the LAB
MARKET SYSTEMS DEVELOPMENT FOR DECENT WORK

Systemic Change: walking the talk?

Radical improvements in sector productivity and working conditions can only come about through more holistic approaches that focus on long-term economic transformation, says the ILO Lab.

by Matt Ripley

www.ilo.org/thelab

The central premise of Market Systems Development (MSD) is that some markets don't work well[1]. All too often, MSMEs – a major job creation engine in developing countries – face issues of low productivity and cannot compete in higher-value markets. As a result, people are unable to secure decent job opportunities or to earn an adequate income to support their family. Intervention is therefore required to make markets work better, and this involves understanding and addressing the root causes of market failures to catalyze lasting systemic changes.

But what is a 'systemic change'? As the old joke goes, it's a like a birthday present: Everyone wants it, but no one is quite sure what's inside[2]. Conceptually, the definition of systemic change is actually quite clear – and consistent with the roots of the term in political activism, from civil rights to universal suffrage: "Systemic change means that change has to be fundamental and affects how the whole system functions"[3]. It's about changes that spread and behaviours that become a new normal, rather than benefits remaining confined to a narrow group. This way, scarce aid resources can be leveraged to stimulate more inclusive growth across whole sectors; not just narrow segments.

The challenge lies in figuring out ways to operationalise systemic change; which in turn is shaped by the incentive in development aid programmes to deliver short-term results. MSD literature recognises that systemic change comes late and may peek several years after project closure. However, in practice, systemic changes are often 'projectized' in order to be achieved within a pre-defined period[4]. Not surprisingly, this has led people to define systemic change narrowly, focusing on the *objectives* of systemic change - sustainability and scale - rather than the nature of change itself. A new product or service is introduced, a partner adopts it, and others crowd-in to offer the same innovation, or variants thereof. This is best encapsulated by the vegetable mini-seed packet intervention in Bangladesh, which succeeded in reaching over 2 million farmers. Light-touch, short-duration technical assistance was provided to companies - such as the multi-national Syngenta - to help them introduce tweaks to make products and services more relevant to the poor, but without deeply impacting on underlying business models[5].

Clearly, this kind of change can be important for farmers – at least in the short-term. But nothing really changes in the system structure, or in the way that the market system functions as a whole. At best, the strategy is to 'keep the lid on the pressure cooker'; seeking to make on-farm livelihoods marginally better while figuring out pathways to long-term economic

[1] See https://beamexchange.org/market-systems/key-features-market-systems-approach.
[2] This analogy was first coined by the DCED
[3] Narberhaus, 2016, cited on medium.com
[4] The typical MSD programme phase lasts for 3-5 years, while a systemic change – as a very broad rule of thumb – expecting to take around 5-10 years to catalyse.
[5] The story of Market Systems Development told through twelve real-life cases from four continents" (forthcoming)

prosperity[6]. At worst, critics have called these 'band aid' business models; papering over the cracks of extractive business practices and providing people in power with an excuse to avoid changing the status quo, which is what actually drives inequality in the first place[7].

Technical or transformational change?

Defining what is and is not systemic change against the twin goal of sustainability and scale can be termed the *technocratic* approach. It is a deeply pragmatic definition, recognizing the political economy of aid, and the need for aid agencies to do something. But overly 'projectized' systemic change risks doing MSD a disservice. It also increases the gap between rhetoric and reality: If mini-seed packs are systemic change, then what do we call the genuinely game-changing shifts that *do* impact on underlying business models?

"Projectized systemic change risks doing MSD a disservice"

At the ILO Lab, we work on adapting a market systems approach to support the creation of more and better jobs. This often means dealing with intractable job quality issues; light-touch tweaks and 'nudges' mostly don't work when business models and incentives are fundamentally mis-aligned with worker interests. Even when they do, many inclusive models fail to scale as most markets are much 'thinner' and far less connected than in places like Bangladesh, where the first generation of MSD programmes took off.

Rather, we think it is important to consider what kind of changes can actually be considered systemic and have potential to be genuinely transformational. This requires change to be defined qualitatively and entails more of a value judgement. Yes, there will always be contextual differences, but it is possible to look for heuristics and certain categories. FSG's recent framework resonates, for example, with six conditions of systemic change ranging from the explicit and structural (policies, practices, resource flows) to implicit mental models. It is clear here that the uptake of a new product or service alone cannot be a systemic change unless it alters the fundamental system structure[8].

"The focus [needs to be] on "shifting the conditions that hold the problem in place""

A *transformational* rather than a *technocratic* approach to systemic change lets form follow function. Instead of promoting a 'solution to a problem', the focus is on "shifting the conditions that hold the problem in place"[9]. In a sector like garments, for example, the push to put in place structures like social audits has been important. But has it changed the fundamental structure of market systems and shifted underlying incentives to provide better working conditions? Our research in Asia and Rwanda suggests not. The experience of ILO initiatives such as Better Work show that what is required is a multi-pronged strategy of compliance, capacity-building and buyer engagement to change the attitudes and behaviours that underpin business models.

Innovation across multiple layers

Like systemic change, the word 'innovation' is frequently used - but without a clear understanding of what type of innovation it refers to. Some changes can be considered *sustaining* innovations – incremental tweaks to existing products or services, but with no change to the system structure. In contrast, *disruptive* innovations transform existing markets, change methods and

[6] Promoting Economic Transformation Through Market Systems Development
[7] See Giridharadas, Winners Take All: The Elite Charade of Changing the World
[8] Taylor, B. (2016). Systems and Systemic Change – Clarity in Concept.
[9] FSG, The Water of Systems Change

“Through experimentation we try lots of things, recognising that most will fail”

“Most market systems projects still deploy passive management techniques”

mindsets of value creation and even create new industries[10]. A more transformational view of systemic change would be rooted in issues of participation, power, politics and policies. Unless these conditions shift, it is not possible to bring about the larger step-changes in productivity required to reach longer-term economic prosperity alongside better incomes and working conditions.

This introduces an important concept of directionality, which has recently crept into systemic change measurement and is inspired by systems thinking. Resilient systems must help bring markets to a better state, rather than merely increasing in size or continuing to provide the same set of services[11]. It means that most times, what programmes aiming for systemic change need to try to do is catalyse *disruptive* innovations which take the system in a new direction, not just *sustain* the status quo.

Innovation has to take place at both the firm-level and the systems-level. Higher-level innovation means that systems are better able to manage future risks and adapt to solve tomorrow’s problems, and not just today’s. Without systems change, firm-level product, process and business model innovations will always be constrained. As noted in the Harvard Business Review, an innovation can only be as good as the ecosystem that supports it. MSD programmes are not investors trying to narrowly boost job quality within their portfolio, or a ‘traditional’ aid project providing training to a few pre-selected participants; practitioners should always and pro-actively be seeking to go ‘beyond the pioneer’ to change how whole systems work and ensure benefits can be spread across sectors.

Simplifying complexity

Such disruptive, transformational innovations take place over long time horizons – and there is no guarantee of their success. Change processes are complex, there is no blueprint or fixed roadmap. This doesn’t mean that we need to get lost in complexity: As noted by Ben Taylor, “Complexity need not lead to confusion, and there are…practical ways in which systems can be understood in order to allow external players to monitor and affect change”.

We believe that the tools are out there to both measure and manage towards systemic change. The problem is, we’re not using them well – and often seem to be stuck in an endless time warp of theorizing, reconceptualizing and coming up with new frameworks. MSD is constantly changing the goal posts for implementing staff too – further muddying the waters of what defines systemic change, making the concept more difficult for people to understand.

What if we just had a clear qualitative, value-driven statement of the systemic changes being sought (aligned say to a category in the FSG framework). We can then practically monitor how new innovations (read: behaviours, not products) spread using the Adopt-Adapt-Expand-Respond tool. Periodic evaluations would bring rigour and higher-level learning. It will be an imprecise science, but then that reflects the messy process of social change we are dealing with. Altogether, that should give a good enough signal; and allow us to get on with the real work of getting deep into sectors

Back to the future

[10] This distinction is drawn from Eric Ries The Lean Start Up
[11] See BEAM Exchange definition of market systems

What do we need to do to unlock the potential of systemic change, and better meet the ambitious, holistic, transformational vision of market systems development? First of all, we need to get past the excuses for not learning from the past. If sustainability is core to the approach – then let's figure out if and how past projects have been successful in leaving behind lasting change. That's why the Lab has just started an ex-post assessment of the ILO's first MSD programme, Enter-Growth in Sri Lanka, which finished exactly 10 years ago.

Taken to its logical conclusion, however, one project rarely leads to systemic change; we know already that what is needed is more joined up, longer-term programming. These 'next generation' programmes may not always be called MSD – which is fine, as long as the core principles of the approach are distilled. Donors like DFID are moving towards embedding market systems thinking within wider programmes on economic transformation, while others are turning project-based structures into self-sustaining organizations[12]. Here at the ILO, we believe the key to unlocking the decent job creation potential in sectors is to understand how MSME productivity is driven by a wider ecosystem. Productivity and working conditions improvements go hand-in-hand, but in many regions, huge productivity gaps constrain both business performance and outcomes for workers.

A productivity ecosystem lens would take into account both:

- **Internal factors at the micro (enterprise) level** such as labour, technology, organizational and management processes that shape productivity and can be addressed by working with companies.
- **Meso and macro level factors** which shape market system functioning. These factors are external to companies and beyond their zone of influence (e.g. lack of access to finance, lack of digital infrastructure, ineffective supply chains, lack of a business service environment, tariffs and import procedures, availability of skilled labour and excessively regulations and red tape), but often substantially impede productivity gains at the company-level.

The focus would be on identifying and then addressing the system-level incentives for MSMEs to improve business performance and drive better working conditions – at the same time as plugging capacity gaps at the firm-level. This would give the productivity ecosystem approach some 'teeth'; allowing programmes to generate immediate results while creating the space to iterate towards longer-term transformational change. By zooming in on a narrower set of sectors over a long time horizon instead of being scattergun and short-term, programmes would be able to build the connections, knowledge and know-how to maximize chances of success. We believe the enterprise development community already has most of the parts of the productivity puzzle – from tools to intervention models to methods of understanding markets – the challenge now is to figure out how to put them together. So instead of always trying to come up with new 'solutions', let's work out how to make better use of the ones we already have.

[12] Such as Fundación Chile, FSDA and Msingi (part of the Gatsby Foundation)