

A Systems Change Framework

A framework to understanding the key elements and investments leading to systems change.

April 2014

A project of



Background

- This document emerged from a project supported by the foundations supporting change in sustainable seafood markets and small scale fisheries.
- The objectives of the project were for the participants to:
 1. Better understand each other's strategic priorities and funding.
 2. Identify gaps and collaboration opportunities.
 3. Develop a funding “map” to assist them with internal strategic discussions, as well as conversation with external stakeholders.
- Participants:
 - The project and funder workshop was led by Manta Consulting, with the participation of the Rockefeller Foundation, The Gordon and Betty Moore Foundation, the David and Lucile Packard Foundation, The Walton Family Foundation, and Humanity United.
- This document describes the framework that was developed to understand systems change, and help identify funding gaps and opportunities.
 - An accompanying document addresses the specific seafood market collaboration opportunities that were explored.

Funder Priorities

Funders approach sustainable seafood from variety of philosophies and strategies

1. Different philosophies and ultimate objectives:
 - From changing the underlying causes of environmental degradation, to supporting leadership, to hoping to affect policy through markets.
2. Different metrics of success
 - Timeframes of expected impacts vary from 2 to 15 years
 - Most are looking to change behavior of companies in sustainable seafood, but for different focal points as well as ultimate motive.
3. Convergence around systems change
 - Several of leading foundations are at strategic review points
 - All are looking for scalable, system-wide change

A Framework for Systems Change

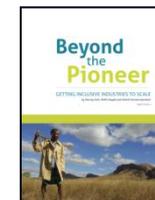
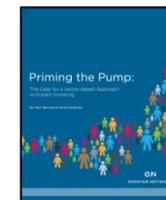
To explore funder activities, gaps and collaboration opportunities, we developed a framework for understanding systems change.

The framework aims to:

1. Identify the core elements that are necessary for a market-based systems change
2. Show how these relate to each other
3. Highlight the role of investment in different stages of the change, including that of philanthropists and private investors

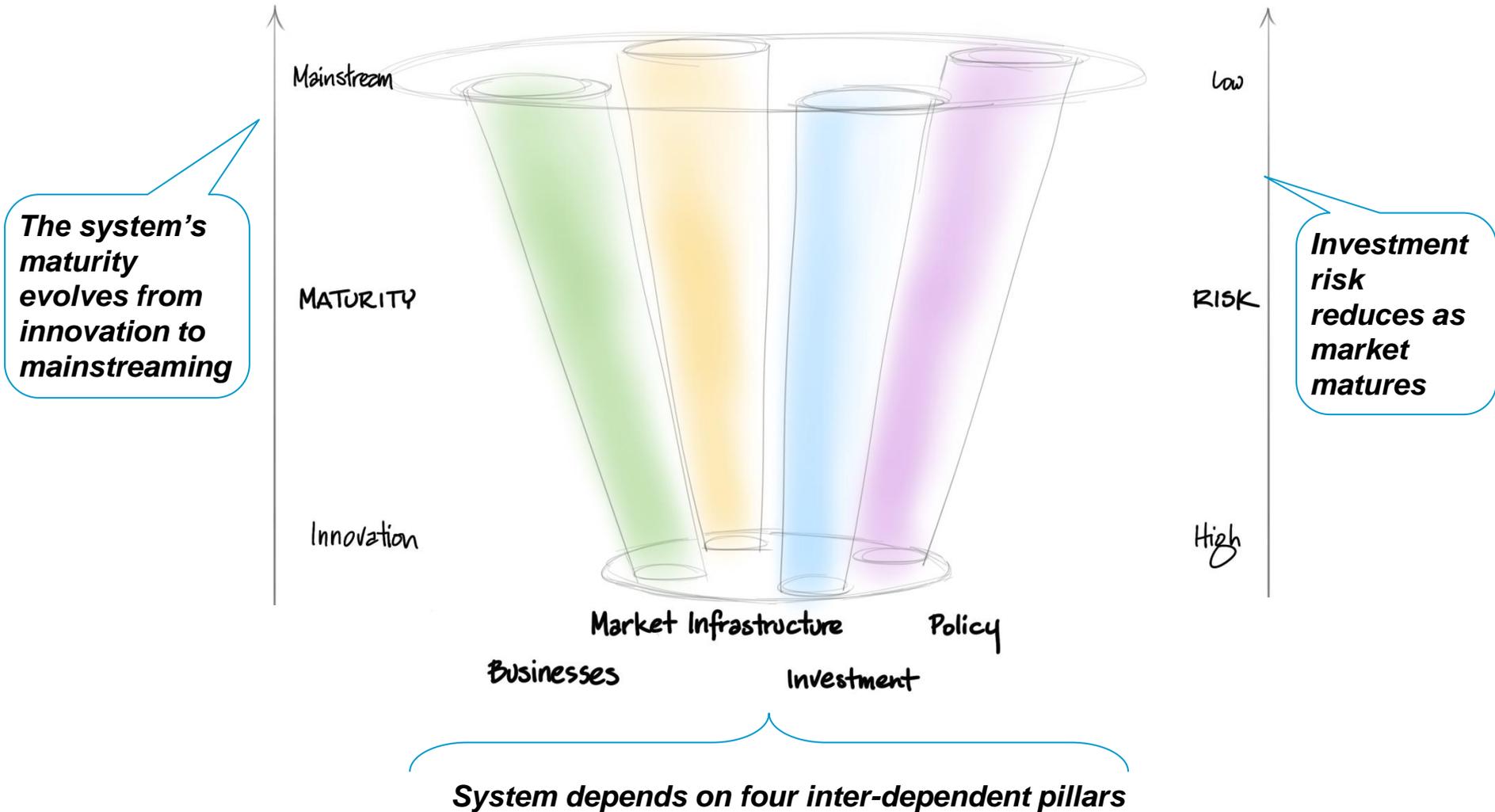
The framework incorporates:

- Manta Consulting's experience working with inventors, funders and businesses in this sector, including the Fish 2.0 competition.
- Market infrastructure focus in Omidyar Network's *Priming the Pump*
- "Industry Facilitators" highlighted in Monitor Deloitte: *Beyond the Pioneer*
- The "Meso Level" in CGAP: *Access for All*

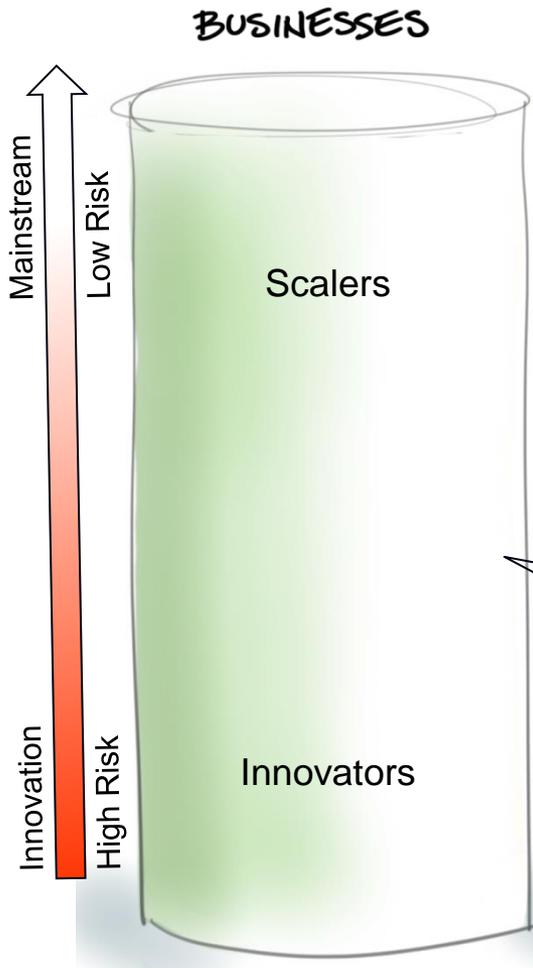


Supporting market-based system change

Key element: evolution towards mainstreaming requires a balanced growth of all four pillars



1. Businesses

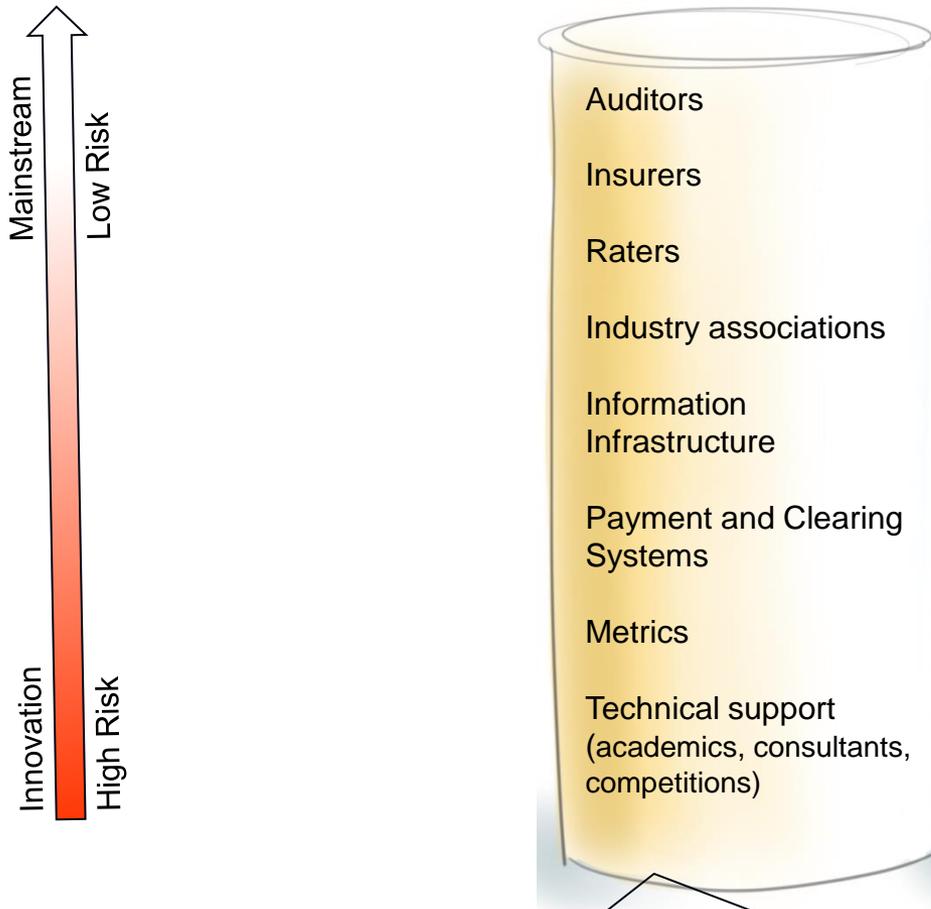


- Innovators develop new businesses model.
- Once these are proven, scalers make business models bigger, or move into new markets.
- Innovators and scalers are likely to be different companies.
- Risk profile of each is very different.

*Microfinance Example:
Grameen Bank was the initial innovator
Now many MFIs taking this and similar
models to scale*

2. Market Infrastructure

MARKET INFRASTRUCTURE

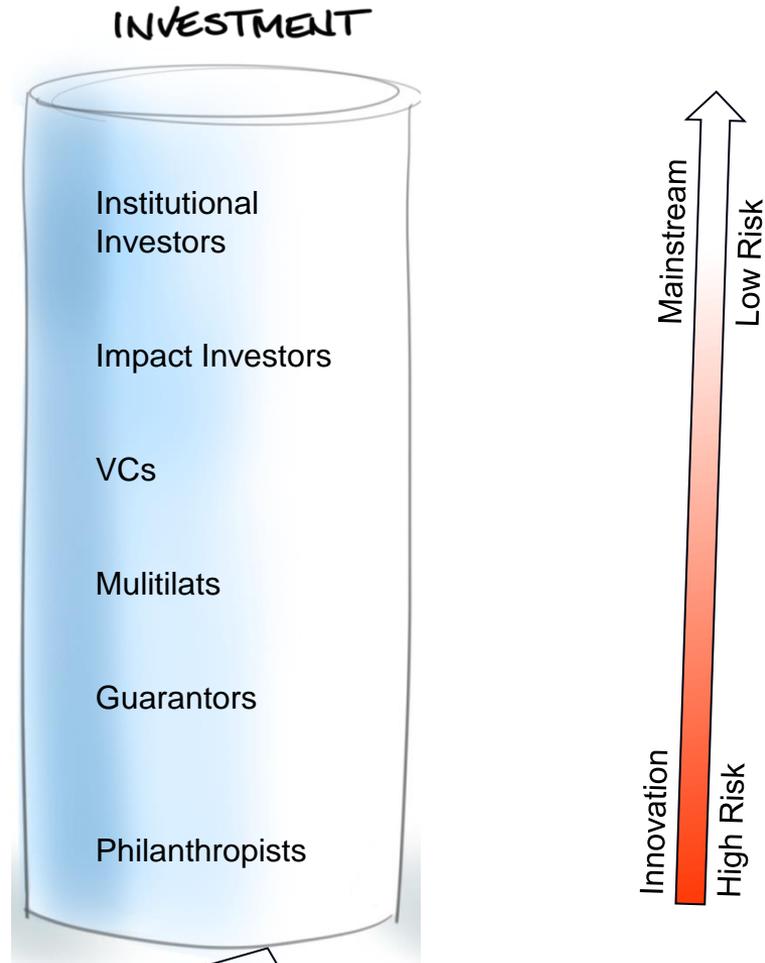


- These organizations provide shared services to the innovators and scalers
- Can be businesses or non profits
- At first, they may not exist, and have to be created, often by the innovator and their funders
- Their existence is necessary for scalers to develop and function
- They are typically not profitable for a long time

Microfinance Example: Credit bureau critical once market is developed. Problems have occurred where infrastructure has not kept up.

3. Investment

- Philanthropists lead, seeding the innovators.
- Philanthropy is also critical for supporting market infrastructure, which tends not to be profitable long term
- As the system matures and the risk lowers, other investors are brought in.
- Governments and multilaterals can support with loan guarantees

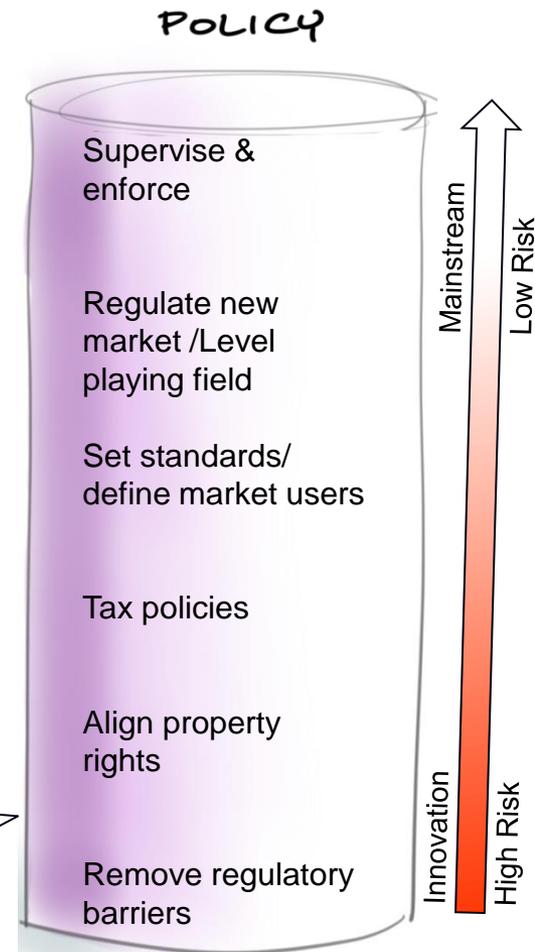


Microfinance Example: Innovators and early market infrastructure were philanthropy funded for a long time. Once de-risked, other more mainstream investors came in.

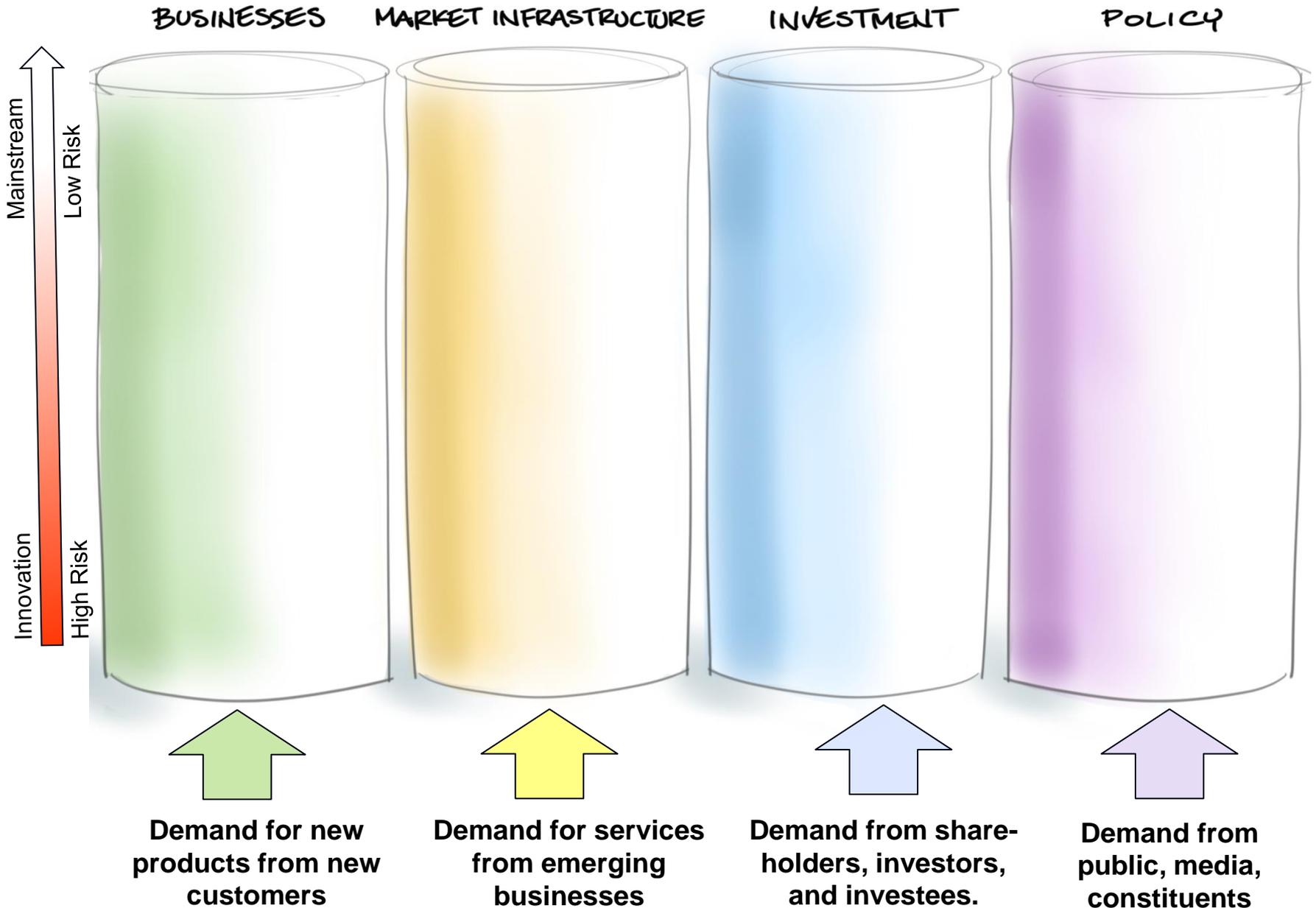
4. Policy

- At first, policy barriers must be removed, to allow the new market to develop
- Property rights, tax policies and other market frameworks may be needed for the market to develop
- At a later stage, regulations must be put in place to establish standards
- Monitoring & enforcement capacity must accompany regulation

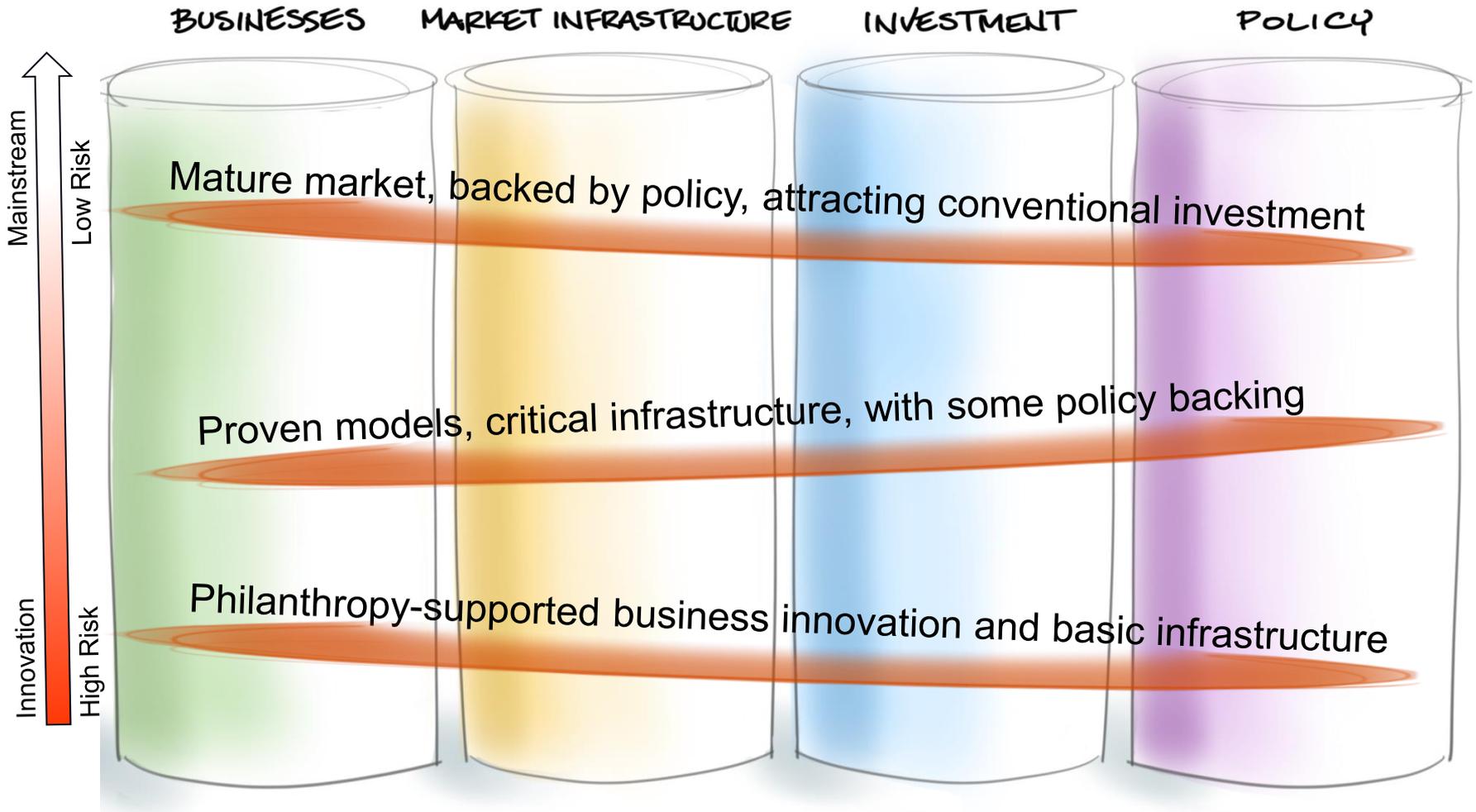
Microfinance Example: Policies to regulate MFIs were needed as they grew in size. MFI growth in each new country required appropriate policy to accompany it.



Demand for new products, investments & standards drives change



Systems change works best with balanced evolution.



- Evolution in four pillars necessary for a sector change

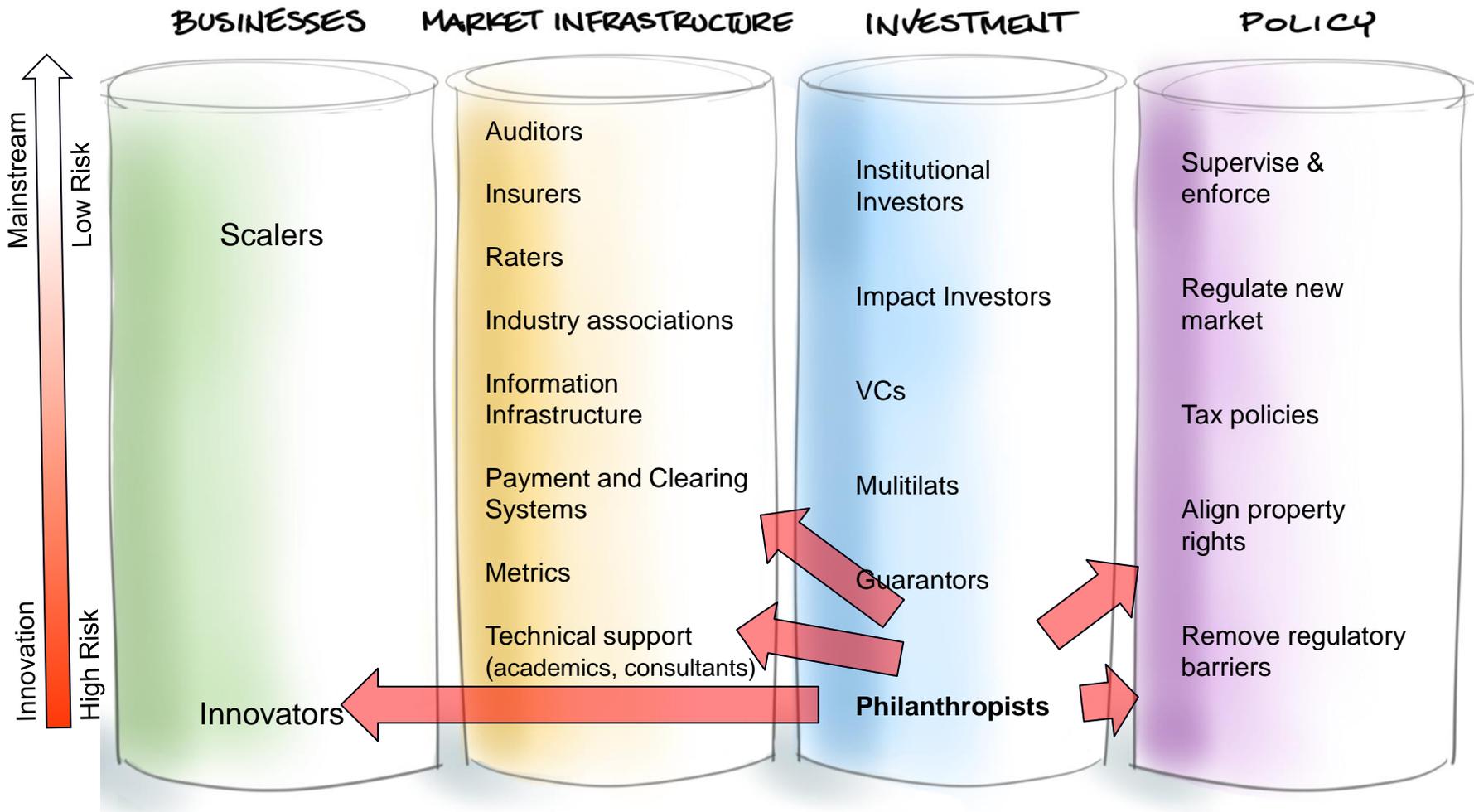
Systems change slows if work in all four areas is not aligned

- Insufficient policy support can hold back systems change:
 - For catch shares, the lack of clarity around how QS could be collateralized and used under default slows change;
 - For many FIPs, the lack of a rights-based management system allowing benefits to accrue to investors is a barrier.
 - Traceability investments and technology development are impeded by lack of clarity on any government requirements that will be imposed.
- Advancing policy alone can create uncertainty and undermine growth
 - The aggressive Renewable Fuel Standard has had to be scaled back repeatedly, as there is not enough biofuel to meet it.
 - This policy uncertainty has caused great volatility for investors and businesses.
- A missing piece of market infrastructure creates problems:

“We would also note that LACK of infrastructure can disrupt an otherwise burgeoning sector, and that many times the infrastructure needs to be developed at a national level. The lack of a credit bureau serving Indian microfinance institutions (MFIs), for example, contributed to the over-indebtedness problem that was a significant contributor to the microfinance crisis in the state of Andhra”

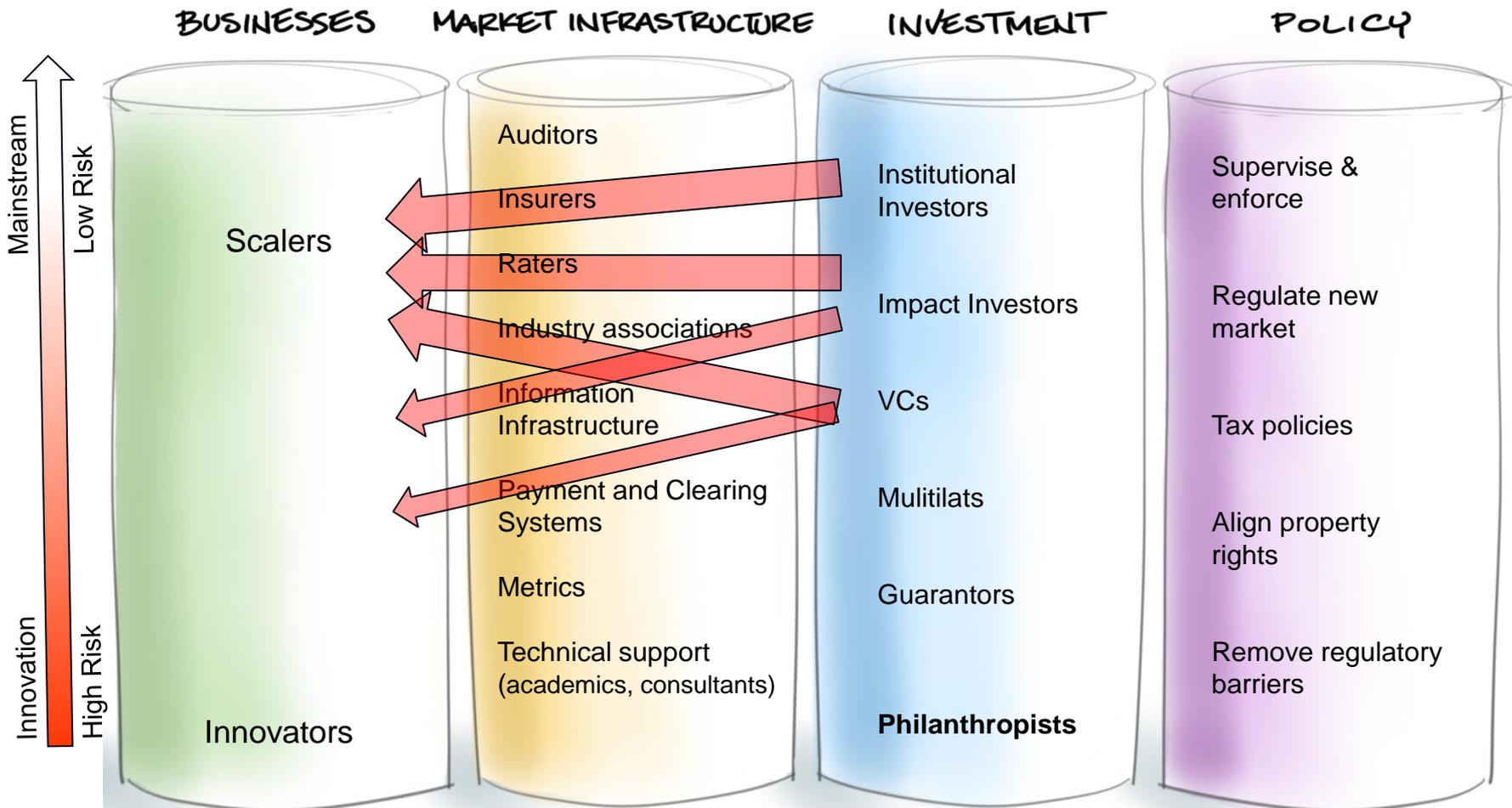
Priming the Pump, Omidyar Network

Multiple Collaboration Opportunities for Philanthropists



- Philanthropists play key role in supporting all initial pillars

Investors mostly looking for Scaling Businesses



- Traditional investors will support businesses once market infrastructure and policy are established
- VCs and some impact investors may invest in innovators, but usually after some examples of scalers have proven the market potential.

Conclusions for Systems Change Efforts

1. A balanced approach needed on all 4 pillars, to drive change
 - Market will develop to a point. Frustration occurs when out of equilibrium.
 - Mapping out what is being done will highlight priorities and gaps.
2. Attention to policy is required for change to take place
 - Businesses and investors will not work in areas with a policy vacuum.
 - Businesses cannot lead the develop of standards and regulations, but can help inform the process if others lead.
 - Philanthropy is likely needed to raise the policy bar.
3. Philanthropy support for market infrastructure is essential
 - It is unlikely to be profitable for some time.
 - Assuring open standards and market access will also help develop competition
4. Low-risk, conventional investors will come in when there is a mature policy environment and well developed market infrastructure
 - They will mainly be interested in businesses, not market infrastructure
 - There are no shortcuts to getting them involved.