

# The Convergence Continuum

Towards a "4<sup>th</sup> sector" in global development?

by Gib Bulloch and Louise James



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# The Convergence Continuum

## Towards a "4th sector"<sup>1</sup> in global development?

"The digital revolution and innovations in finance are radically reshaping the convergent forces that define international development. As new roles, responsibilities and structures emerge, could a true marketplace for social outcomes, blending the best aspects of private, public and civil society into a single ecosystem, be the outcome?"

By Gib Bulloch, Louise James

Consider this:

- Tanzania has tripled the number of life-changing treatments it provides to obstetric fistula sufferers via the mobile phone platform of a single company – Vodafone<sup>2</sup>.
- Save the Children has a seat on the R&D board of a pharmaceutical giant—GSK.<sup>3</sup>
- A consortium of non-profits in Australia has acquired a large for-profit—and turned it into a social enterprise.<sup>4</sup>
- One of the world's largest restaurant chains, a mining company and a soft drinks manufacturer have joined forces to address, of all things—malaria.<sup>5</sup>
- The Global Fund has taken donations of over \$50m from one global extractive industry giant—and invested more than twice that sum in another.<sup>6</sup>

Such juxtapositions, unthinkable just a few years ago, are fast becoming commonplace in international development. Indeed, they herald a step change that promises to transform the way we tackle development challenges.

The background

In 2011, *Accenture's Convergence Economy: Re-thinking International Development in a Converging World* predicted that a disruptive trend, moving well beyond "inclusive business" and "shared value", would fundamentally redefine the roles and structures of international development.

Since then, Accenture Development Partnerships (ADP),<sup>8</sup> which works at the inter-section of business and development, has gained deeper insight into this trend.

As the above examples show, we are not only witnessing such a redefinition, but the convergence of interests between public, private and civil society participants in international development is also starting to shape a whole new way of doing business in emerging markets.

Indeed, a continually progressing Convergence Continuum is driving the aims and objectives of diverse sector organizations towards an aligned goal. As the opportunities for cross-sector cooperation multiply, we believe we are approaching a tipping point where the creation of an entirely new business ecosystem, or 4th sector, becomes an increasingly interesting option for more and more participants.

## Some Definitions

We acknowledge the complexity of the international development landscape so we are providing some broad definitions of what we mean by Public Sector, Private Sector, Civil Society (sometimes known as the 3rd Sector) and, indeed, what we're referring to as an emerging 4th Sector:

### Public Sector

Governments, ministries, public regulatory and funding bodies, bi/multi-lateral donors or any public institution accountable to citizens.

### Private Sector

Multi-national, national corporations or large publicly traded companies with boards of directors who are accountable to shareholders or investors. Smaller privately owned enterprises and SMEs.

### Civil Society/3rd Sector

That part of an economy or society comprising non-governmental and non-profit-making organizations or associations, including charities, voluntary and community groups, cooperatives.

### 4th Sector

A new collaborative ecosystem (or marketplace), blending the best aspects of the three existing sectors, and co-existing alongside them, but qualitatively different because it focuses on financial, social and environmental impacts that aim to deliver positive social outcomes that are measurable, profitable, and scalable.

### Shared Value

Created when the policies and operating practices that enhance the competitiveness of a company simultaneously advance economic and social conditions in the communities in which that company operates.<sup>7</sup>

### An Inclusive Business

Includes low-income communities in its value chain, without compromising the profit-making activities that characterize private companies.

# Our purpose

This paper is designed to provide an update on our cross-sector convergence thinking: Where is convergence today and where is it going? What's driving it and what's holding it back?

The paper represents a competency-based view of potential future changes within a dynamic and exciting environment.

Its publication marks the start of a period of research and analysis to try to understand the Convergence Continuum in more detail.

Our aim is to help inform the thinking of organizations and individuals across all sectors as they adapt to a converging world. Our ultimate goal: To ensure that business, government, civil society and individuals can evolve to maximize their positive impact on the resolution of development challenges.



# The context

A lot has happened since we published *Convergence Economy*—much of it encouraging.

The recent *UN Global Compact-Accenture CEO Study on Sustainability 2013*<sup>9</sup> observes, for example, that CEOs are beginning to see a transition toward long-term partnerships. In fact, 78% of them believe that partnerships and collaboration across sectors will help them deliver positive social and environmental outcomes over the next five years. And 70% see a need to take action through on-the-ground partnerships and projects. Furthermore, 84% of CEOs believe that business should lead efforts to define and deliver sustainable development goals.

By putting pressure on traditional aid budgets, ongoing austerity across much of the developed world is highlighting the power of the private sector, its markets and technological innovation, to help solve development challenges and contribute to social outcomes.

This is echoed in the rise of new donors (notably China and India), which focus on economic development rather than aid. Furthermore, as the need to rethink capitalism is increasingly recognized, a number of new initiatives have emerged. Case in point: the “B-Team”, a group of progressive business leaders whose mission is “To catalyze a better way of doing business for the wellbeing of people and the planet”.<sup>10</sup>

Meanwhile, the non-profit Social Progress Imperative has just published a new *Social Progress Index*<sup>11</sup>, which recognizes that traditional GDP and corporate earnings metrics are inadequate measures of success in our globalized world. And with the Open Working Group on Sustainable Development Goals recently publishing a proposal to the UN General Assembly on what should replace the *Millennium Development Goals*<sup>12</sup>, development and human progress are very much in the spotlight.

Broad, overall acceptance of the notion of convergence remains patchy, to be sure. The UNGC study observes that NGOs are still skeptical of business involvement in development. And just 45% of CEOs report that collaboration with CEOs leads to tangible business opportunities and value. Long-term partnerships, in short, are only one “emerging option” among many.

We still believe, however, that the next decade of development will look very different from the previous three decades—and that the Convergence Continuum may well culminate in the emergence of a 4th sector that leverages new business methods, entrepreneurship and innovation to deliver social outcomes, profitably and at scale. At the heart of this concept is a competency-centric as opposed to a rigid organization or sector-centric view of how development challenges will be solved and by whom.

“We...need to form strong partnerships with all stakeholders across the full value chain to promote a fair, positive global market environment where shared value is created for everyone.”

Sun Li, CEO of China National Aviation Fuel

# The Convergence Continuum

## Towards a New, Collaborative Ecosystem

The Convergence Continuum defines the over-arching dynamics that are shaping future operations and ways of working in international development.

At one end are basic partnerships between NGOs and businesses, typically focused on a single issue with a low level of complexity. Towards the other end, as multi-stakeholder projects with large-scale potential steadily evolve, we are witnessing the emergence of new hybrid business models that do not fit within traditional sector boundaries.

In our view, these hybrid business models and new ways of working are set to evolve further, driving the ideas of shared value towards a common agenda that sits at the

nexus of private, public and civil society: in short an entirely new collaborative ecosystem, balancing the inter-related core competencies of key stakeholders.

While not yet a 4th sector per se, we foresee this new ecosystem (or marketplace) bringing competing business sectors together with governments and NGOs. It will complement their ongoing activities and, as a result of the collaborative opportunities it opens up, widen their access to such critical resources as technology and talent.

The Convergence Continuum shown in Figure 1 (below) represents a spectrum, though not necessarily sequential.

An organization involved in small-scale partnerships, for example, may opt to leapfrog multi-stakeholder coalitions and move straight to a 4th sector model. We also recognize that each element of the continuum has value in its own right: it is challenging to work in partnership with others and different elements may be appropriate in different contexts.

The key definitions, features, strategies, business models and governance of each element or stage of the continuum are distinct, as can be seen in Figure 2 (right).

Figure 1: The Convergence Continuum

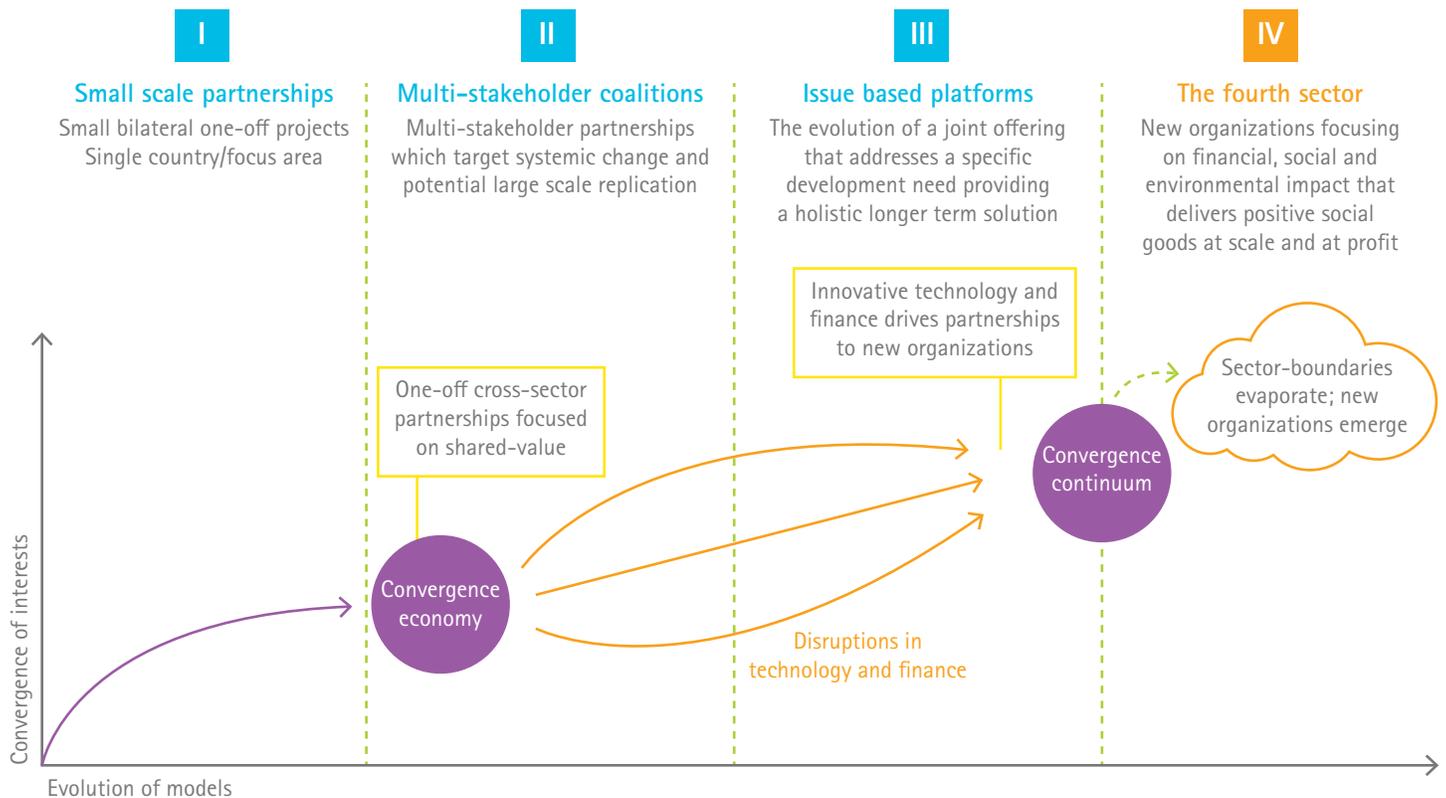


Figure 2

|                                     |  |
|-------------------------------------|--|
| <b>Basic Partnerships</b>           | A form of operation between two or more organizations that share objectives and goals, or a commitment to “Shared Value”                               |
| <b>Multi-stakeholder Coalitions</b> | A grouping of civil society, the private sector, the public sector, and other stakeholders that come together for a common purpose                     |
| <b>Issue Based Platforms</b>        | The evolution of a joint solution that addresses a specific development and business need and provides a holistic, longer term view                    |
| <b>4th Sector</b>                   | A collaborative ecosystem (or marketplace) for positive societal or development outcomes driving innovation, entrepreneurship, collaboration and scale |

Figure 3

|                       | <b>Basic Partnerships</b>   | <b>Multi-Stakeholder Coalitions</b>  | <b>Issue Based Platforms</b>   | <b>4th Sector</b>  |
|-----------------------|---|--|--|--|
| <b>Features</b>       | <ul style="list-style-type: none"> <li>• Often Bi-lateral relationships</li> <li>• Single Issue, single country, small scale</li> <li>• Low complexity</li> <li>• Combination of social and economic goals but weighting different per partner</li> </ul> | <ul style="list-style-type: none"> <li>• Larger mix of stakeholders</li> <li>• Cross industry as well as cross sector</li> <li>• Issue Led</li> <li>• High complexity</li> <li>• Combination of social and economic goals but weighting different per partner</li> </ul> | <ul style="list-style-type: none"> <li>• Network of organizations</li> <li>• Multi interrelated issues?</li> <li>• Combination of social and economic goals but weighting different per partner</li> </ul> | <ul style="list-style-type: none"> <li>• Complexity reduces as partnerships give way to new “for-purpose” business models</li> <li>• Combination of social and economic and environmental goals</li> <li>• Emerging new enabling environment and regulatory framework</li> </ul> |
| <b>Strategy</b>       | <ul style="list-style-type: none"> <li>• Tactical and often temporary solution</li> <li>• Short to Medium term</li> <li>• Exit strategy for partnership</li> </ul>  | <ul style="list-style-type: none"> <li>• Medium to Long Term</li> <li>• Exit strategy for partnership</li> </ul>   | <ul style="list-style-type: none"> <li>• Long term/indefinite</li> <li>• Evolve in to either a coalition or new hybrid business model</li> </ul>   | <ul style="list-style-type: none"> <li>• Long term/indefinite</li> <li>• Provide solutions to systemic issues</li> <li>• Reframe challenges as market opportunity</li> </ul>   |
| <b>Business Model</b> | <ul style="list-style-type: none"> <li>• Transactional</li> <li>• Unlikely to generate income independently (likely one main funder)</li> </ul>   | <ul style="list-style-type: none"> <li>• Varied contributions (money, expertise, products &amp; Services)</li> <li>• Competency driven</li> </ul>  | <ul style="list-style-type: none"> <li>• No formal legal structure</li> <li>• Loose network</li> <li>• Competency driven</li> </ul>  | <ul style="list-style-type: none"> <li>• New legal entities and equity JVs between disparate partners</li> <li>• Competency and market driven</li> <li>• May be physical or virtual</li> </ul>   |
| <b>Governance</b>     | <ul style="list-style-type: none"> <li>• Steering Committee/Exec Board made up of partners</li> <li>• Vague &amp; divergent accountabilities</li> </ul>   | <ul style="list-style-type: none"> <li>• Steering Committee/Exec Board made up of partners</li> <li>• Clearer accountabilities but growing tension between them</li> </ul>   | <ul style="list-style-type: none"> <li>• No formal governance?</li> <li>• Standards based</li> <li>• Enabling or “open source” bias</li> </ul>   | <ul style="list-style-type: none"> <li>• Independent Boards</li> <li>• Hard-wired social mission</li> </ul>  |

# The 4th Sector

## A Vision for Tomorrow, Taking Shape Today

The concept of a 4th sector has provoked considerable debate internally, and in some external discussions with clients—all of which has helped shape our thinking about this evolving phenomenon. We believe it will comprise new alliances, joint ventures and ultimately entirely new business models. We also believe it will be fueled by new funding mechanisms and require a new regulatory framework and enabling environment—much in the way that a football game requires rules and a referee.

It will, however, be symbiotic with existing sectors in that it may well improve the competitiveness or commercial attractiveness of business opportunities for the private sector, or the quality of outcomes in the public sector. To a certain extent, it will also be porous, admitting traditional public/private bodies in the same way that we see private enterprise active in the public sector today.

It is critically important to note that the eventual emergence of a 4th sector will not spell the demise of the existing three sectors—to the contrary. All four will not only continue to have key roles to play in tackling poverty, but their work will also be increasingly inter-related and complementary.

A 4th sector model may, for instance, help address particular pre-competitive challenges, health system logistics or talent development among them, that the traditional sectors find difficult to overcome alone, or even in traditional partnerships.

Consider, for example, the Business Platform for Nutrition Research (BPNR), an initiative of the Geneva-based Global Alliance for Improved Nutrition (GAIN), which seeks to provide a pre-competitive space for nutrition research and development. By taking a collaborative, cross-sector approach to define, fund and disseminate new research, the BPNR aims to improve nutrition in the developing world by sharing knowledge about the underlying causes of (and solutions for) global malnutrition.

By working together in this new ecosystem to develop and enable new and innovative initiatives, all players—governments, NGOs, MNCs, and private business in individual geographies—could maximize the impact of their respective competencies on the challenges of development.

Meanwhile, there are several existing instances of multi-stakeholder coalitions, in the form, for example, of Public Private Partnerships (PPPs), which are working very well and whose value we recognize.

Grow Africa, co-created by a number of large multi-national businesses in conjunction with African national governments, and incubated within the World Economic Forum, is a good case in point (see box below). As this initiative evolves into an autonomous legal entity, with a hard-wired social mission to create a business ecosystem somewhat analogous to a “Silicon Valley” for agri-business and with blended public/private seed capital, might it provide an early example of a 4th sector hybrid business model?

We acknowledge that progress toward a 4th sector will take time. But we believe that it is well underway and throughout this document we highlight case studies that illustrate initial movements forward.

As the development of new business models and structures gradually changes existing ways of working we foresee, for example:

- New, “for purpose” business and collaborative delivery models Some of these will be separate legal entities, for which B-Corps (see below, p13) provides a blueprint, and some will be more “virtual” collaborative platforms—either in the form of collaborative platforms for innovation (e.g. Development Impact Bonds, mobile money, m-Health, m-Learning, see below), or in the form of pre-competitive platforms across industries that improve the operating environment for the three existing sectors.

- Wholly owned equity joint ventures between corporations, non-profits and / or development agencies.
- New collaborative sources of capital and investment, often public or donor funds, but based on the agreed present value of future economic income streams (e.g. energy, talent, improved crop yields, improved worker productivity through improved health outcomes). New, customized governance bodies whose representatives are accountable for the delivery of a hardwired social purpose and are rewarded for competency, not incumbency.
- Mergers among larger NGOs as they strive for greater efficiency and maximum impact.

### Case Study: Grow Africa

Grow Africa is an innovative initiative that seeks to create a pre-competitive ecosystem for agriculture across Africa, based on national agricultural priorities. Building on public-private partnership models piloted by the World Economic Forum's New Vision for Agriculture Initiative, Grow Africa highlights the ability of the public and private sectors to define new ways of working, focused on impact at ground level. By enabling multi-stakeholder partnerships and expanding awareness of best practices, it promises to create important new opportunities and could significantly improve the way many companies do business across the continent.



# The Drivers of Convergence

Our original paper discussed many different drivers of convergence, including the rising power of the emerging-market consumer, the changing role of NGOs, and changing business leader attitudes.

We now believe, however, that two in particular stand out as the most powerful and disruptive, accelerating the pace of change by encouraging the convergence of public, private and civil agendas at an unprecedentedly rapid rate:

- Technology and the Digital Revolution
- Innovative Financing

## Technology – Development goes Digital

Technology (and the mobile phone in particular) is often credited with having a transformative impact on development. Just consider the role of Vodafone's Text to Treatment Program for obstetric fistula in Tanzania, which we highlight above.<sup>13</sup>

We believe, moreover, that the digital revolution in international development has only just begun. Indeed, just as private sector organizations have recognized that becoming a digital business requires, in effect, entirely new, digitalized business models that enable them to interact seamlessly with customers, markets and delivery systems, we believe that the future of international development will also be predicated on new, seamless business models built on digital technologies.

A joint ADP and NetHope survey carried out in 2013 found that over 90% of NGOs consider data analytics the most important tool for delivering the better insight that would help their end beneficiaries.

Analytics and Big Data capabilities, for instance, which are becoming a key differentiator for winning private sector organizations<sup>15</sup>, could drive truly innovative change for international development. The amount of data now available about the developing world, particularly from mobile phone usage, has the potential to help identify needs, provide services, and predict and prevent crises for the benefit of low-income populations.

Just imagine the role that Big Data and Analytics could play in understanding the underlying metrics of where polio outbreaks might occur, for example, or in driving insights into other international development challenges that organizations have found so difficult to monitor.

We envision continued technological advances leading to aligned technology visions and consolidated agendas across all sectors. We recognize that digital collaboration does not necessitate a new type of entity, but it does anticipate breakthrough innovation enabling "virtual" entities built via collaboration. And we foresee digitalized business models emerging in international development that are characterized as much by private-private (P2P) partnerships as by the now ubiquitous public-private partnership (PPP) arrangements.<sup>16</sup>

"With the steady growth of private investment into and within Africa and Asia, the most valuable thing that governments and development agencies can do is to ensure that the poor benefit from this opportunity now and in the future. Developing business models that ensure benefits are equitably shared will both help the excluded, and, in the long run, the companies and those who invest in them."

Mark Goldring, CEO, Oxfam

A joint ADP and *NetHope* survey carried out in 2013 found that over 90% of NGOs consider data analytics the most important tool for delivering the better insight that would help their end beneficiaries.<sup>14</sup>

## Consolidated Technology Agenda Case Study 1

*DataWind* aims to bridge the digital divide by delivering Internet access through a low-cost Android tablet, *Aakash*, which provides access to the Internet and educational apps. The tablet, which retails at around US\$40 but is being offered to students for as little as US\$20, has been rolled out across India to students and school children in a program subsidized by the Indian government.

## Consolidated Technology Agenda Case Study 2

*Not Impossible*, a California-based media and technology company is using 3D printing to provide hands and arms for amputees in South Sudan and the war-torn Nuba Mountains. In November 2013, *Not Impossible* printed a prosthetic hand that allowed a teenager to feed himself for the first time in two years.<sup>17</sup> The team is now teaching others to print and assemble 3D prostheses.

## Innovative Financing – Impact as a Proxy for Shareholder Value

As private capital seeking a blended ROI supplements traditional sources of aid, the financing of social and economic development will look very different in the coming decade. Already, the rise of FDI (in China, for example) is driving economic impact and improving the quality of life. We still need to find innovative ways of delivering private finance to SMEs, entrepreneurs and social business initiatives that drive inclusive growth whilst managing the associated risk.<sup>18</sup> But a number of emerging models indicate the enhanced role that private finance could play in delivering public goods and social innovation.

Among them, Impact Investing: an approach that seeks to deliver both a financial return and a positive social impact, both of which are actively measured.

Impact investing has the potential to reconcile key shortcomings in traditional financial markets by providing investors in social outcomes with realistic returns. Indeed, the range of actors involved in funding (or “investing in”) international development is expanding. We are seeing increased civil society interest, for example, as civil organizations position themselves in the impact investment market to attract funding, or to act as honest broker—determining whether or not such investments really do deliver what they promise in terms of social impact. Consider, for example, LeapFrog’s successful exiting of Express Life, to Prudential PLC (see box right).

To date, less than US \$40 billion of capital has been committed cumulatively to impact investments, but growth forecasts for the industry are promising, ranging from US \$500 billion by 2019<sup>19</sup> to US \$1 trillion by 2020.<sup>20</sup>

There is, however, an ongoing lack of viable investments, despite the capital available. Key requirements include:

- Worked examples of different impact investments, either to larger scale or as purely commercial investments (e.g. Leapfrog sale of Express Life in Ghana to Prudential<sup>21</sup>).
- More evidence of available investable opportunities. One major issue is the due diligence process pre-investment, which currently lacks enough business data of high quality.
- Better understanding of the role of analytics platforms and investment readiness assessment methodologies in addressing this issue.
- Earlier training of entrepreneurs in basic accounting, management and business planning skills.

Meanwhile, the Centre for Global Development has been exploring another new development financing mechanism, Development Impact Bonds (DIBs).<sup>22</sup>

DIBs bring together private investors, non-profit and private-sector service delivery organizations, governments and donors to deliver positive social impact efficiently and cost-effectively. With no DIBs currently in operation, this exciting new concept remains unproven. Key issues relate to the legal/corporate structuring of the investment vehicle, the acceptance of risk transfer from donors to investors, long timelines to impact and therefore return (5–10 years) that are limiting real life application. We do, however, anticipate successful growth in this area, which will drive the systemic change defined above by attracting new private capital or by changing the business and/ or delivery model.

## LeapFrog Investments

LeapFrog Investments is a leading organization in purpose investing, building companies that maximize both financial and social return. LeapFrog Investments supports financial services businesses – mostly companies that provide insurance – in Africa and Asia where there is the greatest potential for both financial returns and social impact.

LeapFrog successfully exited Express Life, to Prudential PLC, in a deal announced in December 2013. Express is a high-growth provider of life insurance and savings in Ghana’s burgeoning insurance market. The country is an exciting, stable market, and one of the fastest growing economies globally, with the life insurance sector alone growing 52% per annum. Yet less than 2% of Ghana’s 25 million people have access to insurance, offering a significant opportunity for quality, relevant and affordable products to fill this gap.

LeapFrog’s investment in Express was the largest private foreign investment to date in Ghana’s insurance industry. The successful exit highlighted the potential return from ventures focused on social returns as well as profit.

## “DIBS are a financial instrument that can bridge the gap between investors and opportunities, and between financial returns and social benefits”

Centre for Global Development

We believe there is similar scope for an expanded private sector role in the financing of education—traditionally the exclusive preserve of government—in the form of Education Impact Bonds. Under-resourced state education systems would receive much-needed help. And companies would be acting in their own interest because they need to develop talent and skills (see Case Study 1 below).

We sought to address this trend in education by looking at how developing talent has moved from a social or CSR focus for business to being highly strategic. Our work with Brookings and other partners\* in essence makes the case for private investment in education and suggests that countries that under-develop their talent will experience a business skills crunch (Fig. 4).

Developing a robust performance framework for educational outcomes is, to be sure, hugely complex. But our report examines the potential ROI for far-sighted businesses that engage in education as a pre-competitive issue. It also considers what some of the new legal structures and financing mechanisms could look like—and concludes that such structures will likely become increasingly prevalent in the future.<sup>23</sup>

### Innovative Financing Case Study 1

One of the more progressed DIB proposals has been created by the Social Enterprise *Instiglio* in partnership with a local NGO, Educate Girls, and aims to help educate 40,000 girls in 150 schools in Rajasthan, India.

### Innovative Financing Case Study 2

The Health Impact Fund (HIF) proposal is promoted by Incentives for Global Health, a non-profit committed to advancing market-based solutions to global health challenges. The HIF incentivizes the development and delivery of new medicines through pay-for-performance mechanisms. By registering new medicines with the HIF, a pharmaceutical firm would agree to provide its drug, at cost, anywhere it is needed, and in exchange for foregoing the normal profits from drug sales, would be rewarded based on the HIF's assessment of the actual global health impact of the drug. Governments and other donors would finance the HIF.

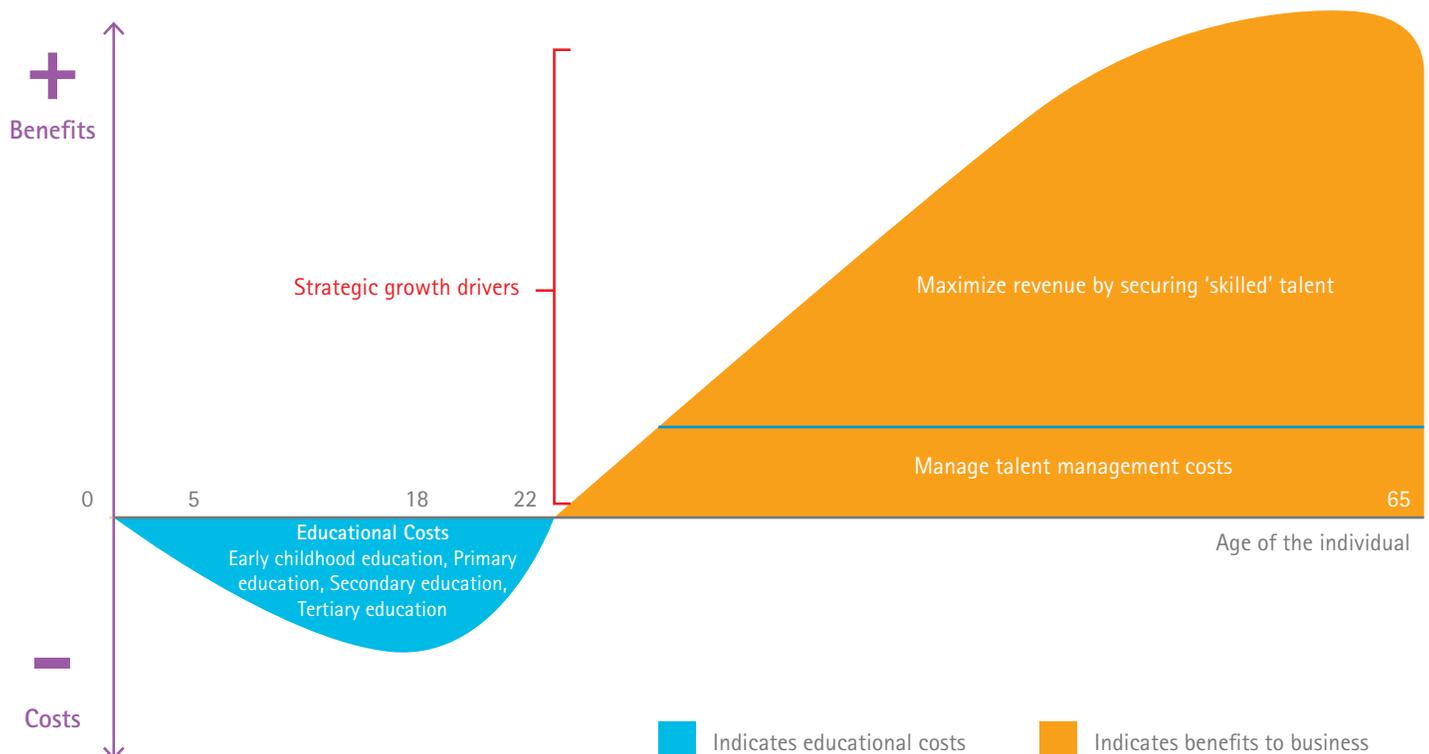
In the meantime, in Peru, the government is seeking in-kind contributions to social development programs, in lieu of traditional corporate tax. Companies including Backus, the SABMiller subsidiary that is Peru's biggest brewer, Telefonica Peru, and Banco de Credito, the Andean country's biggest bank, have opted to pay part of their tax bill in the form of regional infrastructure works in some of Peru's poorest regions.<sup>24</sup>

Finally, when considering these future trends, it is worth noting the important role that monitoring and evaluation (M&E), already a critical element in defining programs and their impact, will play—especially in driving the success of an emergent 4th sector. M&E, we believe, is a key component in creating outcomes-based marketplaces and will be crucial in providing the evidence base for such new business models as DIBs. Indeed, the success of the thoughts and ideas in this paper will in part be determined by the robust outcome performance management framework underpinning impact measurement and outcomes.

“As the leading innovator in global health, PATH's core work hinges on cross-sector collaboration. We team with the private sector, governments and other NGOs to deliver millions of people life-changing solutions that disrupt the debilitating cycle of poverty and poor health. As we see growing opportunities for creative hybrid business models, we are investing in talent and infrastructure that take our relationships beyond our traditional transactional and philanthropic models to create maximum impact.”

Steve Davis, President and CEO, PATH

Figure 4



Note: This is a non-exhaustive list of costs and benefits

# New models, partnerships and players

Partnerships are complex. The more partners involved, the harder it becomes to make the partnership work well. Among the many challenges:

- Moving away from a donor/beneficiary relationship and becoming true partners
- A lack of clarity around objectives or potentially conflicting objectives
- Unfocused outcomes
- Surviving through changes in personnel
- Complex governance mechanisms
- Lack of investment in the running of the partnership

However, the evolution of the Convergence Continuum is highlighting the potential for new partnership opportunities that are less complex and cumbersome.

We would note, in particular, new hybrid business models, new "private-private" partnerships (as opposed to Public-Private Partnerships (PPPs), and social intrapreneurs.

## Hybrid business models— Sustainability at Scale

In the Convergence Economy we presented a vision of a new breed of organization that does not fit neatly into the private, public or non-profit organizational sectors. Convergent or "hybrid" business and delivery models are now emerging that have some attributes of each or all of the three existing sectors and that integrate social impact with business approaches.

A good example of a hybrid organization that delivers social impact while generating profit is the JITA program, now running in Bangladesh. Initiated by the NGO CARE International to generate income and employment opportunities for the rural poor, the program has created a rural sales force of destitute women called *Aparajitas*: a Bengali word meaning "Women who never give up". These women are trained to purchase and then sell on products aimed at the "bottom of the pyramid" from companies including Unilever, Bata, BIC, Square, Lalteer, Grameen Danone and d.light (a solar energy provider). In 2011 JITA was spun out as an independent, for-profit business to enable the initiative to scale and be sustainable.<sup>25</sup>

Just as building a new house from scratch may sometimes be better than trying to extend an old one, new forms of organization with an explicit focus can be more dynamic (and successful) than complex cross-sector partnerships, which need to accommodate the different goals and interests of a diversity of parties. Such organizations can be flexible when establishing themselves as a new type of legal entity (e.g. a private sector organization becoming a not-for-profit in order to receive grants and a favorable tax status, or a not-for-profit becoming a business in order to earn revenue and reward shareholders). All, however, will still need to reward "fit for purpose" business models and create a real marketplace for positive social outcomes.

Consider, for example, the rise of the B-Corps – organizations that are "purpose driven and create benefit for all stakeholders, not just shareholders", in the US. B-Corps organizations also "envision a new sector of the economy"<sup>26</sup> – a 4th sector of "for benefit" organizations. There are already 500 such corporations registered in the US and legislation is in place to expand them.

## Hybrid Business Model Case Study 1

The UN-backed Medicines Patent Pool aims to lower the prices of HIV medicines and improve access to them in developing countries by effectively engaging with the pharmaceutical sector, generic manufacturers, donors and NGOs.

## Hybrid Business Model Case Study 2

Novartis Social Ventures build local, sustainable capabilities for healthcare worldwide by addressing issues that impact access to healthcare, including the need for education, infrastructure and distribution. *The Arogya Parivar* ("healthy family" in Hindi) program in India, for example,

recruits and trains "health educators" in remote villages to work with doctors in mobile clinics that provide access to screenings, diagnoses and therapies. The program also increases access to 80 medicines, including some over-the-counter products sold in smaller, more affordable packages. Since its launch, it has given 42 million patients across 33,000 villages better access to essential drugs.



## Private-Private (P2P) Partnerships—Driving Innovation

As Paul Polman, CEO of Unilever, recently commented: "The challenge is likely to encourage a much more collaborative form of capitalism. Companies will have to work with each other, not just with governments, nongovernmental organizations (NGOs), and civil society".<sup>27</sup>

There is, in other words, huge potential for private-private partnerships, incorporating a wide range of industries, in international development. Companies are clearly looking to develop beneficial, unconventional B2B relationships. And while traditional PPPs remain important, collaborative business provides an additional opportunity to drive innovation and sustainable change.

The key will be to focus on mutually sustainable benefits and complete discussions upfront on how best to work productively together. Only by aligning on key principles in advance, and eliminating the traditional competitive element, will the parties be able to drive forward new models for collaboration. An excellent example of this is the partnership between Barclays and GlaxoSmithKline (GSK), which is detailed below.

### Private-Private Partnership Case Study

Barclays and GlaxoSmithKline (GSK) are collaborating on an innovative partnership in Zambia, which aims to increase access to affordable healthcare and medicines while supporting economic growth through small business development and job creation. The program has four focus areas: building a cost-effective

## Social Intrapreneurs—An emerging breed of corporate change maker

Much has been made of the potential for open innovation—the process by which companies seek ideas for new products, services and business models from beyond the factory wall. However, the latent innovation and entrepreneurial potential that lies within a company's own workforce is also considerable. And by innovating from within some of the world's largest companies, social intrapreneurs are developing scalable solutions to some of the world's most intractable challenges—from health and education to the environment.

Passionate about social issues and needs, they look not for margin but to make a difference. And by leveraging their talents, and an ability to see the potential beyond the traditional focus areas of the organization, they are developing pragmatic solutions.

We believe that social intrapreneurs will play a growing role in driving innovation in international development, creating new market opportunities for commercial businesses both at home and in new markets. Their increasing involvement highlights the shift in thinking towards aligned initiatives.

### Social intrapreneurship Case Study

ADP has engaged in a large initiative to foster social intrapreneurships. Accenture was, for example, the main convening sponsor of the League of Intrapreneurs, a global competition gathering more than 200 entries related to individuals within companies who have an idea. Graham Simpson, a researcher at GSK, is one of the competition's winners, awarded for utilizing the opportunity to explore simpler, more effective diagnostic testing.

private sector medicine supply chain; establishing small enterprise health outlets; testing an affordable micro health insurance product; and embedding healthcare education in existing community finance networks. A dedicated team representing both organizations is working in Zambia to implement the £7m program over three years.

# The role of government

We firmly believe that national governments, accountable to their populations, remain a critical part of this new, evolving ecosystem. Indeed, they already play a unique role.

Consider, for example, the International Finance Facility for Immunization (IFFM) an initiative of the Global Vaccine Alliance (GAVI), which pulls together the specialist skills of all the main players in immunization—the World Health Organization (WHO), UNICEF, the World Bank, the Bill & Melinda Gates Foundation, donor governments, developing countries, international development and finance organizations, as well as the pharmaceutical industry—into one decision-making body. The IFFM has raised US\$4.5 billion from investors through sovereign-backed bonds to help ensure predictable funding and more efficient operations. A recent independent report commended the IFFM for its financial model, which has not only generated “extremely good” returns, but has also helped GAVI save more than 2.1 million lives.<sup>28</sup>

However, the role of government may change in the future. Instead of functioning as service deliverers, governments may begin to act more as “choreographers” of services. They will continue to provide the regulatory environment, ensure the rule of law, set targets or educational criteria, and even provide fiscal incentives—yet they will remain agnostic as to how services are delivered. And they will increasingly harness the power of private investment, innovation and entrepreneurship to deliver public services, and play a critical guiding role as they recognize the potential benefits of shifting away from projects and pilots and toward longer-term solutions.



# The future—toward a true marketplace for social outcomes

We plainly need a new paradigm for international development, which currently suffers from a high degree of centralized planning. Critics, indeed, would argue that development funding is driven more by what donor governments are prepared to pay for, and less by what citizens actually require, or by what could be sustained through market-based demand: a situation analogous, perhaps, to the Soviet “command economy”, which was driven by the dictates of central planners, not the needs of citizens.<sup>29</sup>

We acknowledge there are counter arguments to this view<sup>30</sup>, but it is the central thesis of this paper that the steadily evolving Convergence Continuum is showing us the way toward a new paradigm: a new collaborative space—the 4th sector—blending the best aspects of private, public and civil society and turning them into a true marketplace for social outcomes at scale.

After all, the big, collective development challenges we face – access to energy, health or education – may actually be market opportunities in disguise, and could be reframed as such to engage the private sector more effectively in development. With one billion people served by health facilities without power, and 293 million children in primary schools that lack electricity, energy access must surely be an opportunity for utilities and power companies, for example. Just as nourishing the next billion people on the planet represents a huge opportunity for food manufacturers.

The private sector could therefore be seen as an engine of economic growth, which in turn needs to be as inclusive as possible.

In the long run, we envision the potential for some truly radical developments as private business starts to play a larger and more diverse role.<sup>31</sup> Could pay-as-you-go electricity have the same transformative effect on energy access as it's had on access to mobile telephony, for example? Could the drones now used in a variety of commercial contexts be leveraged to deliver essential goods and services to the remote rural poor? Might we see the equivalent of an amazon.com for aid logistics?

We recognize, of course, that some organizations are moving faster along the Convergence Continuum than others, and that it will take time to realize the full promise of the 4th sector's collaborative ecosystem. We also recognize that the next wave of United Nations' initiatives—likely to be around sustainable development—will impact on the Convergence Continuum, and thus influence the development of the 4th sector, in ways yet to become clear.

In the meantime, we offer some key considerations for all three existing sectors (see Key considerations below)—and stress our readiness to work with each of them, singly and collectively, to catalyze, co-create, challenge, disrupt and nurture new ideas and approaches.

This report has focused more on “what” the Convergence Continuum and 4th sector are, rather than on “how” we achieve them. But it only marks the beginning of a process of engagement and dialog with a wide group of clients and stakeholders. We anticipate a wide-ranging program of both physical and virtual seminars and roundtable discussions, whose outcomes will be disseminated via articles, blogs and opinion pieces. We welcome feedback and support as we embark on this journey.

Meanwhile, we are keen to help you move from pilots to platforms, from silos to system solutions: in short, to help you achieve the scale and strength that we believe holds the key to poverty eradication worldwide. The time to join us is now.

# Key considerations for

## Government / Donors

### Differentiate between funding and service delivery

- Consider shifting from end-to-end delivery to becoming a "choreographer" of public services across a diverse set of partners and stakeholders.
- Harness the power of private investment, innovation and entrepreneurship in delivering public goods and services.

### Shift funding focus from projects and pilots to platforms and solutions

- Make initial investments in market-based solutions to help address failures and build the foundations for an ecosystem that rewards development outcomes.
- Invest in experimentation with new funding models such as Development Impact Bonds to attract and catalyze new investment in development.

## Business Leaders

### Consider re-framing development challenges as market opportunities

- Consider the notion that challenges in health, education, and nutrition might be market opportunities in disguise, and that a challenge in one value chain could be a business opportunity in another. What, for example, might the opportunity cost in terms of productivity impact be if consumer goods companies were to address the challenge of malaria among the hundreds of thousands of farmers in their supply chains? Might this also be a market opportunity in disguise for pharmaceutical, technology or micro-insurance players?

### Shift your mindset from PPP to P2P or "Private-Private" Partnerships

- Consider developing a partnering capability not only cross sector but also within the private sector.
- Leverage your existing strengths and experience to enhance the power of B2B partnerships as part of new platforms and outcome-based business models.
- Embrace latest thinking on new M&E and performance frameworks.

### Embrace disruptive change from within

- Allow ideas for new business models and innovation to emerge from your employees as intrapreneurs.
- Create "safe-spaces" for experimentation, incubation and scale-up.

## Imperatives for Civil Society/ NGOs

### Seize the opportunity to engage with business around development issues

- Seek to harness the latent power and socio-economic impact of progressive corporations; think less in terms of donations and more about how to encourage their support for more inclusive business practices.
- Leverage your core competencies to design new products and services, tapping into the "intrapreneurial" and innovation potential of your supporter base, particularly those who are employees of global corporations; seek opportunities for hybrid spin offs from within.

### Build understanding and capability around new funding models

- Replace "income" (or fundraising) with "outcome" as a core barometer of success (it will make current debates about NGO executive remuneration moot).
- Diversify your funding base by exploring new revenue generating business models and social enterprise structures.
- Enable the delivery of such structures by ensuring that technology is leveraged to provide the organization with the data it needs to communicate and track impact.

### Revamp your skills base

- Consider that the skills and experience of the past may even be redundant in the future.
- Develop (or acquire) new skills in areas such as impact investing, digital & analytics.
- Plan ahead around skills acquisition (and retention) as part of refreshed human capital strategies.

