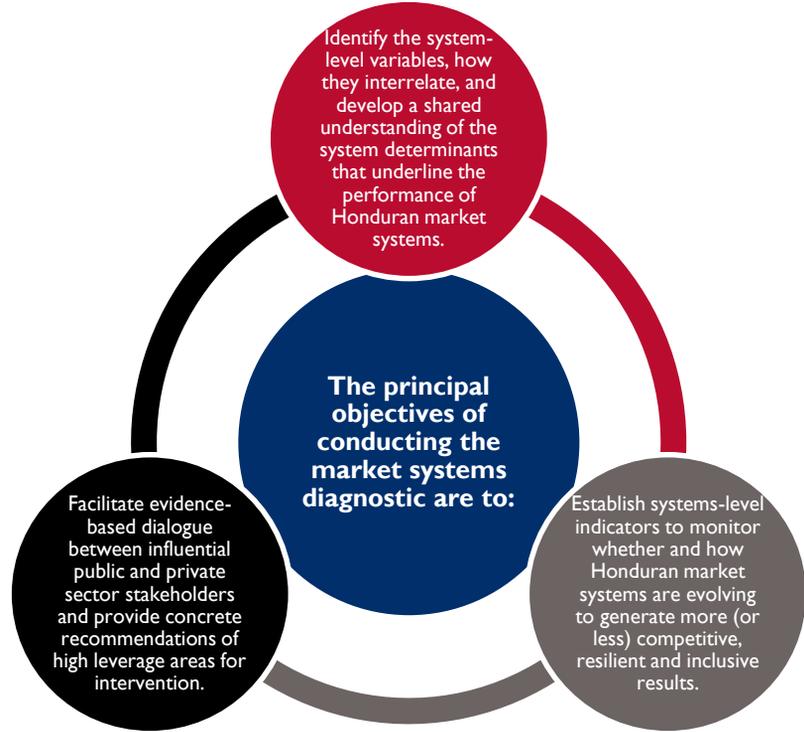The **MARKET SYSTEMS DIAGNOSTIC** analyzes changes in market system structures and patterns of behavior to understand *how* and *whether* the market system as a whole is changing to become more inclusive, competitive and resilient. The market systems diagnostic is comprised of (1) enterprise-based surveys (2) narrative-based focus groups (3) analytical techniques to discover and prove material and significant system-level variables and their interrelationships, and (4) a communications strategy to generate a shared picture and understanding of how these influence Honduran market systems.

The principal objectives of conducting the market systems diagnostic are to:

- Identify the system-level variables, how they interrelate, and develop a shared understanding of the system determinants that underline the performance of Honduran market systems.
- Establish systems-level indicators to monitor whether and how Honduran market systems are evolving to generate more (or less) competitive, resilient and inclusive results.
- Facilitate evidence-based dialogue between influential public and private sector stakeholders and provide concrete recommendations of high leverage areas for intervention.

COHEP facilitator at competitiveness table

Several **key features** of the market systems diagnostic include:
- Co-created with Council of Private Enterprises of Honduras (COHEP) and National Autonomous University of Honduras (UNAH) to strengthen local capacity in systems thinking and work towards sustainability of data collection and analysis.
- Data is made available to the public at the COHEP website http://cohep.com/sistemasdemercado/ and is used to inform applied research, investigation and teaching at UNAH https://iies.unah.edu.hn/ and is shared through media and stakeholder forums for broader stakeholder awareness.
- Data collection and analysis is repeated on an annual basis to measure system-level changes as part of the TMS monitoring system, and to add and drop variables to identify the 'best fit' systems indicators for the Honduran market system.

| TO ACHIEVE THE USAID TMS ACTIVITY GOAL:	REQUIRES HONDURAN MARKET SYSTEMS TO:	BY CHANGING UNDERLYING SYSTEM DETERMINANTS*:
• Stronger foundation for broad-based, long-term economic growth • Sustainable increase in jobs and sales for Hondurans, including vulnerable persons • Reduction in incentives to migrate externally	• Create jobs • Improve job quality • Grow enterprise sales • Build business confidence • Reduce vulnerability to shocks • Support recovery post-shock • Increase ownership by women • Employ more women • Employ more youth	• Supporting value-added, growth-oriented **business strategies**, • Promoting effective **cooperation and competition** among actors, • Increasing **diversity** and **redundancy** of elements and features in the system, • Improving **connectivity** for flow and exchange of products and resources, • Reforming the **rules of the game** and more equitable **power** dynamics.

*Based on Market Systems Resilience Guidance and Measurement Frameworks published by USAID

Step 1 TMS and its partner COHEP, together with local Chambers of Commerce, facilitate focus groups in different municipalities across Honduras. Participants from the private and public sector are divided into tables based on the themes of competitiveness, resilience and inclusion. Facilitators prompt participants to provide experiences or stories within their table related to these three themes. Discussions are recorded and then transcribed for subsequent analysis.

Step 2 TMS and its partners COHEP and UNAH code the qualitative data to identify material variables. The objective of this step is to discover new variables, make sense of the variables identified and hypothesize systemic structures. The variables identified as material are transformed into measurable indicators and incorporated into enterprise surveys.

EXAMPLE OF STEP 2 – Coding of focus groups revealed a high frequency of responses where tax rates, informal competition, municipal services and enterprise growth were reported in narratives. The team hypothesized a "shifting the burden systems archetype" was happening where budget deficits were balanced (B) by increased municipal tax rates. This has an effect of reinforcing (R) a vicious cycle of informality and informal competition, constraining formal enterprise growth. The key to this archetype is addressing the real cause of the deficit problem – the lack of formal enterprise growth or local competitiveness – in order to increase tax revenues and reduce the budget deficit. The challenge is the symptomatic solution – increasing municipal tax rates in the short-term – makes addressing the long-term, fundamental solution harder to achieve. The enterprise survey for the next year includes questions on tax rates and informality to gather evidence on this structure.

Municipal tax rate · Budget deficit · Informal competition · Formal Enterprise Growth

S = Same
O = Opposite
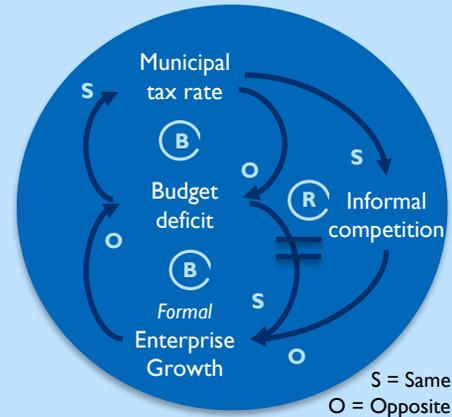
Step 3 TMS and its university partner UNAH conduct a representative survey across enterprise functions (1) agroindustry (2) distribution (3) lodging and (4) tourism services. The critical functions for the sample frame are selected based on whether changes in behaviors or structures by those respondents are believed to signal broader changes in target market systems.

Step 4 TMS and its university partner UNAH analyze the quantitative data applying linear and logistic regression models to assess the significance of different independent variables on desired market systems results. The variables which are statistically significant are in **bold** in the table below – the other variables are those discovered in qualitative analysis to date.

Step 5 TMS and its partners COHEP and UNAH lead a communications campaign to share findings in multiple media, in public-private forums, and with academia to spur dialogue, further investigation and prompt evidence-based decision-making.

PATTERNS OF BEHAVIOR		MARKET SYSTEM STRUCTURES		
BUSINESS STRATEGIES	**COOPERATION & COMPETITION**	**DIVERSITY & REDUNDANCY**	**CONNECTIVITY**	**POWER & RULES OF THE GAME**
• **ICT & digitalization** • **Investment rate** • **Job quality** • Innovation rate • Financial leverage • Coping strategies	• Supply chain alliances • Coopetition • Informal practices	• **Redundancy of buyers** • **Female ownership** • Start-up rate • Redundancy suppliers • Diversity of products	• **Access to services** • New buyers and markets • Information flows • Transport linkages • Skilled workforce • Electricity • Municipal services	• **Government interactions** • Pricing power • Regulations and taxes • Political representation • Discrimination • Gender roles • Reciprocity/trust • Legal uncertainty • Image of country