

# Working with Business Towards Systemic Change in Markets

Donors, governments, civil society and companies are making significant investments in creating or supporting new business models with the aim of contributing to international development goals. Despite isolated success stories, there is growing concern that such efforts have failed to create widespread, lasting change beyond the immediate intervention. Based on an analysis of nine pro-poor business case studies, this Policy Briefing helps those supporting new business models, such as donors, non-governmental organisations (NGOs) and governments, consider how to move beyond simply supporting individual company value chains, to drive change in broader market systems.

## Pro-poor business: significant effort but limited results

Business is increasingly seen to have a significant impact on international development, given the power that companies wield within markets and other systems that affect the lives of the poor. Many companies have responded to a combination of business opportunity and societal pressure by exploring new business models designed to benefit the poor, often in partnership with donors, governments and NGOs. Hundreds of such examples have been documented globally.

However, to date, most of these pro-poor business models are isolated projects led by an individual company or perhaps a partnership of organisations, designed to improve the lives of a target population but largely disconnected from wider change. There is growing pressure for these efforts to generate, demonstrate and measure broader impact over the long term, alongside a sense that this goal will remain elusive unless more ‘systemic’ change is also taking place.

## What is systemic change?

Systems are dynamic patterns of interrelationships involving actors, objects and processes, operating within a set of boundaries. These boundaries and other properties of the system are subjective

## Pro-poor business

While business impacts on development in many ways, one prominent area of focus is around ‘inclusive’ or ‘pro-poor’ business. This is an approach that involves redesigning business models and processes to improve the lives of the poor as producers linked to value chains, as consumers of essential goods and services that are made available to previously underserved markets, or as employees. However, to date, many of these efforts have been pilot projects designed to improve the lives of a target population, but largely disconnected from wider change.

and may be experienced and understood differently by different individuals, so analysing systems means considering multiple perspectives. Systemic change involves a transformation in the structure or dynamics of a system, leading to lasting impacts on large numbers of people.

In complex systems like markets, however, the dynamics of the system emerge from interactions between the different parts. This makes change difficult to achieve in a predetermined or straightforward pattern. Small interventions can lead to large changes, but interventions can also result in stability or stagnation so that large efforts may have little effect.

## Can business-led approaches create the potential for positive systemic change?

There is currently a lack of good evidence, information and case studies on pro-poor business and systemic change. Even where business initiatives have aimed to achieve systemic change, analyses and impact assessments have been weak at reviewing these aspects. To consider how those supporting new business models, such as donors, NGOs and governments, can move beyond individual company value chains to drive transformation in broader market systems, a selection of nine pro-poor business case studies were analysed against a framework of questions on systems and systemic change. These were all agricultural sector cases from the United Nations Development Programme's (UNDP) Growing Inclusive Markets (GIM) initiative.

The cases were each identified according to the structure of the initiative: whether they were led by an existing company, a new company created in response to a specific challenge, a partnership between two or more entities, or a multi-party platform involving a large number of organisations. Each was then analysed to understand whether it sought to address systemic challenges through innovations in product, process and organisation, and if so which approaches were used to strengthen and stabilise these innovations towards systemic change. Even where the initiatives did not directly seek systemic change, they were also examined for evidence that they were addressing challenges systemically.

Systems change unpredictably, and the intention was not to make judgements about which initiatives would ultimately lead to systemic change. Many of the innovations will struggle against the existing system and disappear. Rather the aim was to identify those cases that seem to be creating the necessary building blocks, through developing and consolidating niche innovations, that can break through if the conditions are right.

Three key findings emerged:

- **Three of nine cases could be considered to target systemic change.** These were

## Systemic change vs scaling up

Pro-poor business initiatives often involve pilot projects that, if successful, are targeted for 'scaling up' or increasing the impact of the initiative. Sometimes scaling up and achieving systemic change are used synonymously. Yet there is an important distinction between systemic change and scale.

**Scale** is about numbers. It is about increasing the size, amount or extent of an initiative, e.g. through working with large corporations that have a vast reach, through partnerships, or through replicating and multiplying results. While economies of scale and return on investment are important for business, as they can determine whether ventures are commercially viable, they imply nothing specific about development, in the sense of transformative change.

**Systemic change** is about transformation in the structure, dynamics and relationships of a system. Pro-poor business initiatives that lead to systemic change in markets can deliver tangible and enduring benefits with significant impacts on the material conditions or behaviours of large numbers of people.

However, while transformation is often seen as desirable, it is not inevitable that systemic change will necessarily lead to positive development outcomes. There are likely to be winners and losers, and the benefit of any particular change will depend on the perspectives of different individuals.

either examples of new companies created in response to a specific challenge, or multi-sector platforms involving a large number of organisations. Each adopted a wide range of approaches to strengthen and stabilise innovations including creating new organisations, raising awareness and capacity, public policy engagement, developing a wide community of supporters and addressing missing public goods.

- **While some efforts were made to understand diverse perspectives of the system, these generally focused on more powerful individuals or organisations.** There was no evidence that power relations, such as between companies and smallholders were considered in how the system and its challenges were identified and understood. These are significant omissions since it means that more powerful actors are defining the system, its constraints or failures, and viable innovations.

**“The aim was to identify those cases that seem to be creating the necessary building blocks, through developing and consolidating niche innovations, that can break through if the conditions are right.”**

- **While only three initiatives targeted systemic change, most dealt with some systemic challenges.** In most cases the response of the initiative to these systemic challenges was to help the value chain navigate around the constraints. However, in a few cases companies sought to address the underlying challenge, with the

potential for wider benefits beyond their own value chain. Amanco, for example, identified that public resources that could help farmers purchase small-scale irrigation technologies were being used by wealthier farmers and planned to work with local authorities to facilitate a more pro-poor resource allocation.

## Case Study: Amanco – Mexico

Amanco, a subsidiary of the corporation GrupoNueva, developed a value chain for serving low-income markets. The company adapted its irrigation products to better meet the needs of small-scale farmers, with several products integrated into one irrigation solution, priced per hectare of land. The solutions included services to increase farm productivity and to maximise water efficiency.

The company partnered in the initiative with civil society organisations that are closer to low-income clients. These included Ashoka, which acted as a development broker to identify Mexican social entrepreneurs that could work with Amanco, as well as microcredit providers and others that supported farmers in accessing alternative channels for commercialisation.

While the initiative sought to address a development challenge (access to irrigation) through innovation around products and processes, Amanco's approach was not systemic – in that it focused on its own value chain and customers. Ashoka's goal, on the other hand, was systemic – transformation at an industry level. Ashoka, therefore, ensured there was no exclusivity agreement in its partnership with Amanco, and was searching for other supplier companies to work with.

On Amanco's side, while the approach was not generally systemic, the company did seek to address at least one underlying challenge (finance) in a more systemic way. Rather than focusing only on direct financing solutions for its clients, Amanco identified that public resources that could help farmers purchase small-scale irrigation technologies were being captured by wealthier farmers. As a result, the company planned to work with Mexican authorities to facilitate a more pro-poor resource allocation for acquisition of small-scale irrigation, which could lead to broader positive impacts beyond its own value chain.

## Case Study: Coco Technologies (CocoTech) – Philippines

In the Philippines, coconut farmers are disproportionately poor. They traditionally depend on dried coconut flesh products which are particularly vulnerable to price fluctuations. Some have reverted to desperate measures to make an income by cutting down their coconut trees to sell as lumber. CocoTech pioneered the use of cocofibre nets from waste coconut husks, providing supplementary income to farmers, livelihood opportunities and a low-cost, environment-friendly solution to its clients in the form of nets for slope stabilisation and erosion control.

The company's approach was systemic from the outset in seeking to identify the root causes of the problem and design a sustainable solution that was not dependent on the company. Actions included:

- Work with community partners which act as autonomous enterprises and which are encouraged to develop their own markets
- Consultation with leaders of the country's coconut industry and local public works officials
- Public policy dialogue that led to use of cocofibre in all government infrastructure projects
- Work with the local government for technical assistance and capacity building of farmers
- Support for development of a standard for coconets.

What started in one part of the Philippines spread to other coconut-producing areas in the country, and new partnerships and joint ventures were established with foreign companies and governments in the Netherlands, China and Sri Lanka. The market for cocofibre products also grew, with new international customers such as Bestmann in Germany. However, overall, the number and value of CocoTech's projects peaked in 2002/03, fell in 2005 and only started climbing again in 2006.

## Recommendations for donors and governments

These findings lead to some important recommendations and implications for development actors working with business:

- **Identify and prioritise systemic challenges and potential interventions.** For example, those working in development should concentrate on identifying 'binding constraints' that are acting as barriers to systemic change. They should also understand power relations and how these influence how the system and its constraints are understood. Working with others to identify diverse perspectives on the system and its boundaries is also crucial.
- **Work with different companies and organisations.** Although working with a new company or entrepreneur, or a platform of different organisations, is insufficient on its own to lead to systemic change, it provides a more likely starting point than working with a single, dominant company, especially one that is heavily embedded in the current system. Dominant companies have little incentive to approach issues systemically and/or are unlikely to capture sufficient gains, which accrue to others, compared to costs the companies would bear in taking this action.
- **Make value chain approaches more systemic.** Where development actors do partner with an existing company on pro-poor business, it generally means concentrating on impacts within a company's value chain, and generating win-win results that deliver both public and commercial benefits. However, development practitioners can encourage and provide incentives for companies to address challenges systemically, rather than simply removing obstacles within their own value chain. They can also strengthen linkages between aspects of a company's value chain approach and broader systemic change.
- **Avoid supporting or creating conditions that undermine systemic change.** Those that work in development, from civil society organisations, public sector, academia and agencies should avoid circumstances where benefits created through company initiatives are contingent on factors that can undermine positive systemic change. Initiatives should not be premised on further entrenching an existing company monopoly. For example, especially as 'crowding in' or replicating by other companies of the innovation with poverty reduction potential is often desirable and can signal that an innovation is becoming a dominant design.
- **Invest in systemic elements that may be missed in business-led approaches.** There needs to be more investment by the development sector in ensuring that understanding of the system, its characteristics, boundaries and challenges are defined through the participation of diverse stakeholders. The sector should also invest in efforts to evaluate systemic outcomes and impacts of initiatives, including evidence that an innovation is stabilising. Both measuring systemic outcomes and engaging diverse perspectives in understanding the system are areas where the public interest is likely to be greater than private commercial benefits.

## Further reading

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## Credits

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