

What are the root causes of the problem?

Write down in one page or less the social problem that you are seeking to address. Use the visualisation to be as specific as possible.

There are many resources to help you formalise your problem statement. Especially when you are starting out to formalise your social impact, this [handbook](#) by Phineo is a solid way to go through all elements set by step. Use the Phineo handbook Appendix (start page 128) for more hands on guidance and easy to fill in templates.

Problem > Vision > Solution > Mission

What is your Vision?

Having defined the problem and possible solution, the next step is a clear Vision statement: what would the world look like if your problem was solved? You can form a Vision statement starting with the phrase 'We envision a world where...'. Your vision isn't something that would be achievable by any one organisation alone; it should act as a guiding inspiration.

Some real world examples might be:

- 'We envision a world where every girl in India aged 6–13 is going to school'
- 'We envision a world where all elderly people in the UK have access to affordable home care'
- 'We envision a world where every young person in Boston can get the training needed to find a well paying job'

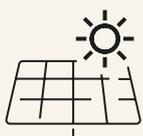
Your Vision Statement needs to be punchy enough to attract investors with the breadth and ambition of the statement. Here are some tips of how to form a good Vision Statement:

- **Be bold and ambitious.** The vision needs to be inspirational if you are to attract supporters and investors, and motivate staff.

- **Avoid empty slogans.** Be as specific as possible. 'We envision that every young person has a great start in life' is a poor vision statement. 'We envision every 16 year old in London to have the opportunity to find well-paid work' is better.

- **Be concise.** A Vision Statement should be no more than one single, short memorable sentence

- **Don't confuse Vision with Mission.** A good Vision statement should ideally describe an end state, not an intermediate goal (a means to an end). So, for example, 'We envision a world where there is no more malaria in Tanzania' is preferable to 'We envision a world where every household in Tanzania has access to malarial tablets'. The reason is that the Vision shouldn't pre-judge the solution: it may be that distributing malarial tablets isn't the most effective way of eradicating malaria, and that distributing bed-nets, or draining the local swamps and eliminate mosquitoes, might actually be much more effective. You don't want to lock yourself into one solution and preclude discovering better ones.



Example: SolaRise's Vision

SolaRise decided that the core problem that it wished to tackle was the use of dirty fuels, particularly kerosene, by off-grid rural households across Sub Saharan Africa. The team therefore set themselves the following mission:

We envision a world in which **'every rural, off-grid household in sub-Saharan Africa has replaced kerosene with more affordable, cleaner alternatives'**.

Note this is a good Vision statement because it is:

- ambitious (it covers a massive potential market)
- inspirational
- simple and concise
- specific (it defines its region broadly but clearly: Sub-Saharan Africa)
- clear about its beneficiaries (rural off-grid households)
- But does not prescribe a solution (solar products are not mentioned) or reference the company itself (it's not 'we are the No. 1 seller of solar products across Africa').



Exercise:

In one sentence, write out a Vision Statement of the format "We envision a world where..."

Remember: be bold, ambitious, inspiring, and specific in your Vision. Don't confuse mission and vision – the vision statement should describe what the world would look like if this problem were solved.



What is your Solution?

Having defined the problem clearly, you should now address potential solutions to the problem. This needs to begin with an analysis of the root causes of the problem. Then consider what could be done to address those causes, including what solutions are already being tried (in business this might be called Competitors Analysis, although social entrepreneurs often want to work together to solve the issue and so welcome 'competition'!).

Why are the existing solutions not working? Are they effective but just not at a large enough scale? Or are they ineffective? What is better about your proposed solution?

The aim here is not to set out a complete business plan describing everything that you will do. Rather it is to set out at a high level what is needed to address the root cause of the problem.

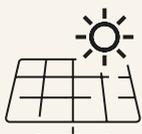
Example

Problem: 60% of ex-prisoners re-offend again after leaving prison, at huge cost to taxpayers

Analysis: People who have been convicted are stigmatised by their criminal record. As a result they cannot get jobs after leaving prison. They often have little alternative but to return to crime to make ends meet.

Solution: Create businesses that directly employ ex-offenders. Run a campaign for employers to show that people with criminal records deserve a second chance. Demonstrate that in many cases ex-offenders are even more motivated to get a job than those without a criminal record.

There are lots of great tools for coming up with solutions that you can use to supplement this part of the toolkit. One of our favourites is [IDEO's Human Centred Design](#).



Example: SolaRise Vision

SolaRise defines as its vision 'the eradication of the use of dirty fuels such as kerosene from usage in sub-Saharan Africa'. SolaRise might brainstorm the following solutions:

- Sell solar kits to replace kerosene
- Run a public health campaign to advise people of the risks of using kerosene
- Install re-chargeable batteries in homes; run stalls in the village where people can charge up their batteries each day
- Sell products that don't require conventional fuel; for example fuel-efficient cook-stoves that can be run on fuel such as compressed dung pellets (biomass) or recycled agricultural waste;



Exercise: Set out a Solution

For the problem that you are addressing, set out the following:

- What are the root causes of the problem?
- Who are the key actors involved?
- What solutions are already out there? Why are they not working? What is working that you can build on?
- Who is executing on these solutions?
- What else could be done to address the problem? Don't feel constrained simply by business solutions; also consider charitable or other options. Also don't be limited to the solution that you are currently working on; in fact it's better if you come up with as many different (ideally left-field) solutions, as possible. Come up with at least five solutions. Create a table with their pro's and con's and how they would influence the problem and the root cause of the problem.
- Indicate if these solutions build upon the existing solutions and improve them or if it is a completely new approach
- What is special / different about the solutions?
- Rank each of your solutions by cost and impact. Give them a rank from 1 (low) to 5 (high)
- Select one solution with which you want to go forward

Problem > Vision > Solution > Mission

What is your Mission?

Now that there is a clear vision statement, your mission statement is going to build upon it, taking into account the problem analysis.

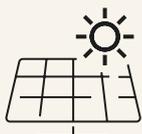
A Mission statement has the structure
“We will achieve X [our vision] by doing Y”.

In this context, “X” is the impact that you wish to achieve (as set out in your Vision Statement), and “Y” is the action that you undertake in order to bring about that outcome.

Examples of Mission Statements might be:

“We will ensure that every young person in Pittsburgh can go to college regardless of parental income **by** providing scholarships”

“We will enable every person in India who has cataracts to be cured **by** providing affordable, low-cost surgery”
(Aravind Eye Hospitals)



Example: SolaRise Mission Statement

SolaRise might adopt the following Mission Statement:

“We will ensure that every rural off-grid household in sub-Saharan Africa stops using kerosene by providing them with low-cost, high-quality solar home systems”

SolaRise’s theory of change is that installing solar home systems into rural off-grid households will provide them with clean, affordable energy.

Note: The implicit assumption that needs to be demonstrated is that installing the solar panels does in fact displace the use of expensive, dirty fuel such as kerosene. They can demonstrate this by collecting evidence that households that use solar panels no longer use kerosene.

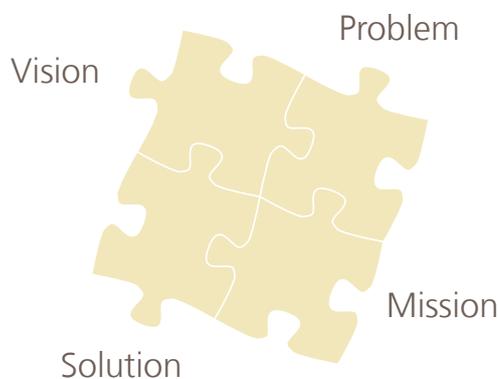


Exercise:

Select one of the options, which you mapped out in the previous step.

In one sentence, write out a Mission Statement of the format “We will achieve X by doing Y” where X is the impact that you wish to achieve (your vision), and Y is the action or set of actions you explored in the previous step.

Your Theory of Change



Having set out your vision and your mission, write a concise paragraph which explains exactly how what you do will bring about your Vision, if done at sufficient scale.

For SolaRise, this might read: 'Our vision is to eradicate the use of kerosene in sub-Saharan Africa. Kerosene is a dirty, expensive fuel that damages health, and is used in low quality products such as kerosene wick lamps, which are polluting, dangerous and emit poor quality light. We will sell solar kits, comprising a solar panel, battery & charger, and 6 LED solar lights, to rural households that currently have no alternative to kerosene. Our solar kits will provide all the electricity needed by the household for lighting, as well as radio and mobile phone charging. Households that buy our kits will therefore no longer need to use kerosene, benefiting their health, and will save money. At scale, we will achieve our vision of an Africa free from kerosene usage'.



Exercise:

What are the assumptions in your Theory?

Evaluate (team discussion): How clear is the causal link between your actions and the results that you seek? On what basis can you assert the causal link? Do you already have clear evidence of the link, or is this something that you will have to prove through running a pilot?

To be able to raise investment (and any other sources of support!) you need to demonstrate a clear link between your actions (what we will call the Output of the venture) and the end result, or social impact. You should be able to articulate a clear rationale as to why your outputs lead to the desired impact. You can also explain why other options are less suitable to achieve your vision.

The Mission Statement, and the associated Theory of Change, enable social investors to be able to assess a venture's fundamental strategy, and decide if this is aligned with their desired social investment objectives. It would enable a social investor interested in eradicating malaria, for example, to compare a social business that sells malarial bed-nets with one that is providing malarial tablets. In order to do so precisely, however, they would require detailed metrics showing the cost-effectiveness and scale of each intervention.

Combining Social Impact with a Business Model

So far, we've discussed how your social venture creates social change, i.e. what we might call your **'Impact Model'**. For a social enterprise, of course, impact alone is not enough. You also need to have a viable **business model** (i.e. selling goods or services to paying customers) in order to generate the income to fund your social impact. Investors will be keen to know how your business model relates to your impact model. We'd like to introduce three types of social enterprise model, each of which combines their impact model and business model in different ways.

We will call these three models the **Integrated Model**, the **Sponsorship Model**, and the **Hybrid model**:

1. The Integrated Model

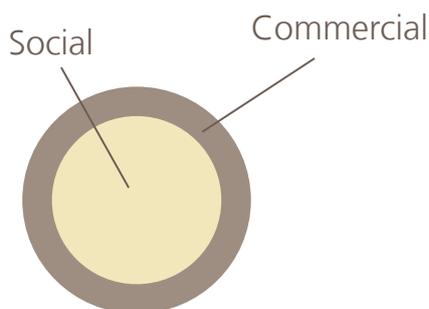
Most social enterprises have a version of this model. In the integrated model, your beneficiaries are your customers: they have the capacity and the willingness to pay for your product. In this model, there is no distinction between your business work and your social work; you fulfil your social mission by selling products and services to your beneficiaries. Impact model and business model are integrated.

However in many cases your beneficiaries cannot be your customers. Education ventures serving young children or projects supporting the homeless are unlikely to get paid by them. Companies serving very low-income communities may not be able to find customers who can afford their services. If your beneficiary cannot afford to pay you, perhaps there is a group willing to directly pay for your services, *even if they are not the direct beneficiaries*.

Consider the example of an education venture, seeking to provide textbooks to under-resourced schools in very marginal areas. The students cannot afford the books. Neither do the schools have the budget to buy them. The venture will have to find alternative 'customers'. It might consider the following possibilities, starting with those people affiliated to the school:

- asking alumni from the schools to sponsor a book drive;
- inviting the textbook publishers to give the books to the schools ('in-kind' support - another way of 'funding');
- inviting local businesses to sponsor local schools to get the books as a community goodwill project;
- asking donors to fund the books, e.g. through a online donation page at [DonorsChoose.org](https://www.donorschoose.org)

In each case, it may be possible to find a group who have an interest in the beneficiaries, and therefore may be a willing customer. An education venture that sells books to alumni, to be donated to the school, would be an example of an *integrated model selling to indirect beneficiaries*.



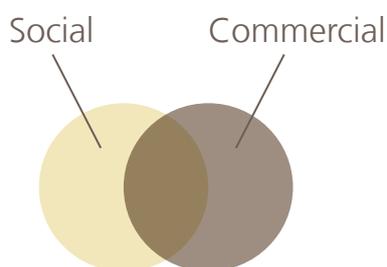
2. The Hybrid Revenue Model

Suppose that only part of your social mission can be delivered through a business. However there might be other core parts, such as running a public health education campaign, which simply don't have a natural paying customer. In this situation, you may wish to consider separating the different activities, which results in a hybrid revenue model.

Under a hybrid revenue model, you separate activities for which there may be paying customers and those which will only ever be loss-making, but are nevertheless essential to the delivery of your mission. You will therefore have to find individual revenue streams for each of those activities: paying customers to support your business, and perhaps charitable donations or grants to fund your non-business activities. You will also have to identify if the loss-making activities could be carried by the profits made in your for-profit activities. But even if that is the case, additional philanthropic funding can lift some of the pressure, so do consider donations and grants even if the profits could carry your non-profit section.

An **example** of a hybrid revenue model might be a healthcare venture seeking to eradicate disease caused by drinking dirty water. The venture may sell purification tablets to help cure the disease. However they also run public health campaigns teaching people to boil water before using. There is no natural paying 'customer' for this campaign, so the venture must use profits from the medicine business to subsidise the campaign while drawing on philanthropic funding from a foundation, with the mission to increase access to health care.

In the hybrid revenue model, both the business (e.g. selling medicine) and the non-business (running a public health campaign) are both core to the delivery of the social mission. Both are needed if the mission is to succeed. When it comes to raising external funding, hybrid revenue models should typically consider raising both investment (to fund the business) and donations/grants (to fund the non-business activities). This might involve setting up two legal entities – a for-profit and a non-profit – in order to be able to do this. We discuss how to structure funding for hybrid businesses in Module 6 ('Legal Structure').





Case Study:

Fair Finance – Hybrid Revenue Model

Fair Finance is a UK-based social enterprise that seeks to improve access to financial services, especially access to a bank account and credit, for low-income communities in London. More than 4 million people in the UK are 'financially excluded' in the sense that they are wholly unable to get any form of credit. Many do not have bank accounts, and therefore have to work in the informal economy. For such individuals, access to emergency finance, e.g. for a medical bill, might result in going to a 'loan shark' for a loan of up to £500, carrying an interest rate of up to 4000%. Over 12 million people have no access to mainstream lenders and can only lend from loan sharks, many of whom enter into a spiral of indebtedness where they are forced to take out larger and larger loans to repay old ones.

Fair Finance tackles this problem from multiple angles. It provides debt advice to its customers, helping them re-schedule their debts and develop a budget and a manageable repayment plan. It speaks to landlords and other creditors on their behalf to help reschedule debts. It also provides affordable micro-loans, at interest rates of up to 15% (far below the rates of its competitors), to qualifying customers to help them out of the interest rate spiral.

Both aspects of Fair Finance's work – the provision of free customer advice and the offering of affordable personal loans – are integral to its mission to make finance fair and accessible to all. But only one of these, the provision of loans, is a business. Providing free customer debt advice will only ever be a loss-making activity.

Fair Finance therefore adopts the hybrid revenue model. It runs its loan business as a commercial (or "for-profit") business, charging just enough (in the form of its interest rates) to be able to cover the costs of all of its operations. It uses the profits from the loan business to support and subsidise the debt advice work. It also continues to raise charitable grants and donations in order to be able to continue to offer the debt advice and other free but vital services to its customers.



Exercise:

Do you have a Hybrid Revenue Model?

Write down all of the activities that are essential to the delivery of your social mission.

Go through the list and for each item, mark out which ones could have a paying customer and which ones don't.

For those activities that don't have a customer, consider could they be funded as a charitable activity and/or could they be subsidised by your profitable activities?

3. The Sponsorship Model

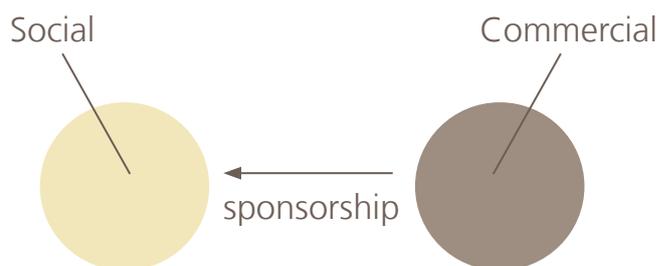
Finally it may be that none of your activities has a natural customer. For many social innovators, the default option at this point is to become a pure charity, funding all activities through philanthropy. However, this either might not be appealing to you, or there might not be philanthropic funding available in the context you're working in.

Some social entrepreneurs are able to create new revenue streams to support their social mission by setting up a wholly separate business to sponsor the work of the non-profit. Profits from the business are used to 'sponsor' the work of the non-profit. This business would typically be set up with a different team running a different set of activities to the core team.

Many social sector organisations set up secondary businesses as a means to generate more income. Think of a medical charity running a café or a selling postcards to support its work – the business is solely there to generate income, not because the business itself is central to the delivery of its mission. Often this secondary business supports the charitable activity in creating awareness in the public about the social issue, either through awareness marketing materials in the café or a compelling story on the postcards.

We recommend that a sponsorship model only be adopted as a last resort. You should really only adopt one if you cannot fund your venture either as an integrated or hybrid model. It can be distracting to set up a separate business that has a completely different mission and day-to-day operation than the core activity. The new business will be a start-up and as such carry a lot of risk of failure as well as requiring a different team with a different set of skills. The new business may actually become a cash drain if it doesn't work out. Managing both teams can be a challenge for the senior management.

If you go this route, you should try and find ways to make sure that the sponsoring business is strongly aligned with the social mission, and supports it in ways beyond simply financial. Don't simply set up an unrelated business just for the money. The social enterprises that succeed find ways to do this skilfully. These might include marketing the social cause or giving it brand support as mentioned above, for example.





Example:

Mobile School / Streetwize

'Mobile School' is a Belgium-based charity led by Ashoka Fellow Arnoud Raskin, whose aim is to provide education for homeless children. The charity operates a fleet of specially designed 'mobile class-rooms' which are vans, which extend to form the "classroom". The vans open up easily to bring out white-boards, games and other educational tools that specially trained teachers can use to run lessons for children living on the street. They can be taken into slums and other areas where there are a significant number of street children. The charity is now so successful that it operates in more than 18 countries around the world, reaching tens of thousands of street children annually.

A few years ago, Raskin decided to launch a business whose income could be used to support the work of the Mobile School charity. From working with street children, Raskin observed some of the extraordinary qualities that street children develop in order to survive, which he calls: positive focus, agility and resilience, cooperative competition and pro-active creativity. He saw that these skills could even be taught. He came up with the idea of creating a business consultancy called 'Streetwize'. Streetwize provides executive leadership education for companies, offering courses to teach executives how to become 'streetwise', in other words to develop those same qualities that Raskin had seen in the street children. In teaching the skills of becoming 'streetwise', Raskin not only raises funding for his charitable work, but he also spreads the word about Mobile School to a wide group of world class corporate clients. Many of these go on to sponsor the Mobile Schools, creating a positive brand effect and bringing further support for the charity. Streetwize itself would not be possible without the credibility and the insight from Mobile School. It is therefore a great example of how a separate business (run by a separate team and legally separate from the charity) can still be fully aligned with the social mission and support it in multiple ways beyond money.



Exercise:

Could you create a Sponsorship Model?

Brainstorm in 15 minutes about the step 3 from the previous exercise about hybrid revenue models. Come up with as many different for-profit activities for a hybrid model or a sponsorship model as possible. Be aware that they will have to support your social mission, without necessarily being central to the delivery of your mission.

For example:

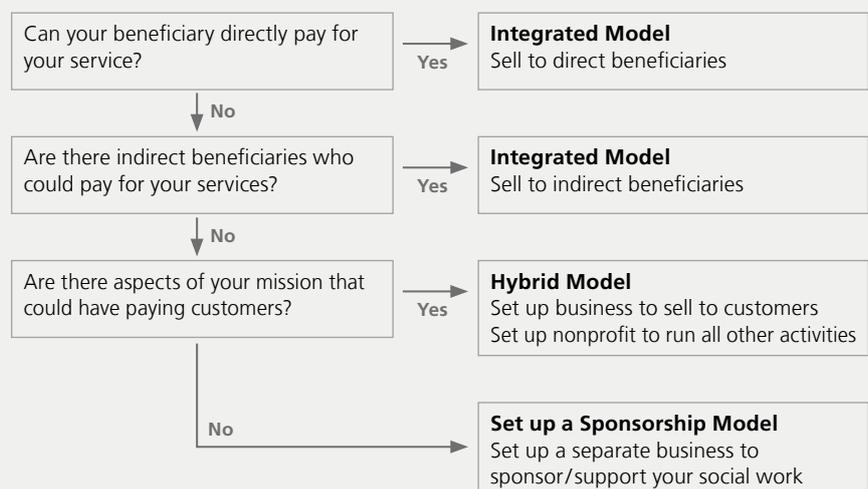
- Could the business sell something that markets your social mission in some way? (as with the Mobile School?).
- Could the business educate customers, or provide greater traffic to you?
- Could the business employ or generate opportunities for the communities that you serve?



Exercise:

Which model should you choose?

The following flow chart can help guide you as to which revenue model to adopt.





Investor Recap

After completing this module, you should now have a clear definition of the social problem that you are trying to solve and a proposed solution whose impact you can demonstrate to investors. You will also have a clear Vision and a Mission Statement which you can use to guide both staff and investors on your social objectives. And you will be able to explain the relationship between your Impact Model (how you create social change) and your Business Model (how you earn income).

To be able to raise investment (and any other sources of support!) you need to demonstrate a clear link between your actions (what we will call the Output of the venture) and the end result, or social impact. You should be able to articulate a clear rationale as to why your outputs lead to the desired impact. You can also explain why other options are less suitable to achieve your vision.

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enable a social investor interested in eradicating malaria, for example, to compare a social business that sells malarial bed-nets with one that is providing malarial tablets. In order to do so precisely, however, they would require detailed metrics showing the cost-effectiveness and scale of each intervention.

Investors will also wish to know what is the relationship between your business model and your impact model. Are you running a business solely to generate profits to sponsor your social work? Or is the business itself delivering the social mission? Or some combination of the two? This will enable them to assess what kind of social enterprise you are running, and not confuse your business purpose with your social mission.

In Module 2, we will address how to measure your social impact, and report it in a way that will be useful to social investors. In Module 3, we will do a much deeper dive into how you can create a strong commercial revenue model to deliver your social impact.

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