

This learning brief<sup>1</sup> is an edited transcript from a recorded presentation by the USAID/Honduras Transforming Market Systems (TMS) Activity on learning and reflections from actions taken in response to COVID-19 and the findings of a series of resilience studies done by TMS in collaboration with the Council of Private Enterprise of Honduras (COHEP) and National Autonomous University of Honduras (UNAH). The presentation was facilitated by Jorge Reyes and delivered by Sergio Rivas and Dun Grover with the support of Giovanni Cuero, Ricardo Pineda, Sue Chavez, Cata Mejia, and Karla Velasquez and contributors Andrew McCown, Anastasia Buyanova, Jacob Gray, Hajime Toyofuku and Anna Garloch.

Several sources informed the framework, concepts and content of this presentation –

Cunningham, S., Jenal, M. (2016) *Rethinking systemic change: economic evolution and institution. Discussion Paper.* <https://beamexchange.org>. The BEAM Exchange.

Downing, J., Field, M., Ripley, M., Sebtad, J. (2020) *Market Systems Resilience: A Framework for Measurement.* <https://www.usaid.gov>. United States Agency for International Development.

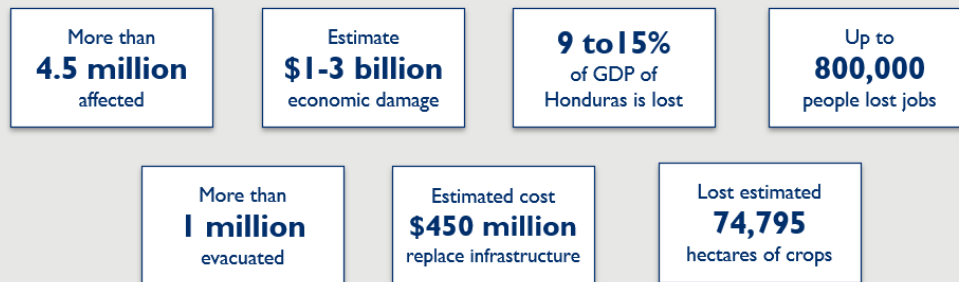
O'Planick, K., Pulido, T. (2020) *Demystifying Market Systems Resilience. [PowerPoint and Presentation Transcript].* <https://marketlinks.org>. United States Agency for International Development.

Vroegindewey, R. (2019) *Guidance for Assessing Resilience in Market Systems.* <https://marketlinks.org>. United States Agency for International Development.

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## HOW WERE HONDURAN MARKET SYSTEMS AFFECTED BY COVID-19 and HURRICANES ETA / IOTA



*The scale of these three disturbances – COVID-19, Eta and Iota - is monumental. The damage and needs far outweigh the capacity of GOH, any donor, or project. Need the entire system to work to recover.*

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Following the market systems approach, we will take you on a progressively deeper and deeper discussion about market systems resilience in Honduras. Let's first start with the events of 2020, which include COVID-19 and the twin hurricanes Eta and Iota. We could repeat the many damage reports and gruesome photos we've seen in the last three months, but it is important to focus on the big picture. These shocks have created a humanitarian and economic crisis that has affected more than 4.5 million people or approximately half of the Honduran population (source: COPECO). The regions most affected by floods and destruction are the Sula Valley, Western Departments, and the North Coast of Honduras, in other words two thirds of the country. However, the economic effects have rippled throughout the entire economy. The damage and loss of public and private property is catastrophic. Experts place the damage of Eta and Iota between \$1 and 3 billion with estimated \$450 million in infrastructure needs (source: INVEST-H). These three shocks have plunged Honduras into a deep recession. Estimates for the percentage of GDP lost range from 9 to 15% which is corroborated by multiple sources (sources: UNAH, FOSDEH, BCH). Just by comparison Hurricane Mitch in 1998 affected 1.5 million people. Hundreds of thousands of Hondurans have lost their jobs and livelihoods. Estimates have placed the combined job losses as high as 800,000 (source: FOSDEH). The scale of these three events is monumental. The damage and needs far outweigh the capacity of any donor or project to address. We need the entire system to work to get out of this. This is the focus of market systems resilience – to understand how not only we as donors and Implementing Partners (IPs) respond to support mitigation and recovery, but how does the system as a whole responds.

# WHAT IS MARKET SYSTEMS RESILIENCE

## Disturbances

- ⚡ COVID-19
- ⚡ Hurricanes Eta Iota
- ...
- Market gluts
- Crime / extortion
- Political issues
- Informality



Disturbances  
reduce the  
capacity of market  
system to function

## Market System

### Functions

- ✓ Generate incomes for poor households
- ✓ Enable access to nutritious foods to food insecure
- ✓ Provide youth with skills and employment
- ✓ Help women to launch businesses
- ✓ ...

*Resilience is the ability of people, households, communities, countries, and systems to mitigate, adapt to, and recover from shocks and stresses in a manner that reduces chronic vulnerability and facilitates inclusive growth.*

*Market systems resilience is the ability of a market system to respond to disturbances (shocks and stresses) in a way that allows consistency and sustainability in (and improves) the market system's functioning.*

Resilience works at multiple levels. At the household-level, resilience may focus on capacities that help a family recover from shocks such as having dual income earners that are in different industries or having a savings account. There may also be resilience at an enterprise level such as firms having diversified product lines or a succession plan. There are similarly resilience capacities at a community-level, such as social norms such as taking care of your neighbors or reliable infrastructure such as good water and sanitation infrastructure. What we mean by systems resilience is different. In systems resilience, we are focused on sustaining and ensuring consistency in the functionality of the system to disturbances. This is an important distinction. In systems resilience we are not necessarily concerned about the survival of every business or organization – rather we are focused on the survival of the system functionality to shocks and stressors. Functionality means that there are things that we want market systems to do such as distribute nutritious foods to food insecure, generate incomes for poor households, etc. Shocks and stresses affect the ability of the market system to perform these functions. Shocks may include unforeseen events as well as more predictable shocks and stressors such as climate change or crime and extortion, electricity disruption, etc. These shocks threaten the ability of the system to function as desired. In other words, we cannot have a competitive and inclusive system that is not also resilient.<sup>2</sup>

<sup>2</sup> For an overview of market systems resilience see O'Planick, K., Pulido, T. (2020) Demystifying Market Systems Resilience. [PowerPoint and Presentation Transcript]. <https://marketlinks.org>.

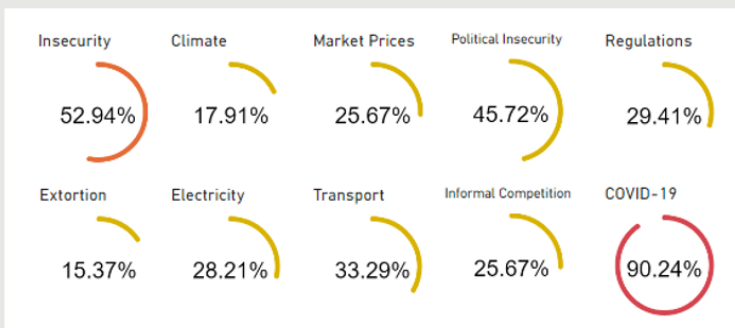


Resilience is about how people, communities, enterprises, and market systems manage risk. We tend to think of resilience in the context of what happens after a crisis has happened. But we see that the characteristics of the system that were in place before the shock are often as significant for the recovery. There are a variety of resilience strategies that systems employ. This first is preparation or prevention strategies that anticipate risks or disruptions and put in place mechanism that can improve response to the expected disturbance. The second is absorption which refers to how individuals or enterprises incorporate the impacts of the shock – whether individually – such as selling assets or taking a loan – or collectively – such as asking for help from friends or family or through social protections and relief. The third is adaptation which refers to how actors pivot in response to a disruption to mitigate the effects of the shock and facilitate recovery such as by adopting new practices, products or technologies that are used collectively in the system. The fourth is transformation which is a more structural change strategy to prevent future shocks or stressors from happening in the first place or that significantly reduce their effects. Transformation requires making foundational changes to the market system itself. The last critical point to reinforce is the need for more proactive resilience strategies – the more proactively risk is managed in the system – the better the resilience outcomes – and more sustainable our desired competitiveness and inclusion results.<sup>3</sup>

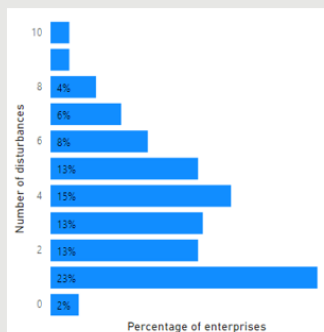
<sup>3</sup> For a more in-depth discussion on proactive versus reactive framework see Downing, J., Field, M., Ripley, M., Sebtad, J. (2020) Market Systems Resilience: A Framework for Measurement.

## WHAT WE KNOW IN HONDURAS SHOCKS AND STRESSORS

Percentage of enterprises reported being affected by type of shock or stressor in 2020



Number of disturbances experienced in total by percentage of enterprises 2020



*Enterprises were affected by 3 or more disturbances. These disturbances were characterized as severe. 37% of enterprises reported this year as the worst they have experienced and 70% have not recovered.*

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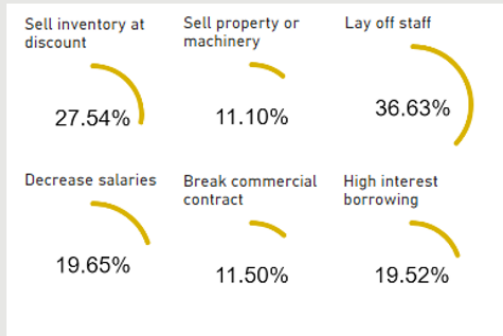
TMS conducted three surveys in April, July and October of this year together with the Council of Private Enterprise of Honduras (COHEP) and National Autonomous University of Honduras (UNAH). Here is what we know about shocks and stressors from these surveys. Honduran enterprises were impacted by 3 or more types of shocks or stressors in 2020. This last survey was pre-Eta and Iota, so the total number of shocks or stressors experienced as of now would be 4 different types of shocks. We know from our analysis that the more shocks experienced, the less able the enterprise to cope with and recover. Enterprises characterized the shocks this year as severe – with 37% of enterprises saying it was the worst year they ever experienced. Only 30% of enterprises reported to have recovered – with the majority of enterprises having made only partial recovery. More than 10% of enterprises reported to have collapsed entirely<sup>4</sup>. It should be noted that some of these are true shocks or one-time events while others – such as crime, extortion, and regulatory issues – are more ongoing stressors. Resilience has tended to focus on shocks as events, but in systems resilience, we also pay attention to recurring stressors and how they shape behaviors in the market system. For example, the behavior we see in the market system of “minimalism” – or to stay small and informal – is a behavior related to avoiding being targeted or impacted by regular regulations and taxes. This behavior has profound impacts on the levels of innovation, job creation and other desired outcomes we want to see in the market system.

<sup>4</sup> Institute for Economic and Social Investigation – National Autonomous University of Honduras. Business Resilience Analysis COVID-19. 2020. <https://iies.unah.edu.hn/iies/analisis-de-resiliencia-empresarial-covid-19>

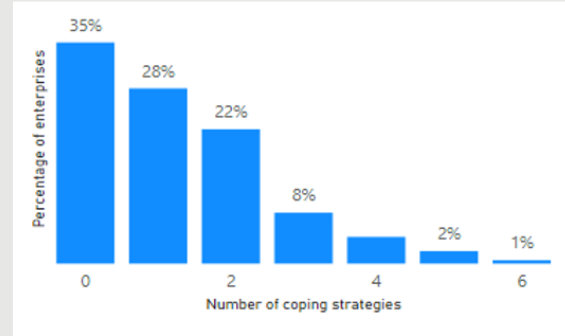


## RESPOND / ABSORB ENTERPRISE COPING BEHAVIORS

Percentage of enterprises resorting to type of coping behavior 2020



Number of coping behaviors resorted to by enterprises 2020



*The more severe the shock the more coping behaviors enterprises used. These coping behaviors can transfer risk to individuals and lead to worse outcomes at the household and community-level.*

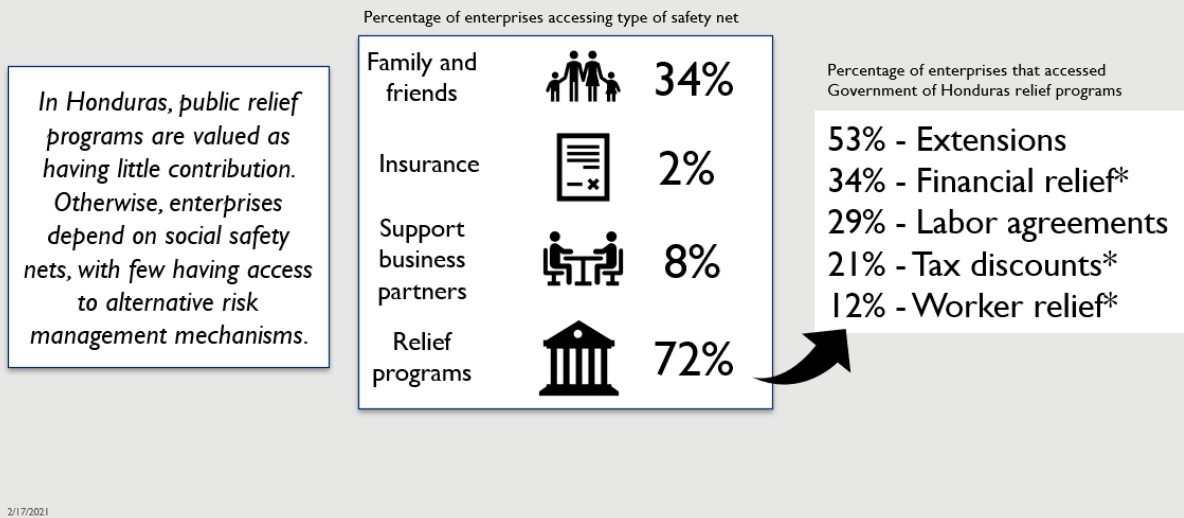
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Enterprises take on “coping behaviors” to absorb shocks and stressors. Coping behaviors range from selling inventory to laying off staff – which were the more frequent coping behaviors reported by enterprises in 2020. The more severe the shock or stressor, the more enterprises resort to these behaviors. Most enterprises resorted to at least one of these behaviors in 2020. What is notable about these coping behaviors is that they tend to harm long-term growth. For example, enterprises that resorted to two or more behaviors in the past year were twice as likely to indicate their enterprise had collapsed entirely.<sup>5</sup> Worse, we see that these coping behaviors tend to shift the harm of shocks towards individuals and households – who are employees, suppliers, or consumers. The challenge with the damage of COVID-19, Eta and Iota is that we are just seeing the immediate economic damage. The chain of events that result from these coping behaviors cascading from enterprise to individual to household to consumer and back to enterprise will reverberate into the future. Prevention strategies can in some way help to reduce the need for these coping behaviors. For example, in our first survey we asked enterprises key lessons learned in the wake of COVID-19. The more frequent lessons learned reported by enterprises were the (1) need for better cash flow planning, savings and reserves for contingencies and (2) the need for more proactive risk and scenario planning.

<sup>5</sup> Institute for Economic and Social Investigation – National Autonomous University of Honduras. Business Resilience Analysis COVID-19. 2020. <https://iies.unah.edu.hn/iies/analisis-de-resiliencia-empresarial-covid-19>

## RESPOND / ABSORB SAFETY NETS



Safety nets are mechanisms to share risk. Safety nets are essential for enterprises to be able to survive especially severe shocks. Risk can be shared through a variety of formal and informal safety nets. Friends and family are perhaps the most common safety net used in Honduras. The problem with this form of safety net is that different groups may fare better or worse. We would expect to see that stronger and wealthier social networks will recover more quickly and take advantage of shocks to grow their market power and influence. This would lead to growing inequalities – in which the most vulnerable to the shock tend to fare even worse off after the shock.<sup>6</sup> Risk can also be managed through financial instruments, such as insurance. In Honduras we see that this is a missing safety net. Few enterprises reported using insurance in 2020. Risk can also be shared through supply chains and business partnerships. Business partners may renegotiate a contract, reschedule a payment, etc. While 8% of enterprises reported using this form of safety net in 2020, those that did reported it as having the most contribution. Finally risk can be shared through formal, state-based safety nets and relief programs. Even those there were widely accessed – as you can see 72% of enterprises used this form of public safety net – enterprises tended to respond unfavorably that these measures had a significant contribution to the recovery of their business. It should be qualified that many of these measures were simple extensions of payments on taxes and other requirements. The highest rated government safety nets were financial programs, tax discounts and worker relief programs.<sup>7</sup>

<sup>6</sup> For a further discussion on safety nets see Feed the Future Enabling Environment for Food Security Project. (2020) Practical Analytical Framework for Inclusive Entrepreneurial Market Systems. <https://marketlinks.org>. United States Agency for International Development.

<sup>7</sup> Institute for Economic and Social Investigation – National Autonomous University of Honduras. Business Resilience Analysis COVID-19. 2020. <https://iies.unah.edu.hn/iies/analisis-de-resiliencia-empresarial-covid-19>

## Reflections and discussion on safety nets

This year has tested the viability of safety nets on a massive scale. There are several take-aways and reflections that TMS has had with respect to efficacy of safety nets in Honduras this past year.

**International safety nets.** Though the damage of Eta and Iota is comparably worse than Hurricane Mitch in 1998, it is apparent that the international response through humanitarian aid is significantly less today. Estimates for the total international relief for Hurricane Mitch in 1998 are upwards of \$6 billion in total commitments. International commitments to Eta and Iota are significantly lower. It is less likely that Honduras will be able to rely on international safety nets as it has in the past.

**National safety nets.** The Government of Honduras (GOH)'s response to COVID-19, Eta and Iota can be characterized as both quick and slow. Here is what this means. GOH reacted quickly to pass four to five relief passages. For example, as soon as April 2020, GOH approved the *Solidarity Contribution Plan for Tourism* as a financial and worker relief program for tourism sector.<sup>8</sup> The first payments however weren't made until August of 2020. Less than \$500,000 was disbursed to only 250 tourism enterprises – a small fraction of the commitments made in the legislation.

**Financial relief programs.** The GOH also approved a financial relief program for agriculture called *AgroCredito 8.70* and for tourism called the *Financial Plan for Solidarity Rescue* to readjust debts and provide credit guarantees for enterprises affected by COVID-19. This was supported by a second-tier liquidity fund through the Central Bank and BANHPROVI that provided funding to first tier banks that would lend directly with enterprises. The program ran into immediate constraints that prevented the traditional banking system from serving these enterprises in the first place -

- Broad perception (only now more heightened) that it was risky to lend to these sectors,
- Lack of specific financial instruments by banks to serve cash flow needs of enterprises,
- Limitation in types of guarantees banks were willing to accept in practice,
- Personnel not informed or trained in how to lend to these client segments,
- High costs of underwriting and lack of client history to effectively do due diligence,
- Banking culture and lack of interest or institutional motivation to serve these sectors.

**Policy process.** In response to the COVID-19 crisis, Sectoral Working Tables emerged to facilitate public-private dialogue and facilitate consensus on reforms. These Tables established in reaction to the crisis proved important to facilitating responses related to sharing information, coming up with proposals and coordinating some response actions. Sectors which were better organized, such as tourism, were able to generate concrete proposals quickly. While sectors that were not – such as restaurants – had to try to organize during a pandemic to take collection action.

This lack of organization is a contributor to some of the delays at level of GOH in approving and implementing a reopening plan for those less organized sectors. As an example, it took longer for food delivery services and partial reopening of restaurants to be approved for take-out services than it you would have seen in other countries. It was also evident that some of the reasons why public-private dialogue was limited in the first place – such as a lack of transparency, limited access to information, a history of mistrust – gradually began to unravel this process.

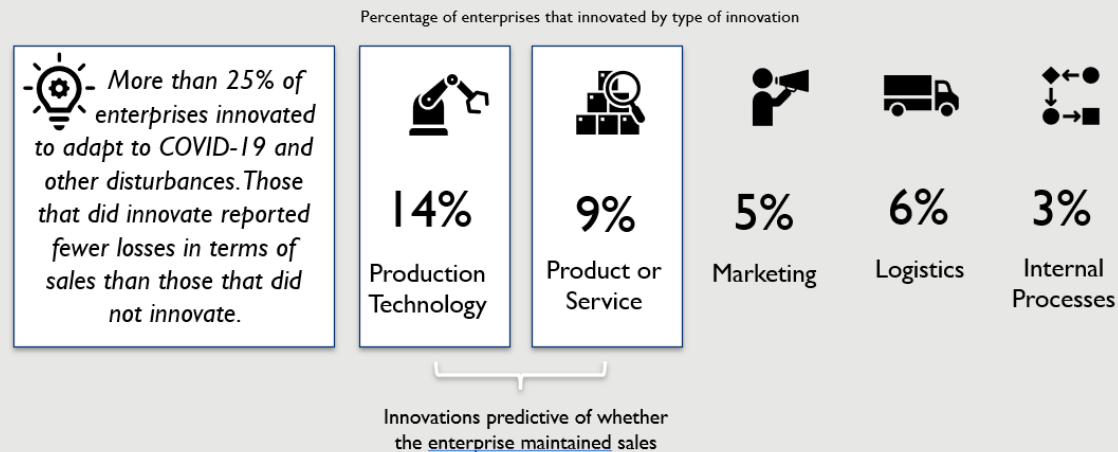
Many of these Tables have since dissolved with limited actual accomplishments. There has been little discussion about the more proactive and transformative strategies required for the future.

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<sup>8</sup> ACDI/VOCA (2020). How to Revive the Tourism Sector in Honduras. Posted on USAID Marketlinks <https://www.marketlinks.org/blogs/how-revive-tourism-sector-honduras>



## RESPOND / ADAPT INNOVATION



Innovation, adaptation, and the pivot are the principal mechanisms used by the private sector to mitigate risks, solve problems, and facilitate recovery in the face of shocks and stressors. In our first survey in April, we saw that more than half of enterprises were in process of adapting their business model. Those that were, were more confident in their recovery. In our second survey in July, we saw that enterprises that adapted were more likely to have maintained sales than those that did not. At the same time only about one in twenty enterprises had completed the process innovation or adaptation with material effects on maintaining jobs. In our third survey in October, we see now that about one quarter of enterprises have completed some form of innovation with significant impacts on sales and jobs. The innovations that were more significant than others included adoption of a new production technology and adapting products and services.<sup>9</sup> The overall evidence on innovation and adaptation in Honduras is mixed. We tend to look to the success stories as evidence of how system as a whole is working. But the reality is that many enterprises in Honduras struggle to innovate and adapt their business model. In its diagnostic, TMS identified several factors that were predictive of degree of innovation this past year. These included factors primarily to related having a qualified workforce and access to quality support services. In market systems resilience we are not looking at singular cases of innovation but for innovation at scale that affects the performance of the entire market system as a whole.

<sup>9</sup> Institute for Economic and Social Investigation – National Autonomous University of Honduras. Business Resilience Analysis COVID-19. 2020. <https://iies.unah.edu.hn/iies/analisis-de-resiliencia-empresarial-covid-19>

## Reflections and discussion on innovation

It is important to clarify what is meant by system-level innovation. In a prior view of development, projects have been the source of innovation – we identify a technological solution to fix a problem we perceive and then try to partner to scale that solution in the system. This is not what is meant by system-level innovation. Rather, what we are talking about is that the source of the innovation comes from within the system. Why? Because is the functional role of the private sector, universities and other innovation actors to sustainably source and scale innovations in the system.<sup>10</sup>

Here are examples of how the private sector in Honduras innovated in response to COVID-19.

- COVID-19 disrupted the importation and exportation of sweet potatoes and plantains. This created a disruption in terms of exports of Inalma, a Honduran food exporter. It also created an opening in the domestic market for Inalma to supply potatoes to Dinant – which had previously imported these crops to process into chips and snacks for the Honduran market. This disruption has opened an entirely new market opportunity for Honduran producers.
- Sube Latinoamérica a Honduran e-commerce provider was flooded with new subscribers following COVID-19. These users demanded not only payment but delivery options to sell goods direct to households. Sube innovated to meet this challenging by forging relationships with local delivery options such as Ocho; Yo Voy; Mandados Express; Mandaditos Manuel; LyT.

In these and other cases, the role of TMS to support system-level innovation was different. Rather than sourcing ideas from our own technical specialists, the project role instead focused on where new ideas and innovations were coming from within the system and then trying to remove obstacles so that those innovations could succeed to benefit as many as possible. In the case of Inalma and Dinant, TMS played the role of broker in helping to secure necessary paperwork and clearances so that Inalma could import registered potato seedlings from the United States. In the case of Sube Latinoamérica, the food industry lacked the relevant biosecurity protocols and training to enable food delivery, so the project worked with relevant GOH agencies and chambers to develop these biosecurity protocols and disseminate training to thousands of workers in the food services sector.

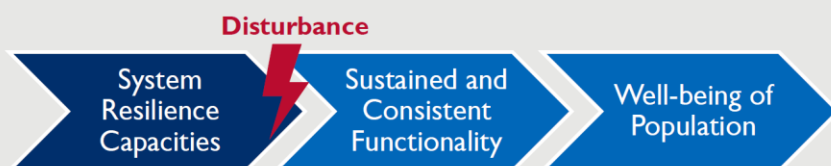
In market systems, the champions of innovation and adaptation are entrepreneurs. They build not only companies – but industries, find the “next big thing” that creates value for consumers, and problem-solve the foreseen and unforeseen disruptions that threaten to roll-back economic progress. Putting the local entrepreneur first means that projects need to step back and shift focus on the broader supportive systems and enabling environments so that entrepreneurs can succeed.

For example, in Honduras this means reforms of the system of import and export licenses so that in the event of the next disruption (or opportunity), an agroindustrial enterprise does not need the support of a project to obtain clearances to import seed varieties or other technology. Or, building a more functional and responsive workforce development system that proactively identifies the need for training in functional skills (like biosecurity) and delivering this solution without donor assistance.

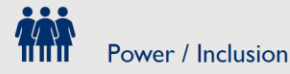
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<sup>10</sup> For further discussion see Cunningham, S., Jenal, M. (2016) *Rethinking systemic change: economic evolution and institution. Discussion Paper.* <https://beamexchange.org>. The BEAM Exchange.

## DEEPENING UNDERSTANDING AND FRAMING MARKET SYSTEMS RESILIENCE



### System-level Resilience Capacities



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Innovation and safety nets are just the tip of the iceberg on market systems resilience strategies. In this next part, we are going to dive deeper into what characteristics define resilient market systems. First, there is an important distinction. Resilience is not a “state of being.” Rather, it is a set of capacities that are activated in the face of shocks or stressors. These capacities are highly context specific and tend to be activated in different ways to address different types of shocks and stressors.<sup>11</sup> We will go through these resilience capacities below – but they tend to include (1) diversity (2) connectivity (3) governance / rule of law (4) power dynamics / inclusion. The big question we are getting at here is how the system as a whole comprised of all its public and private actors collectively responds to shocks in a more proactive way. The conditions that allow for this broad-based, proactive response tend to be more structural characteristics of the market system i.e. things that don’t change that easily but when they do, are transformative in how the market system manages risk to maintain its functioning.<sup>12</sup>

<sup>11</sup> This graphic and discussion are from Vroegindewey, R. (2019) *Guidance for Assessing Resilience in Market Systems*. <https://marketlinks.org>. United States Agency for International Development.

<sup>12</sup> For a more in-depth discussion on proactive versus reactive framework see Downing, J., Field, M., Ripley, M., Sebtad, J. (2020) *Market Systems Resilience: A Framework for Measurement*.

## RECOVER / TRANSFORM RESILIENCE CAPACITY #1: DIVERSITY



Honduras's economy lacks diversity and is becoming **less diverse over time**

**60 percent** enterprises report capacity to diversify but **less than 10%** did

**48 percent** of enterprises report they have adequate market opportunity

### Diversity Strategy #1 –

*Support industries, products and markets with different risk profiles i.e. look for growth opportunities beyond usual suspects.*

### Diversity Strategy #2 –

*Build enabling ecosystem and services for innovators and entrepreneurs to create diversity in the Honduran economy.*

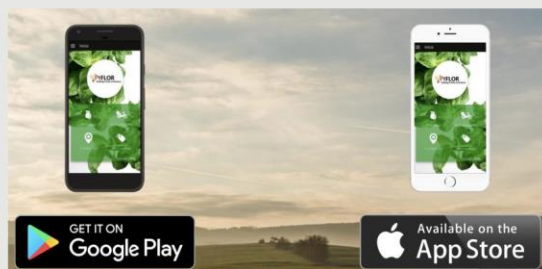
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The degree of variety in the economy – of people, enterprises, products, markets. and industries – with different risk profiles affects how economy deals with shocks and stressors. For example, in COVID-19, we saw evidence that tourism-characteristic enterprises – such as lodging, tour operators, food services, arts and entertainment were more likely to lay off or suspend staff and to close their operations than other enterprise profiles. For other types of shocks, we similarly know that industries are affected differently. In Honduras, agricultural enterprises are significantly more likely to be affected by climate change and market/price shocks than other enterprises. Different support service sectors – such as the financial sector – are significantly more likely to be affected by political shocks and risks. Food services and retail-level businesses are more likely to experience crime and extortion than other profile enterprises.<sup>13</sup> In a more diverse system – enterprises and industries are affected and react differently to shocks, which allows the system as a whole to adapt and transform to disturbances. In general, the Honduran economy lacks diversity – and is becoming less diversified over time. One measure for this is the economic complexity index (ECI) which is a proxy measure based on the variety and product sophistication of Honduras's exports. Honduras depends on too few exports (1) commodities such as coffee, palm, melons (2) knit apparel and (3) business process outsourcing. This dependence on few products makes Honduras vulnerable to shocks that are specific to these products. A drop in price of a commodity like coffee can trigger such a significant loss of rural economic opportunities that it drives outmigration from these areas to cities and beyond. Diversity strategies need to focus on how to apply existing know-how to grow new industries, diversify products and expand into new markets. Further, these strategies can support a better supportive system for its entrepreneurs in which investors don't look at non-traditional sectors and products as "too risky." Instead, there are a much larger and more connected set of accelerators, investors and other support service providers that supply the resources and enable access for entrepreneurs to innovate and create diversity in the Honduran economy.

<sup>13</sup> Institute for Economic and Social Investigation – National Autonomous University of Honduras. Business Resilience Analysis COVID-19. 2020. <https://iies.unah.edu.hn/iies/analisis-de-resiliencia-empresarial-covid-19>

## RECOVER / TRANSFORM RESILIENCE CAPACITY #2: CONNECTIVITY



### Connectivity Strategy #1

Create more efficient transport linkages and logistic infrastructure to connect enterprises to local, regional and export markets.

% enterprises that rate quality and access as TERRIBLE -

43%	Electricity
44%	Roads
36%	Water and Sanitation
32%	Transport services

% enterprises that in context of a shock, believe they CAN access...

46%	Alternative buyers
44%	Alternative suppliers
37%	Needed financing
34%	Support of partners

### Connectivity Strategy #2

Strengthen intermediaries (e.g. chambers) and platforms (e.g. e-commerce, etc.) to facilitate linkages between enterprises.

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Connectivity is similarly a significant determinant of resilience. Connectivity refers to linkages between enterprises and their ability to access diverse services and markets. Connectivity can be physical in the form of roads, electricity services, water and sanitation infrastructure and transport services. The quality of this connective infrastructure is predictive of the degree of recovery reported by enterprises this past year. Unfortunately, the quality of infrastructure in Honduras is rated as poor and since Eta and Iota is poorer. Connectivity can also be social such as business networks and trade relationships. The ability to find alternative buyers and suppliers or access services and support has similarly proven predictive of enterprise recovery through the three resilience surveys. Too few enterprises are confident in these linkages – and are isolated and stuck without alternatives, access, or options.<sup>14</sup> Connectivity strategies for Honduras include improving logistics infrastructure and services through the creation logistics hubs, agroparks and/or industrial hubs that provide reliably access to electricity, roads and water for MSMEs. Another connectivity strategy for Honduras is to focus on strengthening intermediaries and digital platforms that reduce the search costs and other transaction costs between MSMEs.

<sup>14</sup> Institute for Economic and Social Investigation – National Autonomous University of Honduras. Business Resilience Analysis COVID-19. 2020. <https://iies.unah.edu.hn/iies/analisis-de-resiliencia-empresarial-covid-19>

## RECOVER / TRANSFORM RESILIENCE CAPACITY #3: GOVERNANCE



% enterprises that rate BEE obstacle as SEVERE

53%	Paying taxes	30%	Clearing customs
37%	Obtaining licenses	28%	Labor regulations
34%	Competing with informal	26%	Registering property

### Governance Strategy #1

*Simplification of processes and procedures – and reduce corruption – to support access to permits, licenses and registries.*

### Governance Strategy #2

*Ease formalization requirements – tax rates and compliance – that enable individuals to participate legally in the economy.*

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The rules of the game and having a level playing field is foundational to how market systems function – we have found that governance is a major determinant of resilience. The more obstacles reported by enterprises – in paying taxes, obtaining licenses, etc. – the more likely the enterprise is to resort to negative coping strategies when facing a shock. Conversely, when government operates efficiently, and it is easier to do business, enterprises tended to report bouncing back and recovering faster.<sup>15</sup> Business strategies and behaviors are inextricably tied to the business enabling environment. Rules of the game make the difference between a “minimalism” strategy and a “growth oriented” strategy with broad-based impacts on economic growth. Reforms to the rules need to target not only a single government agency but how multiple institutions that comprise government function in a manner to create fair rules of the game. Strategies to improve rules of the game include administrative simplification and reduction of levels of corruption and arbitrary application of the law in day-to-day bureaucratic processes. Similarly strategies address the divide between the formal and informal economy which is a growing vicious cycle where formal companies pay twice – one by paying taxes and a second time by being paid lower prices when they compete with informal enterprises - all while informality becomes a trap, when informal enterprises can’t access the finance and markets they need to grow or become formal.

<sup>15</sup> Institute for Economic and Social Investigation – National Autonomous University of Honduras. Business Resilience Analysis COVID-19. 2020. <https://iies.unah.edu.hn/iies/analisis-de-resiliencia-empresarial-covid-19>



## RECOVER / TRANSFORM RESILIENCE CAPACITY #4: POWER / INCLUSION



Less than **60%** enterprises considered competition in their sector was fair

**22%** reported **frequent discrimination** in their area against specific groups

**44%** enterprises that hired reported **difficulty finding qualified** applicants

### *Power / Inclusion Strategy #1 –*

*Facilitate more inclusive, evidence-based policy processes and representation of diverse groups.*

### *Power / Inclusion Strategy #2 –*

*Reduce stigma and discrimination in human resources (hiring, promotion, etc.) and provide skills-building of vulnerable groups.*

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To facilitate recovery from shocks and stressors, market systems need to be able to draw on the skills and capabilities of all its people and enterprises. The lack of inclusive participation due to discrimination or barriers imposed by more powerful groups harms the ability of the system to recover and also tend to further exacerbate social and economic inequalities. Examples include monopolies that control or dominate industries or local cartels that control trade in or out of specific regions or zones. There are multiple forms of discrimination that marginalize specific groups. For example, 22% of enterprises reported one or more forms of discrimination as very frequent in their industry. We also see the workforce and educational system as a critical subsystem that supports inclusive participation, but find that of enterprises that hired in 2020, 44% reported difficulty in finding applicants with the right technical and workforce skills needed to be able to perform their job requirements.<sup>16</sup> These barriers prevent market systems from tapping on talent and skills of its entire, diverse population. Inclusion strategies seek to broaden political participation so that the levers of economic policy reflect broader citizen and societal needs rather than the interests of privileged and powerful groups. Inclusion strategies also must address societal biases and norms that creep into organizations and ensure more equitable processes – whether in human resources, etc. – that support more inclusive participation of women, youth and other groups as employees, business owners, suppliers and consumers in the market system.

<sup>16</sup> Institute for Economic and Social Investigation – National Autonomous University of Honduras. Business Resilience Analysis COVID-19. 2020. <https://iies.unah.edu.hn/iies/analisis-de-resiliencia-empresarial-covid-19>



Market systems resilience is a core part of TMS's implementation approach. In its 2021 portfolio, TMS co-created a set of activities with the public and private sectors to make progress along these resilience strategies. For example, in agriculture, TMS is working with more than a dozen agro-industrial partners in eleven commodities to introduce new products and open new markets for Honduras. Our work in entrepreneurship is focused on ecosystem-building and strengthening networks of local investors, chambers and business service providers to provide a more integrated set of services to entrepreneurs. In tourism, we are co-investing in new tourism products and destination offers, as well as transport connections that integrate the Bay Islands with mainland destinations. Further, a significant component of our work is done with the public sector and representative organizations to make headway on policy reforms and streamlining government administrative processes. At the Activity-level, we have invested in our own resilience capacities to reconfigure and transform the TMS Activity more effectively in response to these external shocks which have disrupted implementation, as well as in response to our own internal learning about what actions work to make real progress towards market systems resilience. Market systems resilience remains a core area of continued learning. If you have questions or reactions or would like to share your own experiences and learning, please contact Jorge Reyes [joreyes@usaid.gov](mailto:joreyes@usaid.gov), Sergio Rivas [srivas@activoca.org](mailto:srivas@activoca.org), or Dun Grover [dgrover@activoca.org](mailto:dgrover@activoca.org).