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# ► A market systems approach to skills development

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A joint think piece by the ILO SKILLS Branch and SME unit

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## ► Executive Summary

In today's world of work, skills development is increasingly important for governments, employers and workers – and the donor programmes aiming to support them.

Enterprises can drive business success and support inclusive economic growth by making investments in educating, training and reskilling of workers. Workers themselves face an imperative to proactively upgrade their skills or acquire new ones through training, education and lifelong learning to remain employable, especially in the face of rapid transformation brought about by advances in automation and digitalisation.

A market systems approach to skills development has the potential to lead to more sustainable employment outcomes at scale, by taking a holistic approach to addressing both supply-, demand-side factors, as well as tackling the cost of skills development programmes and strengthening the link between market needs and the important role of regulation and standards.

This paper first sets the stage by summarising 'what' skills development is, and 'who' it is for, underlining how the role of governments, rights of individuals, and market realities need to come together to increase the employability of the labour force. The paper then explores how skills development leads to employment outcomes, and the practical challenges often facing projects in matching the supply of skills to meet demand. The relevance of a market systems development (MSD) approach to skills development is highlighted, drawing out key definition features

of MSD such as 'facilitation' – working to allow local stakeholders to drive forward change processes and thereby address the root causes of key development problems, based on unlocking their own incentives and capacity.

The second section reviews selected development cooperation initiatives where a market system approach has been applied to skills development. Three initiatives are profiled to explore what can be learned from their experiences. The first follows the diagnostic process undertaken by the Katalyst project in Bangladesh to understand and address the barriers for Bangladeshis from poor and lower-middle income backgrounds seeking work in the healthcare sector. The next profiles the redesign of Generation Kenya to take on more of a facilitative, systems-shaping role in order to address pervasive youth employment challenges. The final example showcases the work of the South Serbia Private Sector Development (S-PSD) initiative the wood and furniture sector, which has led to a successful public-private collaboration in the design and application of vocational education programmes and curricula.

The third section concludes with 12 lessons learned on how a systems approach can foster sustainable impact through systemic change that is owned, maintained and further evolved by local stakeholders. These cover the analysis and understanding of skills systems; intervention design; and the implementation of skills development programmes.

## ► Introduction

Skills development and lifelong learning initiatives are key priority for donors and development partners. By developing both technical and soft skills, people can more easily transit from learning to employment, improve career progression opportunities, and equip themselves to make the most of the rapid transformations taking place in the world of work.

However, achieving lasting change within national skills development systems - and ensuring skills lead to more productive employment with higher incomes and decent working conditions - remains a challenge.

Some development projects sometimes focus on supply-side approaches but do not trace the effect of their interventions on employment outcomes.<sup>1</sup> Other projects focus on policy change and institutional-level outcomes, but rarely review the impact of these changes in terms of the employability and career progression of ultimate beneficiaries. A systems approach seeks to address these shortcomings by considering both supply- and demand-side factors, as well as tracing the effect of interventions at the micro (beneficiary), meso (sector) and macro (policy) levels.<sup>2</sup>

In the ILO, many projects using a systems lens – including those following a market systems development (MSD) approach - have sought to better understand skills systems, address constraints, and promote skills development outcomes. The purpose of this knowledge brief is to explore what we can learn from applying a market systems approach to skills development. It reviews a selection of cases and discusses how existing practices can be improved for skills development to contribute to more and better job creation.

The paper is laid out as follows:

### Part 1

sets the stage. It defines skills development and briefly sets out the key features of a market systems approach.

### Part 2

reviews a selection of development cooperation projects that have applied a market systems approach to skills development. It extracts lessons that can be useful during different stages of the project cycle for skills development interventions.

### Part 3

summarizes lessons on how a systems approach can add value to skills development initiatives. It concludes by suggesting implications for donors and development projects



<sup>1</sup> See for instance [Guidelines for Non-Formal Market-Based Skills Training in Lebanon \(ilo.org\)](#)

<sup>2</sup> See for example ILO's web sites on a [Systemic Approach to Value Chain Development](#), [Market Systems Development for Decent Work](#) and [Approach to Inclusive Market Systems for Refugees and Host Communities](#).



## ► Part 1: Setting the Stage

### 1.1 What is skills development – and what for?

Skills development and lifelong learning are “key enablers of human development, full, productive and freely chosen employment and decent work, productivity improvement and sustainable development.”<sup>3</sup> Skills development is indeed generally about increasing the employability of the labour force, thereby “enabling access to the labour market and creating the conditions for gaining an occupation and earning an income”, as well as facilitating future transitions within the labour market.<sup>4</sup> It can be comprehensively defined as follows: “Skills development is generally used to refer to the productive capabilities acquired through all levels of learning and training, occurring in formal, non-formal, informal and on-the-job settings. It enables individuals to become fully and productively engaged in livelihoods, and to have the opportunity to adapt these capabilities to meet the changing demands and opportunities of economy and labour market.”<sup>5</sup>

At the same time ILO [Human Resources Development Recommendation, 2004 \(No. 195\)](#) further defines responsibilities of the state in providing lifelong learning “as part of a range of policy measures designed to create decent jobs, as well as to achieve sustainable

economic and social development” in order to “address the challenge of transforming activities in the informal economy into decent work fully integrated into mainstream economic life”. ILO member states should also “recognize that education and training are a right for all and, in cooperation with the social partners, work towards ensuring access for all to lifelong learning”. While the ILO member states’ duties are defined in these documents, the likelihood of people accessing education and skills development and then being employed also depend on market realities, including:

- a. the existence of an affordable market relevant skills development training supply;
- b. the existence of a labour demand;
- c. the alignment of the graduates’ competencies with this demand;
- d. the willingness and capacity of the employers to recruit the graduates at the wages and conditions they are expecting,
- e. the willingness and ability of graduates to accept them.

This is why a Market System Development (MSD) approach can be a valid strategy to improve skills development, and to contribute to the implementation of individual rights to education and training, and the empowerment of duty bearers to shoulder their responsibilities.

3 ILC 2021, Reports of the General Discussion Working Party on skills and lifelong learning – See [wcms\\_831531.pdf \(ilo.org\)](#)

4 Swisscontact 2016, Skills Development: Vocational Education & Training and Labour Market Insertion

5 Sida 2018, Skills Development, Information Brief

## 1.2 How does skills development lead to development outcomes?

Skills development is in itself insufficient to generate employment. The employment results of skills

development in fact depend on the interaction of three interlocked markets as shown in the table below.

	Market of Goods and Services	Labour Market	Education Market
<b>Demand</b>	Consumers	Employers	Students - trainees
<b>Supply</b>	Businesses	Workers	Education and training providers
<b>Price</b>	Prices for goods and services	Wage	Fees (often subsidised)
<b>Intermediation</b>	Regulators	Employment services	Regulators (standards, curriculum, training designers)

The education and competencies needed for students to become employed workers, and the demand for labour skills, in turn, is derived from demand for products and services. In addition, management, entrepreneurial and business skills may allow students to move into business ownership or self-employment<sup>6</sup>. The relationship between supply and demand also works in the other direction. Supply of relevant skills can contribute to the growth of entrepreneurs and enterprises in product and service markets and thereby stimulate further demand for labour. The role that prices play in these markets cannot be overstated. Although the cost of many education and training programmes are publicly subsidised, the cost of skills development programmes will impact the access of vulnerable populations and the pro-poor outcomes of development interventions. At the same time, wages need to be decent, while prices of products should allow businesses to create a profit. This further illustrates how the three markets are closely interconnected.

The importance of matching the supply of skills to the demand is widely recognised, but there are significant challenges in operationalising this approach at scale, beyond successful but often isolated projects. This is particularly true in fragile contexts where informality prevails, data is limited, institutional capacity is weak and humanitarian agencies turn to skills development as a way to contribute to local development without necessarily considering the broader systemic issues.

In Lebanon, for instance, after the Syrian refugee crisis, the UN Livelihoods Cluster partners found that skills “training programmes were often designed without reference to market needs”.<sup>7</sup> Skills training accounted

for 48% of a World Bank youth-employment portfolio, but many programmes “have not necessarily been most impactful; in part because they are not effectively aligned with market or employers’ needs.”<sup>8</sup> If the skills developed do not match market demand, they are unlikely to lead to employment or stimulate economic growth, which will create frustration as resources and human effort are wasted. Interventions that only aim to increase skills supply may work in the short-term in some locations, but are not a sustainable solution, particularly if provided and fully funded by external development actors without being institutionalized. When external funding and temporary support for supply-side ‘gap filling’ ends, the skills mismatch will increase again. At the same time, development interventions also need to take into account market dynamics as a key enabler of sustainability.

Persistent skills mismatches may signify a poorly functioning skills system – where the underlying root causes that created the mismatch need to be addressed. Hence the importance of crafting solutions that include both direct service delivery and work to address systemic failures.

The key question then to ask is, why is there skills mismatch? Many projects make the assumption that the main reasons is poor quality or limited capacity of TVET providers, but this in many – if not most – cases is a too simplistic explanation. For instance, low or inadequate wages, poor working conditions and other decent work deficits can weaken the incentives of potential employees to accept a certain job opportunity and make it hard to fill vacancies that are reported as being the result of skills gaps.<sup>9</sup> Weak HR practices and poor skills utilisation in

6 Skills development to promote employability versus enterprise growth are also commonly supported by at least partly different stakeholders – TVET providers versus BDS providers.

7 ILO et al. (2018): *Guidelines for Non-Formal Market-Based Skills-Training in Lebanon*, ILO in collaboration with UNICEF and Italian Agency for Development Cooperation

8 Matt Hobson and Nicole Goldin (2016): Advancing a 21st century skills agenda for today’s youth, blog, Jobs and Development, World Bank, 15 July. See also the World Bank web page on skills development (op.cit.), showing that less than a third of its TVET programmes have positive results in terms of earnings and incomes.

9 [https://www.ilo.org/skills/pubs/WCMS\\_726816/lang--en/index.htm](https://www.ilo.org/skills/pubs/WCMS_726816/lang--en/index.htm)



firms also affect skills mismatch and weak or missing incentives for key public or private stakeholders to act as ‘intermediaries’ in the system are also key factors.

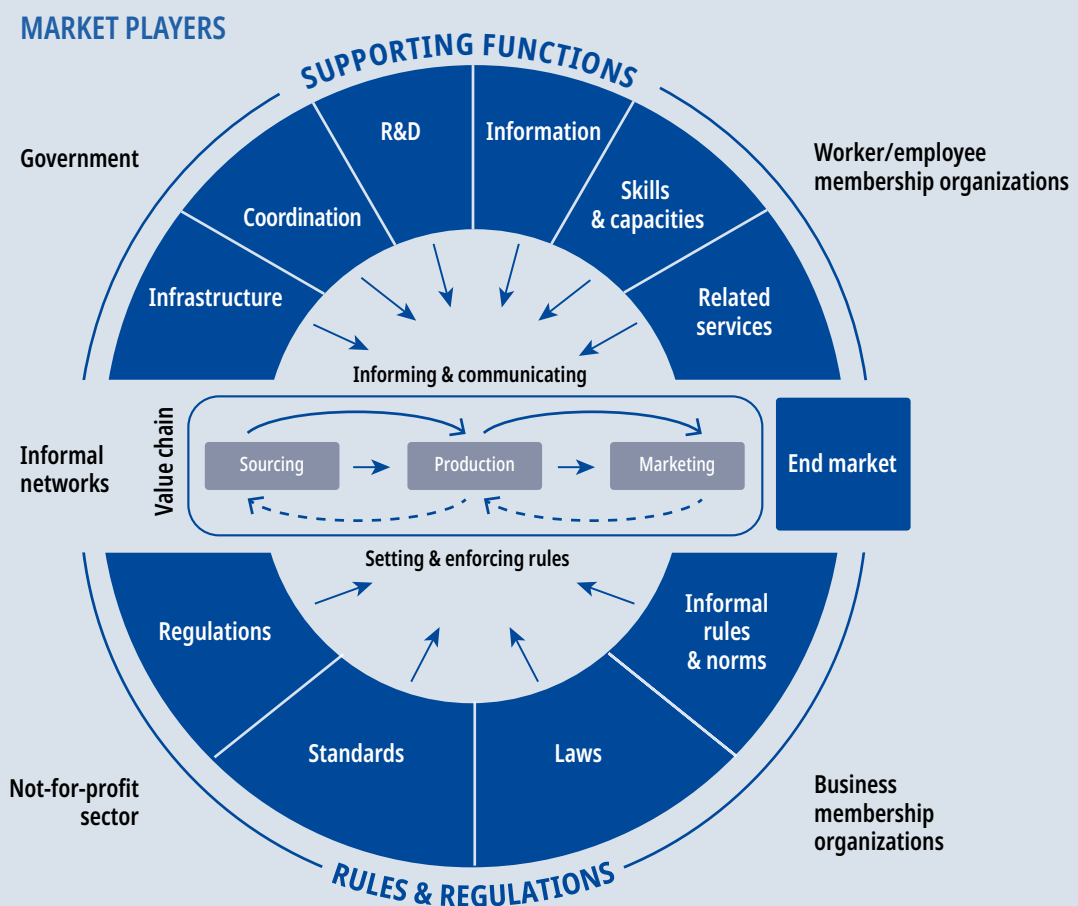
### 1.3 What is a market systems development approach?

The market systems development approach emerged out of experiences and lessons learnt from development practice. It identifies and addresses root causes of poorly functioning markets that are constraining people living in poverty or preventing other disadvantaged groups, such

as youth and women from participating in and benefiting from inclusive market growth.

While first developed to promote development of inclusive agricultural markets and business development services, it is increasingly becoming a more widely applied approach to development practice. Over the years, a market systems development approach has been applied to more sectors and development areas, including for example [building construction](#), [renewable energy](#), [green jobs](#) and [refugee livelihoods](#).<sup>10</sup> It is reflected in the ILO’s [Systemic Approach to Creating More and Better Jobs](#) and its approach to [Value Chain Development](#).

► Figure 1: A Stylised Market System



<sup>10</sup> See ILO (forthcoming): ILOs Portfolio of MSD Operations for Decent Work, for an overview of ILO’s operational use of the MSD approach and its diversity, including more examples.

A market system consists of a **core exchange** and the actors who take active part in it – for example for a specific a product, service, or for labour. The wider system is made up of so-called ‘**supporting functions**’ and ‘**rules**’, and the various stakeholders involved, which influence conditions for interaction in the core. A market system is depicted visually in the form of a “doughnut”, as in the Figure 1 to the right.

A market system approach has two core features. First, **facilitation** is the main intervention approach – working to allow local stakeholders to drive forward change processes and thereby address the root causes of key development problems, based on unlocking their own incentives and capacity. Local ownership is key.

Second, **adaptive management** allows for interventions and activities to be adjusted based on changes that may take place in the market or its surrounding context, new knowledge and insights as well as regular results measurement. It uses a pragmatic, context-specific ‘learning by doing’ ethos, based on realities on the ground – rather than the application of a predetermined blue print for action.

## 1.4 How can a market systems development approach be relevant for skills development?

A market systems development approach can potentially allow the direct delivery of skills development and lifelong learning services, such as training, to be combined with interventions aiming at systemic change in skills development systems. This echoes the conclusions of the 2021 General Discussion on Skills & Lifelong Learning which recognised the need to ILO ‘integrate skills development and lifelong learning into employment policies to support the creation of full, productive and freely chosen employment (and) ensure equitable and inclusive labour markets; and to coordinate education and training policies with other public policies and strategies, including fiscal, industrial, trade, investment, environment and climate change policies’.<sup>11</sup>

An external evaluation of support for vocational skills development activities funded by the Swiss Agency



for Development and Cooperation (SDC), for example, recommends SDC “assess the underlying motivations of key stakeholders to engage in fundamental changes to vocational skills development systems.”<sup>12</sup> Such an approach would need to consider (a) both supply and demand in the skills market, as well as the price and affordability of the services, and (b) how the market is not working and why, i.e. the underlying reasons – including for example the legal and regulatory framework, infrastructure, information asymmetries, financing mechanisms, informal rules and behaviours.<sup>13</sup>

Skills development interventions can therefore be enriched by using a market approach as it has the potential to improve the sustainability of decent work outcomes, as illustrated by the rest of this brief.

11 ILO (2021): *Resolution concerning concerning skills and lifelong learning*, adopted by the International Labour Conference on 11 December 2021, ILO Geneva.

12 SDC (2011): *SDC's Vocational Skills Development Activities*, Evaluation 2011/2

13 While not a systems approach per se, some of these elements already feature in the ILO's STED approach ([www.ilo.org/sted](http://www.ilo.org/sted)), which works with sector stakeholders to identify supply side constraints and reinforce the effectiveness of national demand side strategies (trade, employment, industry and sectoral). It emphasizes the analysis of skills needs (interaction of skills demand and supply sides) and the development of effective response strategies by national and sector partners by engaging them deeply in the process and supporting them in carrying out the work of analysis and dialogue themselves to the extent feasible in the country context.



## ► Part 2: Case studies

The following section reviews selected development cooperation initiatives where a market system approach has been applied to skills development. Three initiatives are profiled to explore what can be learned from their experiences.<sup>14</sup> The section follows the logic of a typical project cycle: analysis, design and implementation.

### 2.1 Analysis: Understanding Skills Systems

The aim of this step is to understand the system structure and the key actors involved; the ways in which the system is not functioning well (the core problems), what the key constraints are and – critically – the root causes of those constraints.

There are several illustrative cases of market system analysis of skills markets conducted by or for projects. In some cases, skills development is the core focus of the intervention. In other cases, it is part of a wider project aiming at the development of specific value chains. In others again, it focuses on some topics like youth employment, for example. Hence, the entry points for analysing skills and training market systems vary, as well as the depth and detail of the analyses.

#### Case 1:

##### **The Market System for Health-Skills Training<sup>15</sup>**

The Katalyst project in Bangladesh used a market systems development approach to contribute to poverty reduction in sectors that are important for poor women and men, such as agricultural inputs, fisheries, furniture and healthcare.

The analysis described here was a systems analysis of the healthcare sector, which found that the poor were particularly vulnerable to illness, which further inhibited their capacity to move out of poverty. In particular the rural poor lacked access to appropriate healthcare services and the quality of healthcare was also low. In addition, there were few opportunities for the poor as workers in the healthcare system.

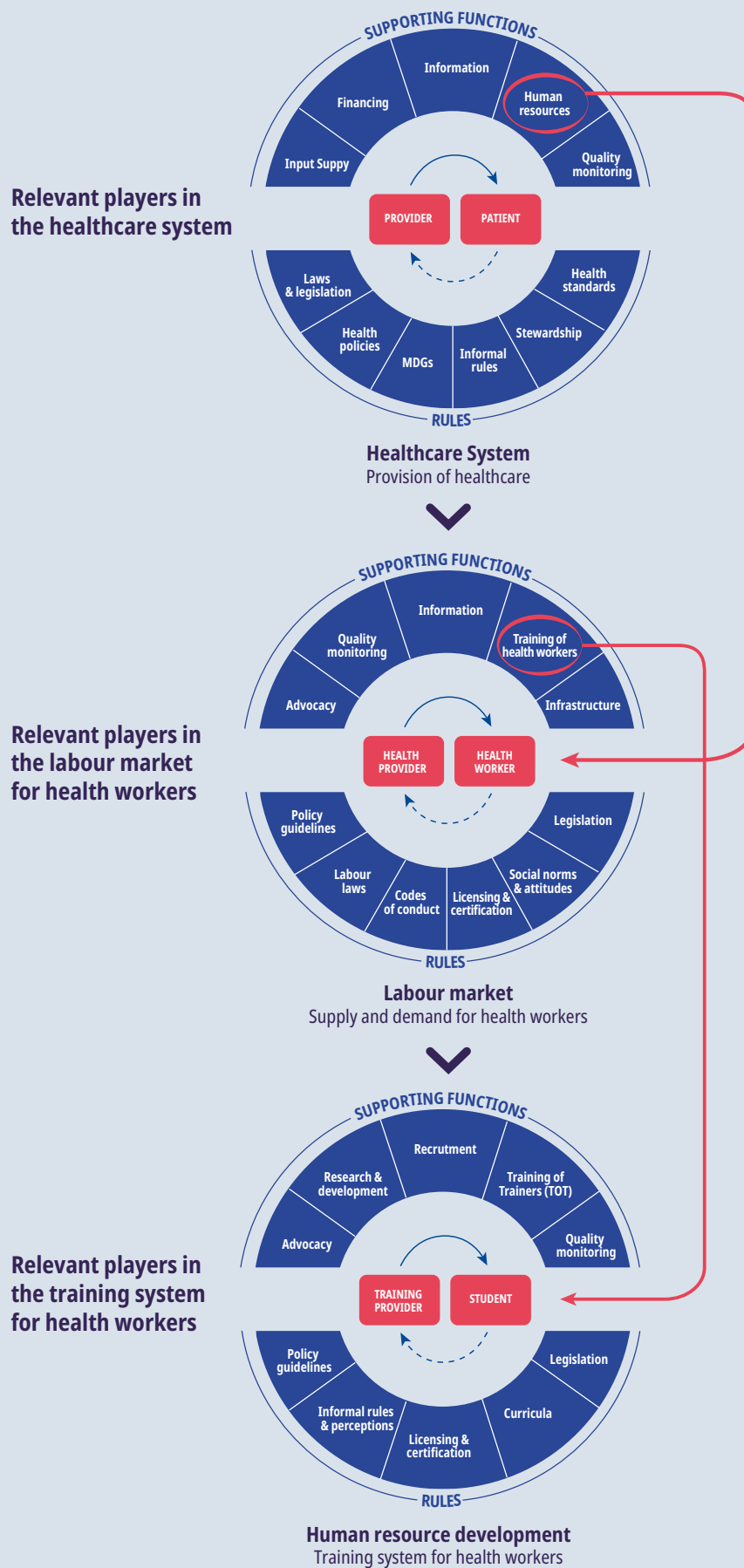
Based on the analysis, Katalyst saw a potential to intervene in the healthcare system and initiated an intervention to (a) reduce the barriers for Bangladeshis from poor and lower-middle income backgrounds seeking work in the healthcare sector, thus stimulating income and employment creation, and to (b) improve poor people's access to healthcare services.

To better understand the nature of the problem and to distinguish symptoms of the healthcare system's

<sup>14</sup> Key sources are selected analyses and reviews conducted by or of the projects, complemented with personal communication with selected project staff and MSD and skills experts. This is not an independent analysis of the projects as such, or of the data and analytical underpinnings of the studies, but take these studies at face value and analyse what we can learn from their reported findings.

<sup>15</sup> Matthias Herr *et al.* (2012): *Developing Training Systems for Health Workers in Bangladesh*, The Katalyst Cases No. 5, Katalyst, together with Alan Gibson and Rob Hitchins, Springfield Centre; Phase 1 of Katalyst took place 2003-2008, Phase 2 2008-2013 and its healthcare work 2005-2010.

► Figure 2: The Katalyst Diagnostic Process in Search for Root Causes





under-performance from their root causes, Katalyst embarked on a diagnostic process. This was a step-based process of sequential analysis of interconnected systems, gradually deepening the understanding of the root causes, illustrated by Figure 2 above.

The stepwise analytical process reveals the close linkages between the systems for services, labour and skills, mentioned earlier:

First (to the left in the Figure 2) the system for healthcare services was analysed, i.e. the provision and consumption (by patients living in poverty) of healthcare services and the various supporting functions and rules in the wider system, causing under-performance in the market for healthcare. The key constraint to better healthcare provision was found to be the lack of adequate human resources, in terms of insufficient qualified health workers.

Secondly, this shifted the focus of attention to the labour market for health workers, and prompted an analysis of this system, to understand what had caused the underlying problem: a fundamental failure in the labour market to respond to the demand for skilled workers. The analysis identified problems in the training of health workers as a key explanation to the poorly-functioning labour market for health workers.

Thirdly, the analysis was deepened further to understand why this health training was not working well, and an analysis of the system for training of health workers was conducted. While this analysis revealed a number of constraints in the system, the root causes of underperformance were found to be a combination of factors that together created an ineffective environment for skills training in health:

- A focus on the public provision of training with little recognition of the need for private sector engagement.
- Inappropriate government regulations and tools: the private sector was not allowed to train health workers, there were no accreditation criteria, and curricula and assessment tools were outdated.
- Government guidance and stewardship was undermined by frequent staff rotation, fragmentation of the training system, overlapping responsibilities and confusion of roles; and limited coordination between institutions, and with donor driven interventions.
- Potential trainees were deterred from choosing healthcare as a career because they were unaware of potential employment and income opportunities of health occupations that also suffered from lack of social appreciation.
- Private providers lacked staff and capacities to administer programmes and market them; links with

government were weak and undermined by a lack of collective voice.

These root causes set the agenda for the design of Katalyst's interventions (further discussed below), but already from its analytical phase, we can learn the following lessons:

- The service market, the labour market and the skills-training market (all within the healthcare sector) are different markets that need to be clearly distinguished and analysed separately. At the same time, their inter-connections are also key to understand how they function collectively.
- The underlying root causes of the skills market's problems may be many, diverse, stretching far beyond simple training delivery. In this case, they emanated at several levels of the system from the interaction between various stakeholders, including public entities that play a key regulatory and facilitating role, private-sector training providers, potential trainees and even the donor community. All of them contributed directly or indirectly to a fragmented, poorly coordinated and inadequately regulated skills training system for health workers, with unclear roles and responsibilities for private and public stakeholders, riddled by wrongful perceptions and negative attitudes.
- The market system analytical process proved key for identifying the root causes of a problem and the entry points for interventions. The gradual unpacking of these root causes may lead to a shift of project focus – one may start in one system, but end up working in other systems or with interventions that one did not initially expect.

## 2.2 Design: Deciding what to address

Poorly functioning skills systems are not caused by a single factor, but by a host of constraints that together need to be addressed. The starting point for a market systems development approach is examination of the root causes of an identified skills-mismatch problem. Based on these, a systems change initiative seeks to envision a realistic future solution and identify the local actors who may have the incentives and capacity to drive the process of change to address root causes – with a market approach.

**Case 2:****Redesigning to Increase Sustainability and Scale**

**Generation Kenya**<sup>16</sup> is an innovative youth-employment project that combines skills development and labour-market intermediation. Through its own multi-stage methodology it links young job seekers to (a) the skills and support needed to prepare them for the workplace, including both technical and soft skills, and to (b) employers offering job opportunities. It delivers and/or pays for a 'bundle' of services and supporting functions, from curriculum development and student finance to skills training and recruitment services.

The project team and the donor recognised that in order to have a lasting, large-scale impact on youth employment, catalysing wider systems change, a change in the initiative's own practices and interactions with local partners and stakeholders was necessary. To that end, a systems analysis was commissioned to better understand the wider systems context of youth employment in Kenya, the nature of the constraints facing young job seekers, and where and with whom solutions might lie.

While the initiative had identified key constraints facing youth in the labour market – access to relevant technical and soft skills and to effective recruitment services – the analysis found that it had not gone deep enough to find out what the root causes of these constraints were.

Root causes of the constraints were found to be: curriculum development processes; skills-delivery and curriculum quality assurance; finance (for students and training providers); trainee mentorship; work attachments; and informal norms of youth. In the recruitment system, root causes were: coordination of recruitment services; nepotism and corruption; and recruitment business-model development.

The continued dysfunction in these areas were in their turn traced to weak or misaligned incentives and capacities amongst the stakeholders and involved:

- Government stakeholders lacked both resources and incentives to improve curriculum development, training delivery and quality assurance mechanisms;
- Employer incentives to invest more in new recruits was undermined by a lack of confidence in public training providers, the efficacy of recruitment models and the informal norms influencing youth attitudes;
- Young job seekers lacked many of the skills and capacities needed for the job market and were disincentivised by the nepotistic and corrupt nature of the recruitment process.

The weak incentives and capacities of other players in the system had not been addressed, which meant that root causes of systems dysfunctions remained largely unchanged. What is more, the government's and employers' incentives to change behaviour remained weak. In fact, employers' incentives had been distorted by the initiative's approach to 'service delivery', which had created expectations among employers of 'free' (or heavily subsidised) services – employers had become accustomed to subsidies provided by the initiative.

The analysis concluded that the persistent systemic constraints will undermine the sustainability and scalability of results – donor dependence is inevitable, as long as the methodology continues to 'work around' incentive and capacity weaknesses by subsidising service delivery.

To sustain and scale up the impact on youth employment, the analysis proposed a complete redesign of not only the initiative's interventions, but the entire approach used by the initiative – its strategy, tactics and operations – needed to change. Generation Kenya Initiative needed to explicitly adopt an agenda of genuine systemic change, including a commitment to transition from a delivery to a facilitation role for itself. For a new inception phase, it was thus recommended to revise its partnership strategy, from current subcontract-oriented implementation to building genuine 'partnerships', to build and transfer ownership, expertise and leadership to local stakeholders.

Further, it was recommended to deepen the systems analysis to inform a credible vision of 'who will do' what and 'who will pay' for the various functions in the long term, based on a realistic assessment of stakeholders' incentives and capacities, and to develop a working strategy for Generation Kenya's facilitative role in realising the vision. It needed to prioritise intervention areas among the root causes identified and design a portfolio of pilot interventions, rigorously managed, monitored and tested through targeted action-research.

## 2.3 Implementation How to Support More Sustainable Skills Development

This section illustrates what a market system approach means for implementation of skills development interventions in practice and extracts lessons learnt.

16 Roger Oakeley & Rachel Shah (2019): "Youth Employment in Kenya – Market System Analysis", by Springfield Centre for Generation Kenya, unpublished mimeo

**Case 3:****Improving the System for Vocational Skills in the Wood and Furniture Sector in Serbia<sup>17</sup>**

The South Serbia Private Sector Development (S-PSD) initiative is implemented by the Vranje Regional Development Agency (VEEDA) and focusses on improving employment and income in the wood processing and furniture manufacturing industry and in horticulture and non-timber forest products.

The Serbian wood and furniture sector has a potential to increase its productivity and remain competitive in the export market; it offers considerable employment potential, but it faces several constraints, of which the most severe is a growing skills gap between competencies of new and existing employees and the evolving needs of employers.

Working with private businesses and a dynamic training provider, S-PSD set out to understand why, despite a shared need for better skills outcomes, more ‘private sector responsive’ or market relevant vocational education had not emerged.<sup>18</sup> The programme conceived and piloted a curricula review and development process, shaped and driven by private sector employers, in close collaboration with training providers and government stakeholders.

However, it turned out that the challenge was not so much technical as one of building mutual trust and credibility between public and private partners, to create a more collaborative and inclusive vocational-training reform process with a greater role of companies in training. The point of departure was to identify the mutual interests of employers and training providers and to broker a collaboration to not only review curricula, but to challenge practices around workplace-based training delivery and to influence national decision makers.

In just over two years, collaboration between S-PSD and its partners has resulted in the successful introduction of streamlined curricula for the wood and furniture sector. The new profile represents a successful public-private collaboration in the design and application of vocational education, which is also stimulating uptake in other sectors and profiles. The intervention has been transformative. It has changed the debate on market relevant vocational training within Serbia, and amongst donors and other stakeholders. It has leveraged innovation and investment by schools and companies, and encouraged students and parents to prioritise employability in education decisions. The programme has



catalysed and demonstrated sustained practice changes among a range of public and private market players. The market relevant vocational-education model, piloted by S-PSD and its partners, has received national recognition and been introduced into the newly drafted national legislation as a basis for reform.

The case provides valuable lessons and implications for applying a market system approach to vocational-education challenges, as reported by an external review:

- In a programme where impacts on employment and income will necessarily take time to emerge, robust ongoing measurement of behaviour change and results in terms of changing practice is imperative for programme and donor stakeholders alike.
- The adaptive approach at the core of market systems interventions proved highly valuable. S-PSD’s vision

<sup>17</sup> The presentation here is adapted (shortened and adapted) from the executive summary of an independent review of the project: Jane Gisin *et al.* (2017): *Private Sector Responsive Vocational Education in Serbia – Building a Sustainable Platform for Reform*, with Roger Oakeley and Jelena Antic, by Springfield Centre and Veeda PSD for S-PSD.

<sup>18</sup> The programme conducted sequential MSAs, from the product market to the skills market, to identify the root causes of first low productivity and eventually the skills mismatch.



crystallised into support to private and public-sector players, by building their capacity to develop more private-sector responsive vocational education. As the system responded to the innovation, the role and tactics of S-PSD evolved, in order to support institutionalisation of the curricula-reform process. Focus shifted from individual sector partnerships to other players that are crucial to widen outreach and increase the sustainability of benefits to the youth.

- Catalysing genuine ownership of a more inclusive vocational education system has been at the heart of the success. Where previous efforts to introduce similar systems have faltered, S-PSD invested most of its time and resources in brokering effective partnerships between industry, training providers and government.

Private sector businesses have been empowered to take control of vocational-training reform. As a result, a higher quality, more relevant, practical and gender-responsive training programme has emerged. At the same time, the process has empowered the government to strengthen its own role as a facilitator and quality assurer rather than a micro-manager of vocational education provision.

- The S-PSD team employed a range of tactics from technical support and cost-sharing to trust-building, lobbying and political diplomacy. It has been the utilisation of these 'softer' tactics that has underpinned its ability to engender ownership and leadership from private businesses and technical-school stakeholders.







## ► Part 3: Conclusion – Lessons Learnt from the Review

A systems approach can foster sustainable impact through systemic change that is owned, maintained and further evolved by local stakeholders. The main lessons learnt from this review are the following:

### 3.1 Analysis and Understanding of Skills Systems

1. Market analysis of the skills systems - whether at regional, sector or national levels - can be an important pre-requisite to understand key skills issues, to identify underlying root causes and distinguish them from mere symptoms of the problem.
2. Even if the key problem is a skills gap or mismatch between supply and demand, its root causes often include weak technical expertise and limited capacity, but also for example asymmetric information, distorted financial and non-financial incentives, rules and regulations and prevailing perceptions, attitudes, social norms and informal rules that drive behaviour, interaction and willingness to drive change.
3. To identify the root causes involves understanding the incentives that key actors in the skills systems face, which constrain or create opportunities for and thus influence their behaviour, interaction and willingness to drive change.
4. Product/service markets, markets for (skilled) labour and for skills (training) are closely interconnected, but nonetheless different markets that need to be carefully distinguished and analysed in a stepwise process (looking at demand, supply,

price and intermediation), to gradually deepen the understanding and search for the root causes of the key problem.

### 3.2 Design of Skills Development Interventions

1. Addressing symptoms by only 'filling' immediate gaps in the capacities and incentives of local actors, is unlikely to achieve sustainable impact at scale and may prevent sustainable change from taking place. The design of skills development interventions need to involve a wide range of stakeholders of the skills system and interventions need to be designed with them to address the root causes of identified problems – in most cases a portfolio of interventions is required to address a combination of constraints in the skills system.
2. The nature of the design process is as important as its outcome: it is expected to build up the commitment of the stakeholders towards the desired change and guarantee its acceptability by all parties. This participation should include all stakeholders, including the clients of proposed training services – and especially those that have been excluded so far from them, in order to ensure greater inclusiveness.
3. Interventions designed need to be tested in practice, through implementation, follow up and learning. They are often redesigned, which means that recurrent analysis, design and implementation are meaningful processes throughout the project cycle.

### 3.3 Implementation of Skills Development Interventions

1. A market system development approach to the analysis of skills and lifelong learning systems does not contradict the obligations of the Government as a duty bearer of the right for education but empowers governments to make the most of market dynamics to implement this right as it applies to skills development.
2. The public sector plays a key role in developing a regulatory and policy framework for skills development that ensures quality provision and Leaves No One Behind, in order to implement the right of individuals to training and lifelong learning. It has an important quality assurance role both in relation to content and provision. At the same time, the establishment of fair market competition for skills development (through for instance performance-based financing) can empower both public and private training providers to improve their performance.
3. Development actors can successfully contribute to catalytic processes of reform in skills development systems at local, sector, regional and national levels, but need to be aware that systemic change challenges the status quo. Both public and private stakeholders are likely to have vested interests in maintaining the status quo, which may not serve vulnerable groups or address skill gaps. Hence, catalysing genuine systemic change to ensure vulnerable populations not only access but benefit from skills development on an equal footing with others, requires an engagement with the political economy of that system, including the interests, roles and relationships of different stakeholders.
4. Institutional reform, involving reform of the rules shaping behaviour without changing incentives cannot be externally imposed and will only emerge from a wider process of change owned by relevant stakeholders. Such a process is rarely rapid or straightforward and makes it necessary to allow sufficient time for change to take place.
5. Using softer tactics and skills, including confidence-building and political diplomacy, may be key and more valuable than any technical contribution for building the trust and entry points necessary for engendering ownership and leadership over the reform process among local skills-market actors – the process can be lengthy, subject to setbacks, require persistence, sensitivity and creativity.
6. MSD supports a human centred approach, as it also relies on intensive interactions with potential end-beneficiaries, and especially marginalised individuals, trying to capture in the project design and tackle in the implementation of the interventions what prevents vulnerable individuals to fully benefit from the system, striving to make projects more inclusive and more accessible to marginalised groups.



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