

Stanford SOCIAL INNOVATION^{Review}

Sponsored Supplement
**Creating a Funding Environment for Scaling Up
Social Impact**

By Jeffrey L. Bradach, Zia Khan, Isabel Guerrero, & Harish Hande

Stanford Social Innovation Review
Spring 2016

Copyright © 2016 by Leland Stanford Jr. University
All Rights Reserved

ROUNDTABLE

Creating a Funding Environment for Scaling Up Social Impact

There has been a great deal of discussion about the role of donors in building organizations capable of scaling up their impact. Instead of writing another “open letter” to donors, BRAC invited a group of thought leaders to engage in a lively and open discussion. They shared their valuable insights on how to build ecosystems for scaling up social impact and on where the challenges lie in doing so in the Global South and around the world.

Roundtable participants were **Zia Khan**, vice president, The Rockefeller Foundation; **Isabel Guerrero**, senior lecturer, MIT Sloan School of Management; and **Harish Hande**, co-founder and managing director, SELCO. The roundtable was moderated by **Jeffrey L. Bradach**, co-founder and managing partner, The Bridgespan Group.

Jeffrey L. Bradach: *Let me start by asking each of you how you and your organization think about scale.*

Isabel Guerrero: I come to the issue of scale from three points of view. The first is from my experience working at the World Bank, where we managed a \$39 billion portfolio in South Asia. From that experience, I define scale as having a large impact on development and poverty alleviation. The second point of view comes from teaching a course on scaling up at the Harvard Kennedy School. And the third point of view comes from working with large grassroots organizations that are in the process of scaling up.

Zia Khan: At The Rockefeller Foundation, our goal is to catalyze innovations that get taken to scale. Many of these need to be solutions that are departures from the status quo to address some of society’s big problems. Finding an innovation isn’t the hardest part. The hardest part is taking advantage of the existing capacities of government, markets, private sector actors, and

communities to scale up these innovations without requiring a lot of disruption in how they operate and organize.

Harish Hande: I belong to SELCO, an organization that provides energy to underserved Indians. For me, scale is about rep-

to use its growing revenues to pay for the cost of expanding or to attract investors with a good chance for high returns. That creates a closed and virtuous loop between growing results and growing funding. But in the social sector, driving scale is a little trickier. Growing impact doesn’t directly drive additional funds back to the organization, and funders aren’t necessarily optimizing for measurable impact. So in the social sector it’s a little bit tricky to scale up solutions by simply counting on a single organization’s success. And even if you could, the big social challenges require system transformation, which means that markets, the private sector, and communities have to start changing what they do and how they interact. This requires a paradigm shift in



ZIA KHAN



ISABEL GUERRERO



HARISH HANDE



JEFFREY L. BRADACH

licating processes that address the unmet needs of underserved communities and the development of the enabling ecosystem. It’s not about scaling up individual products or individual companies. The best example of scale up is street vending. The concept or process of street vending has scaled up, not a particular street vendor.

What are the barriers to scaling up effective solutions?

Khan: What really fuels scale in the private sector is the ability of a successful company

how people think about solving a problem and their role in driving the solution. Neither of these is easy, but they are possible. The green revolution and public health are two examples that come to mind of how redefining the problem was essential to creating transformative impact.

What is the role of funders in galvanizing a group of organizations to scale up? Can it be engineered, or does it occur organically?

Khan: In our experience there’s a very difficult tension between strategy and imple-

mentation. You have to set up a long-term vision and goal, sort of a north star, and then you develop an initial plan for getting there. But then you have to be highly opportunistic, because plans often blow up pretty quickly and you have to work with what actors are actually doing on the ground, how you can help them, and how you can leverage their resources and goals and keep steering toward the original north star. Let me give you an example of an initiative recently launched by The Rockefeller Foundation called Smart Power, an effort to bring electricity and economic development to rural areas using innovative, renewable, off-grid models. We're using solar powered mini-grids to provide electricity to households, small businesses, and anchor buyers like the local telecom. In India, we set an initial goal of reaching 1,000 villages. Our original plan was based on a fairly rigid model that we developed in highly managed demonstration projects. We assumed that we had to scale up the original innovation. But as we started to go to scale, we realized that the model had to be more flexible. To attract a large private sector actor, we had to let them experiment to better leverage their existing capacities. So in some ways this was both engineered and organic—we engineered the 1,000-village target to accelerate progress, and we organically adapted on the basis of what we learned from that accelerated progress.

Hande: You need to have numerous examples at the grassroots level of successful initiatives in order to influence the policymakers. But in the Global South there is insufficient risk capital and human resource development at the grassroots level to do this regularly. And when there is, do you know who gets the money? It's the people who are experts in PowerPoint, Word, and Excel! Many of the non-English-speaking social entrepreneurs around the world are left behind. They are the people who created the street vending business and the agriculture sector in India. Until we break those barriers, allocate capital and human resources, and build an ecosystem to develop those types of entrepreneurs, we cannot achieve large scale.

What is the role of government in scaling up solutions, and how important is it, particularly in the Global South?

Guerrero: A great example is the United

Kingdom, which has developed the third sector for social entrepreneurs. What they have done in building an ecosystem is quite interesting. As Zia mentioned, not only can you leverage a large player, but you can also think of finding opportunity where the government might actually be interested in developing this ecosystem for the entire sector. So you're not picking those who come with PowerPoint, but you are actually developing the conditions for social entrepreneurs to thrive by lowering the barriers to scale.

The second example is BRAC, the largest NGO in the world and the only one that has been able to reach the kind of scale that we are talking about. From the very beginning, BRAC's founder Fazle Hasan Abed thought, "Scale, scale, scale." That was the only way the government would pay attention. So in a way he was creating an ecosystem within Bangladesh. The government was quite wise to allow an institution like BRAC to grow. One of the reasons BRAC grew was that it was part of an informal ecosystem. It wasn't just BRAC, it was also Grameen, ASA, and many other NGOs that enabled Bangladesh to go from what was called a "basket case" in the 1970s to now, where it has achieved some of the MDGs [Millennium Development Goals] that India or Pakistan did not.

Khan: It's a mix of all the above. First, I do believe that the government is a critical ingredient of achieving large scale. Unfortunately, their role is often invisible. When people point to Silicon Valley as a model of entrepreneur-led scale, they ignore the massive investments by the federal government that enabled scale, such as building the Internet infrastructure and funding the research at Stanford University that sparks entrepreneurial ideas before they're even ready for angel investments. So I do believe that the government plays an important role in scale, and it needs to be recognized. When I think of the Global South, it's a really interesting mix. In our rural electrification work in India, we have been able to identify some of the critical things the government can do. Part of the challenge is that they may not know what is needed to help a market grow. That's where an intermediary like ourselves, which has a system perspective, can play a useful role by ensuring that the government doesn't just respond to the loudest voice, but instead responds to all perspectives—communities, small-scale

entrepreneurs, corporations, and nonprofits—to achieve multiple goals.

Harish, in what way was the government a critical player in enabling SELCO to scale up in India, and in what way did it get in the way?

Hande: Government should listen to practitioners about the barriers they confront and create policies that actually remove them. But too often they just create subsidies to try to get around the barriers. For example, when the solar home lighting system subsidy was implemented in India, the market did its part, but then it suddenly collapsed. The subsidy was there, but the industry stopped financing it because they were not getting reimbursed by the government. In fact, that subsidy destroyed the market. Unfortunately, I think government is often a big barrier in many ways.

Guerrero: I can see why Harish is very cautious about the role of government. When you have a non-enlightened government, things can go really, really bad, even if they started with good intentions. We need to stop thinking about government as being a donor to the poor. Instead, the government needs to create a climate that encourages entrepreneurship. If we do this it will allow potential social entrepreneurs to thrive who know the locality or community well. One example of a successful entrepreneurship program is SEWA's rural enterprise network of women. They have millions of women involved in producing spices, and they have been developing a distribution channel where the same rural women go to villages to sell their products.

What are some of the most notable things happening around scaling in the Global South that might be relevant in the Global North or in the world more broadly?

Guerrero: There are amazing things happening in the Global South that can be used in other parts of the world. The moment for reverse innovation is here. Take, for example, what is happening with Bridge International Academy. It has a "school-in-a-box" program in Kenya that is now being taken to other African countries. In addition, many social entrepreneurs in South Asia have created very, very large-volume, low-profit,

and high-quality solutions that can be used in other parts of the world. I think technology is making this possible in a way that we never imagined.

Are enough social entrepreneurs and funders thinking from the beginning about how to get to massive scale?

Khan: I'm not seeing it enough, unfortunately. It's a skill set that I haven't seen widely among the social entrepreneurs who talk about scaling their ideas. When I encounter entrepreneurs in the for-profit sector, they are constantly thinking about and driving

thanks to the social enterprise side of BRAC.

Khan: BRAC is a great example. I'm glad that you raised it. It would also be interesting to think about how mergers and acquisitions could be applied in the social sector, because that is a very important way to get to scale in the for-profit sector. There are all sorts of reasons why that doesn't happen in the social sector, but I think it has potential. If you think about it as an ecosystem, the big organizations could take some of the good ideas of social entrepreneurs who are good at innovation but are having a hard time growing organically, and give them an operational

they risk losing funders who are prioritizing support for something new rather than something that works. I think it's the same for government programs. Funders, governments, social entrepreneurs, and all entities trying to scale up need to be aware of the need for leadership and brand building among different funders and political actors. What we need to figure out is: How do you create multiple opportunities for leadership? How do we start to create a sense of pride in scaling up good ideas versus being the one who spotted the great innovation at the early stage and jumped on it?

Guerrero: I'm thinking of the World Bank, and I wonder whether foundations have the same constraint in terms of risk aversion. The fact is, the reward system will not work if people are worried about failure. Therefore you will always need leadership in the willingness to take a risk when it comes to new initiatives, or to bet on a team that has the potential to do amazing things.

What if we thought even more ambitiously about what it would take to scale up an organization or an intervention that is making a real, but small difference? —JEFF BRADACH

the mechanisms that will exponentially grow their business. You see serial entrepreneurs in the for-profit sector who have worked in a range of industries. They know how to think about an idea, how to coordinate resources, how to operationalize for scale, and so on. But I don't see that in the social sector. I'm waiting to meet a social entrepreneur who had a huge impact on education, then went on to create a huge impact on health, and then had a huge impact on maybe water security, using some kind of common approach to get to scale. I recognize that it's much more complex and maybe not even possible to systematically scale up in the social sector, and most social entrepreneurs have their hands full just trying to keep running. So it's an open question whether a set of scaling practices can be developed within the social sector and replicated across different organizations and problems.

Guerrero: One organization that does approach things this way is BRAC. They started with a vision of scale. They had development programs, like education and health, which they were scaling up, and they built many social enterprises over time, like Aarong and dairy. At each of these enterprises, 50 percent of the profits are reinvested and 50 percent go to subsidize the development programs. This has allowed BRAC to be mostly self-sustained. Initially 60 percent of their budget used to be funded by external donors, and now it has come down to just 30 percent,

platform for scale. I have been thinking a lot about that lately—how large international NGOs might partner with small social entrepreneurs on the ground.

Hande: I would be a little careful using the example of BRAC and Grameen, because the amount of grant and soft money that went to build both organizations was large and may be difficult to replicate.

About \$8 billion has been invested in Uber. If it takes that much capital to take things to scale, the simple answer, but incredibly challenging answer, may be that we need to convince more funders, philanthropists, and governments to make that kind of massive investment. What if we thought even more ambitiously about what it would take to scale up an organization or an intervention that is making a real, but small difference?

Khan: The goals of a venture capitalist and the CEO of Uber are aligned because both want Uber to become as valuable as possible. One of the tricks with grantmaking is that the outcomes of social change are not so readily measurable or comparable, and sometimes people get as invested in the methodology and approach as they are in the results. There are also cultural differences. For example, if something is really successful and a funder has provided early support, the more that funder claims the original success, the more

How do we change these dynamics? How do we encourage more risk-taking, more attention to building an ecosystem for social change, and more focus on scaling up?

Hande: One way to do this is to elevate the role of practitioners. Practitioners are always at the bottom of the feeding chain. Even at conferences, you hardly see practitioners on panels. It's mostly the policy-makers, funders, banks, and multilaterals who get the visibility. If you look at due diligence teams, successful teams have practitioners who had experience in the field. It's not about somebody who has an MBA from a branded institution, it's about who knows what it takes to actually create one branch in a rural area. I encourage funders to include practitioners in the due diligence process. Not necessarily large players, because they are already two or three generations away from what is happening today at the ground level. Rather, they should get small NGOs that are working at the ground level.

Thank you all for your thoughts. As you have said in various ways, addressing problems at scale will take thinking and acting in new ways. The insights and work you all bring is pushing us in these new directions. We look forward to continuing this conversation and learning alongside all of you. ❖