

Case Study: The Market Systems Diagnostic

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Driven by its mission to enhance global food security, economic prosperity, and social inclusion for vulnerable populations, ACDI/VOCA is a leader in applying innovative and effective strategies and tools for developing local market solutions. To improve how markets function, particularly for the poor and most vulnerable, we need to understand the underlying determinants that indicate whether a market system is becoming more inclusive, competitive and resilient. To respond to this need, ACDI/VOCA developed a [Market Systems Diagnostic](#) methodology for assessing the overall health of a market system, helping inform how our projects are contributing to broader changes within a system as well as providing insightful learning on how market systems function and where interventions can have the biggest impact. This methodology aligns with [USAID's Market Systems Resilience Measurement Framework](#), a key part of USAID's Market Systems Resilience Measurement Resources, and the system health tools developed for USAID's [Leveraging Economic Opportunities \(LEO\) project](#).



Figure 1. A Honduran agricultural entrepreneur. Increasing employment opportunities for women in is a key area of focus for ACDI/VOCA in Honduras.

This case study reflects on how ACDI/VOCA has adapted the Diagnostic methodology to the different contexts of its Activities in Honduras and Myanmar, on the results observed, and on key learnings for future application.

What is the Market Systems Diagnostic?

The Market Systems Diagnostic is an adaptable methodology designed to analyze changes in market structures and enterprise behaviors to understand how and whether the market system is changing to become more inclusive, competitive and resilient. The results of the Diagnostic help inform the project's market systems strategy and monitor the effectiveness of project interventions towards

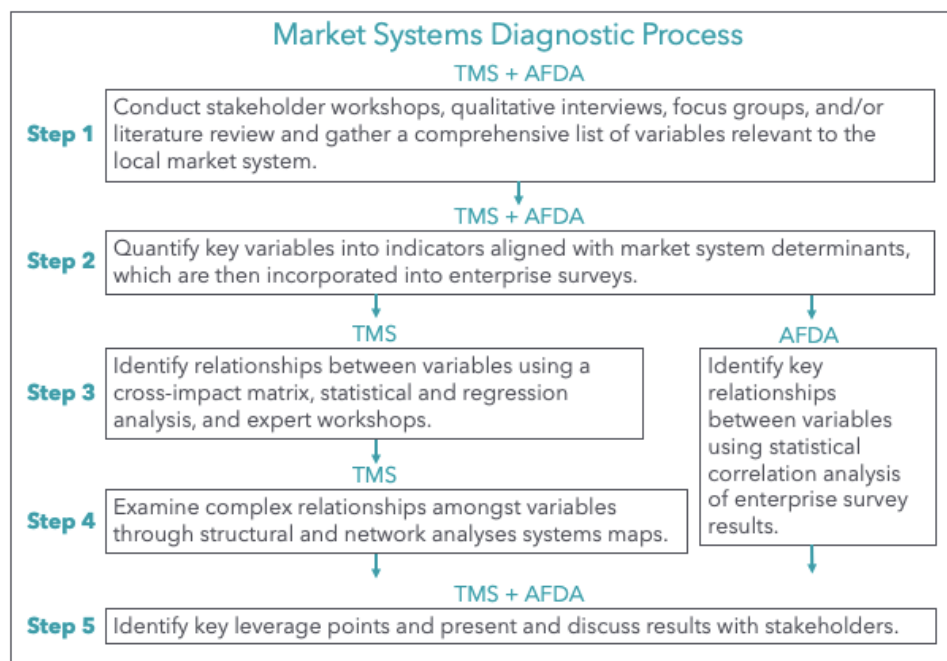
Table 1: Key systems determinants of the Diagnostic	
Structural Determinants	Behavioral Determinants
· Connectivity	· Cooperation
· Diversity	· Competition
· Power Dynamics	· Decision-Making
· Rule of Law	· Business Strategy

facilitating systemic change. The Diagnostic starts by prioritizing the most relevant determinants of market system health for a particular context (see Table 1 for the comprehensive list of determinants, as described in USAID's Market Systems Resilience Framework). Using qualitative interviews and secondary information, variables are then selected for each of the

determinants, as well as the corresponding indicators collected through secondary and enterprise survey data. Data is collected through surveys of enterprises that assess their diverse market functions, e.g. use of business development services, financial services, market intelligence, etc. The enterprise data is then analyzed to identify correlations and predictors to measure patterns of change within a market system. The Diagnostic is conducted at different times over the life of a project (e.g. three times over a five-year project) and results of are shared with stakeholders and policymakers so they can

better understand the key factors influencing a market systems performance. The stages of this process as followed by TMS and AFDA in their approaches to the diagnostic are outlined in Figure 2.

Figure 2. Diagram of the Market Systems Diagnostic Process as carried out by the TMS Honduras and AFDA Myanmar projects.



TMS and the Market Systems Diagnostic

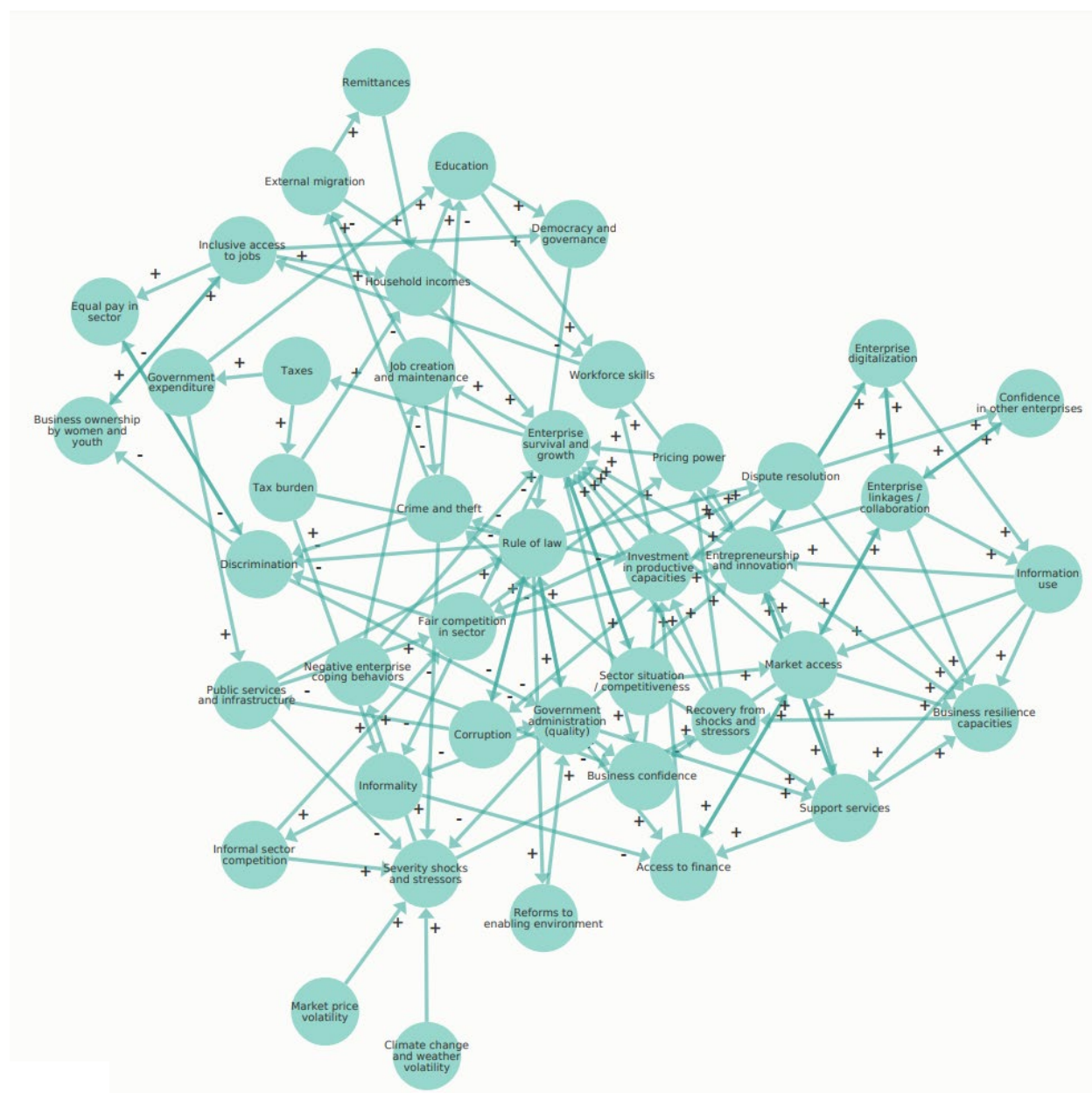
Transforming Market Systems (TMS) is a USAID funded, market systems development project implemented in Honduras with the objective to facilitate transformative market systems change that will sustainably increase economic opportunities and reduce incentives to migrate. The Market Systems Diagnostic was initially developed as a baseline tool for the TMS Activity in 2019 to monitor whether and how the Honduran market system was becoming more competitive, resilient, and inclusive. The Diagnostic, implemented a second time in Honduras in 2020, also serves as a monitoring tool for USAID and an adaptive management tool for the TMS Activity.

ACDI/VOCA partnered with a US-based small business, LINC, the US-based George Fox University, the National Autonomous University of Honduras, and the National Council of Private Enterprise of Honduras to apply the Diagnostic in Honduras. The application included the incorporation of structural analysis - a methodology developed in the systems engineering field - to diagnose Honduran market systems and apply the Market Systems Resilience framework developed by USAID with EcoVentures International. Figure 3 shows a visualization of this structural analysis, used to identify key leverage points in the Honduras market system. This novel application shed new light into development challenges that have constrained Honduran economic development.

This collaborative process set in motion an alliance which has since developed into a local observatory for economic development and entrepreneurship in Honduras. This observatory fills a critical gap in generating evidence for the national policy dialogue thus advancing systemic change in Honduras. For example, in response to the Covid-19 pandemic, the observatory conducted a series of business

resilience studies that influenced the passage of national economic relief programs for Covid-19. The Diagnostic is also a key input into the National Business Strategy for Honduras 2022-2025. This strategy provides key private sector input and evidence on areas for reform for the forthcoming election cycle, such as concrete policy proposals, reforms, and programs for political candidates.

Figure 3. A visualization of structural analysis found through the Diagnostic, from which influential factors were identified and a broad causal structure was analyzed.



Retrieved from <https://iies.unah.edu.hn/assets/Uploads/Diagnostico-de-Sistemas-de-Mercado-2020.pdf>.

The 2020 Diagnostic expanded knowledge of Honduran market systems through its process of identifying, measuring, and analyzing systems indicators mapped to variables (e.g. "recovery from shocks" is aligned with the ability to find new suppliers or buyers in response to a systems shock, etc.). These variables were then ranked based on their influence on other variables (high to low), dependence on other variables (low to high) and their overall centrality in a network map (high to low). The 2020 Diagnostic helped the government and private sector community in Honduras to adopt a common vision of areas of change that could be leveraged to improve the competitiveness of the national economy in the medium to long term. Table 2 presents the primary factors found to have varying degrees of influence on the Honduran economy, as identified from the Diagnostic.

Table 2: Factors with varying degrees of influence on the Honduran economy, as identified through analysis of variables and systems determinants from the Market Systems Diagnostic.

Leverage variables →	Critical or relay variables →	Dependent / outcome variables →
These variables have greatest effects on 10+ year development of the Honduran economy	These variables have greatest effects on 3-to-5-year performance of the Honduran economy.	These variables are dependent on the other factors - they change with leverage or relay variables.
<ul style="list-style-type: none"> · Rule of law · Corruption · Government administration · Fair competition · Democracy / governance · Education · Information use 	<ul style="list-style-type: none"> · Entrepreneurship · Innovation · Digitalization · Workforce skills · Market access · Support services · Collaboration 	<ul style="list-style-type: none"> · Job creation · Enterprise growth · Recovery from shocks · Business confidence · Investment · Inclusive access to jobs · Informality

Key findings from the 2020 Honduran Diagnostic:

- More than half of Honduran enterprises do not have sufficient access to markets in order to grow their business, and they lack access to alternative buyers or clients in the case of a market disruption.
- Competition and collaboration dynamics reduce market and pricing power, with nearly half of enterprises reporting they are stuck in a commodity-market in which they cannot raise prices.
- Enterprises have low innovation due to low workforce skills. While enterprises are investing to fill this skills gap, a more functional educational and vocational training system is needed.
- Promoting women and youth entrepreneurship is one avenue to greater inclusivity in jobs access for women and youth, according to evidence from the Diagnostic.
- There is a real deficit of paid jobs in the Honduran economy, evidenced by high levels of self-employment and underemployment, both visible and invisible, that results in informality.
- The negative coping behaviors adopted by enterprise to shocks creates social harm as enterprises lay-off or suspend staff, thereby shifting the risk to the individual/household-level.

- The strength of institutions and rule of law are at the root of many of the dynamics observed in Honduran market systems. Enterprises report poor quality administration and excessive red tape when obtaining licenses and permits, trading across borders, paying taxes, etc.

AFDA and the Market Systems Diagnostic

The USAID Feed the Future **Agriculture and Food-Systems Development Activity (AFDA)** is working to advance peace and reduce interethnic tensions in Myanmar and to help transform agriculture and food systems through increased productivity, inclusiveness, and competitiveness of key sectors. The AFDA Market Systems Diagnostic carried out in 2020 followed an abbreviated approach to the original TMS methodology and focused on a smaller sample of enterprises. AFDA's quantitative survey, given to 100 market systems actors in five regions corresponding to Myanmar's "Zone of Influence, included questions mapped to six behavioral and structural market systems determinants that were chosen from the USAID Market Systems Resilience Framework. The determinants, which were selected to represent the most important potential areas for market systems health and development in Myanmar, as gleaned from key informant interviews and secondary research, included: competition, cooperation, business strategies, diversity, connectivity, and power dynamics.



Figure 4. Farm and off-farm enterprises in Myanmar were surveyed through the 2020 AFDA Market Systems Diagnostic.

The Diagnostic included questions that mapped to one or multiple systems determinants to help provide a clearer understanding of market systems performance in Myanmar. As an example, the survey asked market actors questions about their level of innovation and investment in new products, services, and business models, which were representative of the market systems domains of diversity and competition.

Survey dissemination was contracted to a Myanmar-based research agency and conducted in-person or over the phone to farms and agricultural enterprises. Like the methods in the TMS Diagnostic, statistical analysis of the survey results involved descriptive statistics and tests of significant correlations, though given the smaller sample size and other data limitations, regression models were not possible, nor was the more comprehensive structural analysis.

Key findings from the 2020 Myanmar Diagnostic:

- Significant relationships were found between increased resilience, competitiveness, and inclusivity: farms and enterprises more capable of overcoming shocks were more likely to report higher profits.
- Majority-female run businesses showed greater resilience than majority-male led firms. Enterprises with the largest overall profits tended to have greater rates of full-time, female

employees. Enterprises with the greatest sales turnover had higher rates of full-time, ethnic minority employees.

- Factors linked with an enterprise's likelihood of reporting larger profits include: if the enterprise changed a key aspect of their business in the past year, if they are part of any business associations, if they sought out market information from print media or the radio to determine pricing for their goods and service, and if they utilized an electronic platform for their record-keeping.
- Overall, farms and enterprises were resilient, with just over two-thirds saying they felt "very confident" they could overcome supply and demand side shocks. Factors linked with greater resilience include being part of a business partnership or alliance, the ability to declare greater pricing power, utilizing a greater portion of their production capacity, and reporting having experienced fewer types of shocks, in general.
- Just under one-third of all owners of farms and enterprises were female, though full-time employment rates were more equitable at 42% female, and part-time jobs were 61% female. The largest enterprises employed the highest rates of female employees while, at the same time, they had the lowest rates of female ownership.
- Farms and firms with more inclusive ownership tended to have more inclusive hiring practices. Females in ownership positions tended to hire more women or ethnic minorities as full-time employees.

Key learnings and future use of the Diagnostic

The Market Systems Diagnostics conducted in Myanmar and Honduras have helped inform understandings of the drivers of competitiveness, inclusion, and resilience in those countries. The 2020 TMS Honduran Diagnostic and subsequent annual diagnostics that will be carried out for the life of the project will serve to build upon project and partner knowledge of the Honduran market system, and will help facilitate coordinated, adaptive public and private sector policy development. Through its local Honduran institutions, for example, the TMS Activity has been able to raise its findings to the highest levels of government, academia, and the public sector in Honduras. This has led to concrete policy reforms, such as Covid-19 relief bills, adaptations to strategies, including National Business Strategies developed with COHEP, as well as a host of new activities by TMS and its local partners to act on key leverage points and critical factors to facilitate systemic change in Honduras.

The enterprise analysis conducted in Myanmar serves as a baseline for assessing broader market systems changes over the life of the project, and it will be scaled up with a larger, more representative sample of enterprises in year two. In light of recent political changes as well as the Covid-19 pandemic, a larger, secondary enterprise survey may provide valuable insight into the factors crucial for longer-term resilience in market systems in Myanmar.

The end product of the Market Systems Diagnostic is not simply a report, but rather a foundation for changing the trajectory of a market systems project, its partners, and the broader market system. The Diagnostic can be adapted for use in any country, using systems determinants that are grounded in the USAID framework and are relevant to the unique circumstances of a project. The Diagnostic's process for collecting and analyzing qualitative and quantitative data, as demonstrated in the cases of Honduras and Myanmar, can be replicated across various contexts. The final component of the Diagnostic is presenting its findings and facilitating public-private dialogue and debate in a

comprehensive way to stakeholders, policy makers, and the general public through media, workshops, etc. The usefulness of the Diagnostic in projects like TMS and AFDA has paved the way for its use in other ACDI/VOCA projects (and potentially for other market systems practitioners) as a tool to help measure systems-level impacts, spur dialogue and inform decision makers, as well as inform project partnerships and activities.

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