What is not green about market systems development?

Three considerations for your journey towards greener MSD programming

Not long ago, the idea of 'greening' market systems development projects was little more than a quiet side conversation. Now it is center stage across the MSD community, including in forums such as the Donor Committee for Enterprise Development or the Market Systems Symposium, and it has even inspired its own 'Green Avengers' community of practice.

This rapid shift reflects a growing recognition that environmental sustainability is not a niche concern irrelevant to MSD. After all, environmental destruction has and will continue to disproportionately affect vulnerable populations in the Global South – the very people that MSD aims to support – undermining their incomes, destroying their jobs and locking them further into cycles of poverty.

Still, it is clear that we are just at the start of this journey and the path ahead remains uncertain. A clear sign of this are that conversations on "greening MSD" often swing towards extremes. Sometimes towards the 'overly macro': contemplating the need for development sector paradigm shifts or even the abolition of capitalism. Other times towards the 'overly granular': focusing on narrow, context-specific tools and case studies.

These discussions do matter, of course. But they can also be counterproductive, leaving practitioners either overwhelmed by the enormity of the challenge, or unsatisfied and hungry for more generalizable, practical lessons that can easily inform their MSD practice. Moreover, such discussions may also crowd out 'middle-ground discussions, for instance, on what the right "space" for MSD projects in an increasingly crowded field is, or on how MSD projects (and the approach) need to evolve to rise to the challenge. Such questions have no clear answers, but they are critical to raise going forward.

We, at ILO's Systems Change Initiative (SCI), recently examined the potential contribution of MSD programming for a just transition to spark discussions on sometimes overlooked employment dimensions of green transitions. In continuing on this journey, we now take a deeper look at MSD practice. Don't get us wrong; we strongly believe that core MSD principles of addressing root causes through facilitative and adaptive interventions are well-suited to address "wicked" problems such as poverty or environmental issues alike. However, we have begun to wonder: Could some of our MSD "customs" be holding us back?

Here, we present three recommendations that put common MSD customs into perspective, and argue for a "recalibrated" MSD approach better-suited to tackling environmental issues.

1. Transcend value chain framing

Several projects have used the MSD approach in "frontier" areas such as WASH (Water, Sanitation and Hygiene), education and social housing. However, most MSD projects remain focused on value chains, often commodity-centric ones, and most MSD tools and guidance available caters to such projects. The problem is that, although strict value

chain framing may be suitable for tackling poverty alleviation, it may sometimes be unhelpful when addressing environmental problems, which are of a different nature.

Poverty is a living condition experienced by people, which can often be addressed by supporting their increased participation in value chains. The environment, on the other hand, is not an agent we can empower to improve its standing in the world or better integrate in economic systems. In fact, the environment generally suffers from increased economic activity.

Environmental degradation is also different from poverty as it is an inherently "collective" problem. Indeed, the environment is a public good, which means that people are affected by environmental destruction (or preservation) regardless of their personal contribution. As one can guess, this can incentivise environmentally destructive behaviours, unless there are corrective measures (laws, subsidies, taxes, etc.) in place. For instance, if we reduce irrigation of our tomato crops to preserve precious water resources, we simply risk losing that water to unscrupulous farmers in the area. If we invest in lowering our shoe factory's greenhouse gas emissions, the benefits of a more stable climate will be equally shared with everyone else on the planet. Put simply, environmental problems often find their roots and bear consequences way beyond single value chains. By extension, addressing these problems effectively also requires action across different value chains, if not whole swaths of society.

Narrow value chain framing can even be counterproductive when specifically supporting green market development. This is notably the case where major drivers of change include green support actors such as renewable energy providers or organic input suppliers, serving customers in different value chains or even different sectors. Here, coming in with a narrow value chain framing may amount to enforcing artificial boundaries on them, pulling them away from their own aspirations and the most effective market development path for diffusion of their products and services. In Lebanon, before the war started in 2024, SCI was working to encourage solar energy installers, whose main customers were households and factories, to target and better serve agriculture sector customers. If SCI had gone in with a tomato value chain framing to encourage solar energy installers to specifically target tomato farmers, it would have been a much more difficult pitch to make.

In short, projects are more likely to be successful when they align their framing with the broader market and policy levers that drive sustainable change. Forcing environmental action into rigid value chain structures can limit their ability to catalyse change and achieve impact. So, what is the alternative? Some MSD projects tackling environmental problems have opted to widen their scope from commodity-centric value chains such as tomatoes to horticulture, agriculture, or even food systems. Others have focused directly on "green" support sectors or cross-cutting functions such as organic inputs or solar energy in agriculture. The right "scope" depends on the context. But, in any case, it may be a safe bet to move away from a "narrow value chain" scope as the default.[1]

2. Do not avoid policy-level intervention

Market incentives can generally be leveraged to some degree to reduce environmental impact. In some cases, the promise of cost savings will motivate resource efficiency measures. In others, the prospect of attracting new customers or getting price premiums will push for greening of products. Nevertheless, MSD practitioners will generally struggle to promote environmental improvements at scale if their only levers of change are existing market incentives. This is because of "externalities", an inherent misalignment between the cost-benefit of a given economic activity for society versus for the actor engaging in that activity.[2] Unless this misalignment is corrected, for instance through polluter pays mechanisms or green subsidies, environmental degradation will continue to take place.

In other words, rather than helping market actors identify and take advantage of existing market incentives for greening, what is needed is often to strengthen incentives. And strengthening incentives is often a policy matter. Yet, while most MSD practitioners seemingly recognize the shortcomings of a purely "market-driven" approach, the

[1] This does not imply that a narrow value chain scope will always be misguided. For instance, there are several interventions which *should* be value chain specific (or even product specific).

[2] This is linked to the fact that the environment is a public good, as mentioned previously.

reality is that many simply avoid the policy space altogether from the outset. Perhaps they view it as too complicated or believe that they are improperly structured and resourced to venture along that road.[3]

Of course, the average MSD project is not equipped to support the development and adoption of "flagship", nation-wide green policies such as single use plastic bag bans or large-scale green energy subsidies. This can require a project team's full-time attention for several years, with little to no guarantee of success. That said, MSD projects are certainly able to tackle *some* policy changes, particularly at the local level where even project implementers with limited prior political capital can find entry points. After all, there are solid examples of MSD project success[4], and one could even argue that systemic approaches like MSD are, in fact, best-suited to foster meaningful policy-level change, notably through working on the central issue of policy implementation, which is often weak (and overlooked by development actors).[5]

Within the environment space, activities may include helping a regulatory agency simplify procedures to make green standards more accessible to small businesses, working with municipalities to upgrade public waste management services or revise building codes, and supporting a renewable energy association to advocate for tax breaks on imported components, among others. The point is that even seemingly minor policy shifts within the reach of MSD projects can fundamentally tilt economic incentives in favour of sustainability. And over time, such shifts can compound into large-scale effects and build momentum for more radical change.

All this to say, MSD practitioners can no longer afford to overlook the policy space without even considering the real cost-benefit of engagement, particularly when it comes to the environment.

3. Leverage unconventional driving forces

Unearthing market opportunities is the bread and butter of MSD practitioners. Yet, when it comes to moving the environmental needle, the business case is often far from clear or even outright weak. Here, projects face three options: walk away, try to strengthen the business case, or move ahead without one. As discussed earlier, the third option rarely leads to large-scale results. But that doesn't mean it should be dismissed altogether. In fact, it can be a necessary first step in green sector development efforts, particularly for introducing new green practices and technologies. However, pursuing this path also requires a "paradigm shift" away from a simplistic, purely "market-driven" lens.

In the absence of a strong business case, projects should not try to embellish the profit potential. Rather, they should look to leverage other incentives (and actors responsive to these other incentives). In most contexts, it is fair to assume that some business leaders and politicians place intrinsic value on environmental preservation and are willing to look beyond pure profit, especially when it brings community benefits such as improved health or job opportunities.[6] Similarly, it is unreasonable to systematically assume that consumers in developing countries only make purchasing decisions based on price and quality considerations. Many are environmentally conscious and there may be other stronger consumer aspirations and norms that can be leveraged and enhanced. Take the case of the Elan project in the Democratic Republic of Congo. It supported suppliers of small "solar home systems" on marketing not by advertising their energy cost-savings potential (versus diesel generators) or their environmental friendliness, but by branding them as aspirational goods synonymous with high social status.

[3] See ILO's Bending the rules | International Labour Organization on how MSD projects can work on the "rules of the game".

[4] A notable example is the ENABLE project in Nigeria, which examined business environment reform from a market systems perspective – as a transaction supplied by government to enterprises, and with supporting functions and rules and regulations such as information, media and advocacy mediating that transaction. In the environmentally relevant policy space, Ecovecindarios and Markets 4 Recycling in Bolivia have worked with municipalities to support development of local waste collection systems. Other examples can be found in Bending the rules | International Labour Organization.

[5] A notable initiative that explored this idea in depth is the Building State Capability (BSC) team at Harvard University, which developed the "Problem Driven Iterative Adaptation" (PDIA) approach, sharing many of MSD's core principles, to tackle different policy problems with an emphasis on ensuring policies are implemented and improved upon. This alternative approach emerged as the BSC team realized traditional approaches to policy reform were often ineffective, sometimes even counterproductive.

[6] It is perhaps easier to mobilize actors around locally acute environmental problems such as solid waste proliferation, water scarcity or urban air pollution rather than globally diffuse ones such as climate change or ocean plastic pollution.

Also important is to acknowledge that development projects generally do not operate in pure market environments, which is a situation they should try to take advantage of, not fight. This is especially the case when promoting green solutions for which the "market" has limited existing appetite. After all, non-profit organizations such as donor agencies, development projects, NGOs or civil society organizations also wield substantial resources and have potential to orient market development without being bound by strict profit imperatives. Most notably, they can serve as critical early adopters and promoters of new solutions that have yet to become commercially viable (or be proven as such).[7] For instance, when individual house buyers in Zambia were dubious about the durability of greener building techniques and materials, ILO's Zambia Green Jobs Programme turned to large institutional buyers, some of whom were not so concerned by the "bottom line", to kickstart the market. Early adopters included a large mining company eager to boost its corporate social responsibility in building employee housing, and a social housing focused NGO eager to ensure a lower environmental footprint in its housing projects.

In essence, projects must be pragmatic in attempts to thicken green markets and reach critical mass, pivotal for breaking out of the 'chicken and egg' dynamic of limited supply of environmental solutions due to limited demand, and vice versa. Projects should carefully consider all available opportunities to build a minimum sized supplier and customer base, and bring visibility to products and practices irrespective of who the early adopters are and their motivation for adoption.[8]

Conclusion

In an era marked by escalating environmental crises threatening jobs, incomes and even the very survival of the world's poorest and most vulnerable, recalibrating MSD to support greening of economies and promote a just transition has become necessary. The recommendations outlined here – moving beyond rigid value chain framing, rethinking policy-level engagement, and broadening our understanding of what drives change – are three possible adjustments to be considered by MSD projects in this journey. Together, they challenge established norms and customs, and urge us to question not only how we structure projects but also the underlying assumptions that have shaped market development practices. We recognize that these ideas warrant further scrutiny, and that several other (perhaps more radical) adjustments will be necessary. That said, in line with the MSD practitioner ethos of continually questioning the status quo in search of better solutions, we hope that these recommendations will spark further productive dialogue, helping practitioners confront these growing challenges which the MSD approach was not originally designed to address.

[7] MSD practitioners will likely raise (valid) concerns about the sustainability and scalability of relying on such actors to perform any given market function. Yet, the reality is that the average donor agency or large NGO will last just as long as the average enterprise in any given developing country, and that there are likely suitable roles they can adopt in the short and medium-term without jeopardizing longer term development prospects.

[8] Relatively recent strands of economics (notably behavioural economics) highlight the often-pivotal role of seemingly "irrational" social and personal factors in driving individual decisions as well as the importance of market-shaping actors, critical mass and threshold effects, driving nonlinear "innovation" adoption patterns.

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