

## Market Systems Continuum - Conceptual framework

Moving from a market system that is not working well to one that is working well is a gradual process that moves along a continuum. While measuring where you are in the system is fairly subjective, there are a number of indicators that can be tracked to measure progress along the continuum.

The figure below highlights the characteristics that define a dynamic, inclusive market system that is serving SHF more effectively. Thick/strong markets are characterized by a high volume and value of transactions, often segmented by market leaders and surrounded by niche market followers. As demand grows and differentiates along both price and quality dimensions, more firms are likely to compete for market share which, in turn, encourages crowding-in firms performing specialized market system functions (e.g. finance, ICT, consultants). An enabling policy/regulatory environment encourages more investment in innovation while also encouraging a high degree of stakeholder cooperation to take advantage of opportunities and counter competitive and other threats to market growth. When these characteristics are present, they tend to correlate with an effectively functioning market system.

Thin/weak markets are characterized by a low volume of transactions with few active firms, who are often beneficiaries of a policy environment which does not enable competition and innovation. Low volume of transactions is also demonstrative of low demand, discouraging critical support to enter the market compared with alternatives. Public and private sector stakeholder interests are mis-aligned, creating competition between stakeholders where cooperation is vital to market system growth. When these characteristics are present, they tend to correlate with a non-functioning market system.

The strength (or weakness) of a market system is also reflected in its resilience. Weak market systems are less resilient and the market actors within those market systems are often dependent on outside funders to provide services, so when there is an external shock, they stop working. As the market system deepens and strengthens, it becomes more resilient and able to withstand external shocks and able to continue delivering products and services to stakeholders within the system – including smallholder farmers.

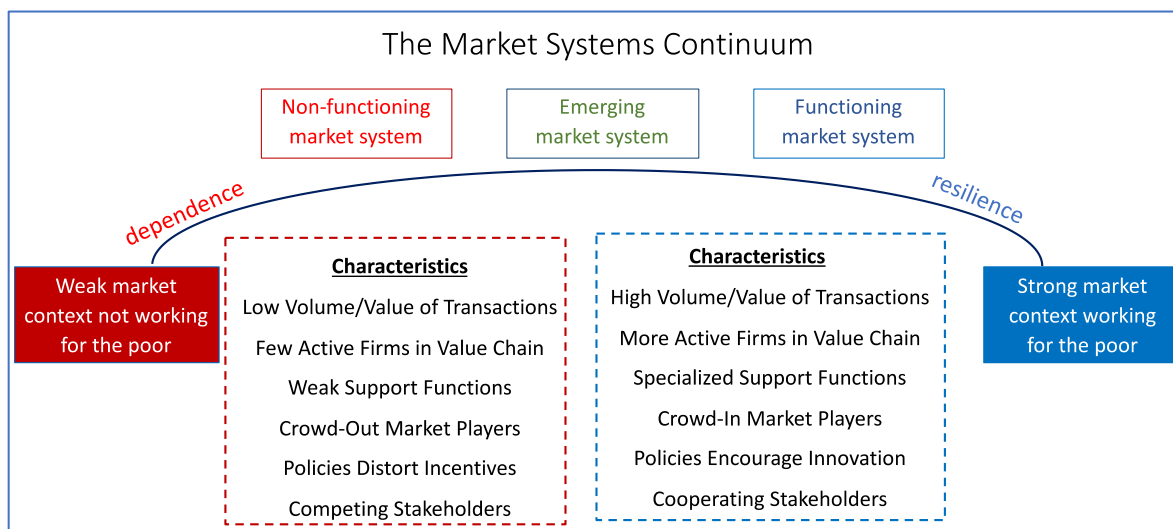
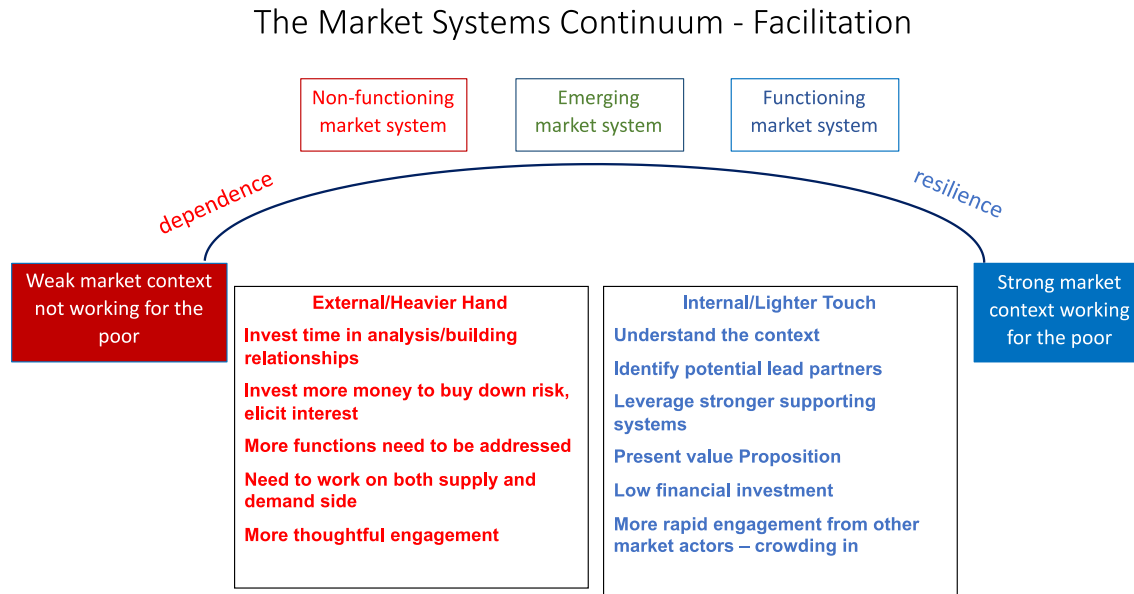


Figure 1: The Market Systems Continuum

Defining the progress in a market systems continuum requires a clear definition of the market system you are measuring, both from economic and geographic standpoints. To track progress along the continuum,

identify a starting point and then one can benchmark the progress. Examples from Ethiopia and Mozambique are presented below.

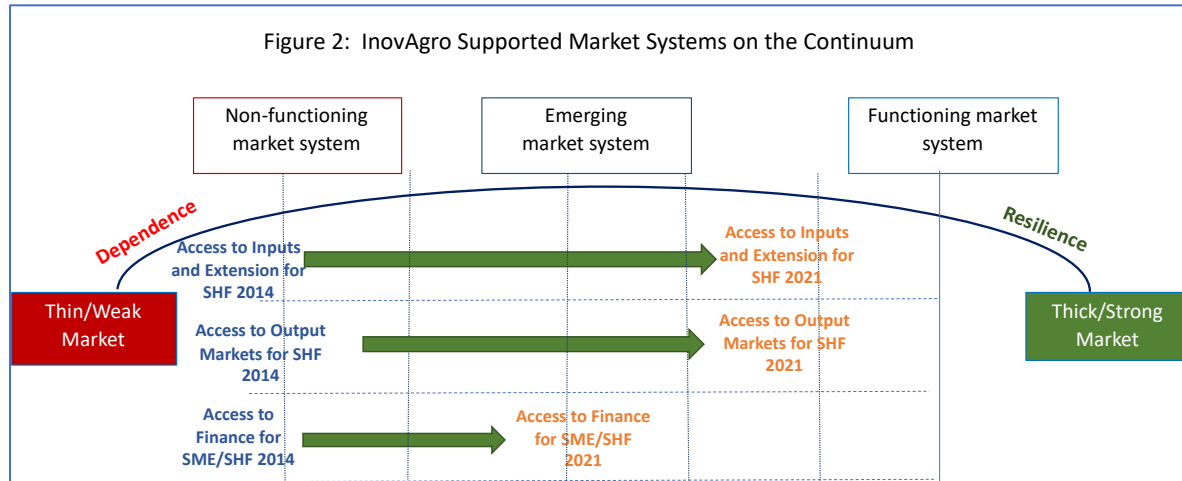
In addition, the market systems continuum also provides an indication of the nature of activities needed to help transform the system. Depending on where the system is along the continuum at the time of initial analysis (or along the life of program activities), interventions will move from those with characteristics of an “externally driven heavier hand” with a non-functioning market system, to those of an “internally driven lighter touch” in a better functioning market system.



### Practical applications

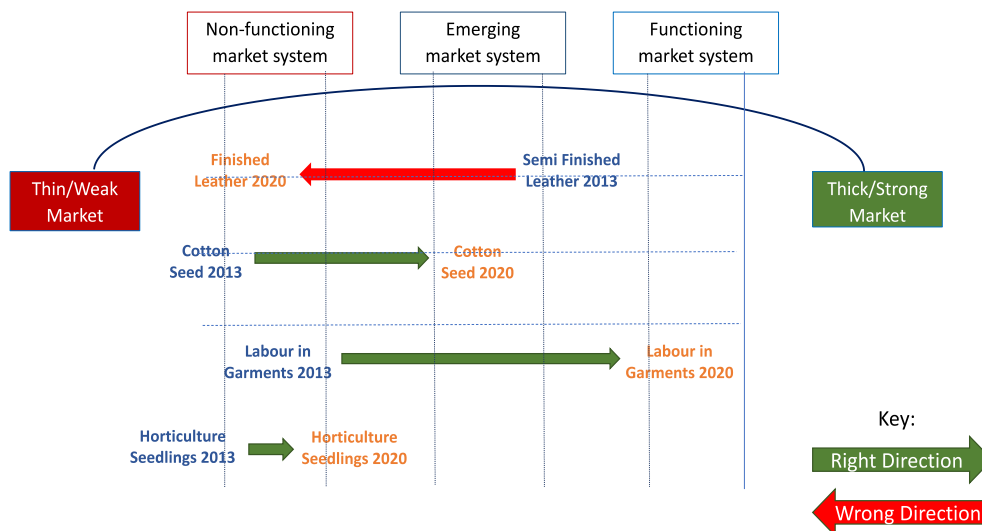
The two figures, below, highlight the market systems continuum in use as applied by DAI in Mozambique on its SDC funded Innovations for Agribusiness (InovAgro) project and in Ethiopia on its Enterprise Partners Project.

In Mozambique, the InovAgro project focused on three market systems (seeds, output markets, and access to finance) necessary for helping smallholder farmers to increase their productivity and incomes from improved access to markets. The figure below depicts the progress made over a seven-year period in terms of market system change. The commercial access to certified seeds was virtually nonexistent in 2014, by 2021 there was a steady supply from licensed, private sector seed companies with deep distribution channels reaching lead farmers (who organized field days) and village-based sales agents. Concerning output marketing, a network of local commodity aggregator traders (CATs) had established more than 400 buying points close to farmers and expanded their purchases more than fivefold. Since there was a system working, if not very inclusively, the output markets system was a little farther along the continuum than were the other two systems (as below in Figure 2). On access to finance, a system for SHF saving to purchase inputs had become cemented into local communities and was deepening every year, so the access to finance system evolved in a positive direction along the continuum, but not as far as output marketing or certified seeds evolved during the life of the project. The hard figures portraying the changes in each of these market systems are presented in Annex 1.



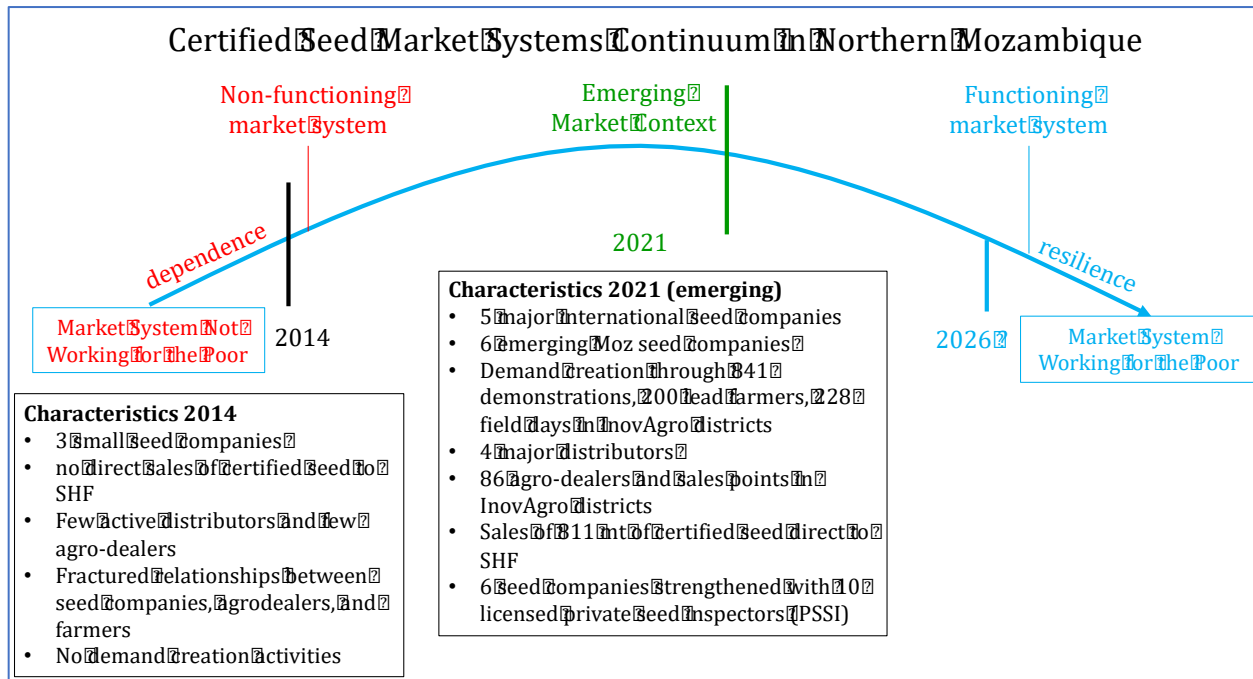
In Ethiopia, the FCDO funded Enterprise Partners Project worked in many different market systems including labor markets for garment manufacture, the production and export of finished leather, cotton seed, and horticulture seedlings. Three of the market systems made progress of varying degrees over the life of the project. Labor for garments improved the most, and cotton seed improved to the point of being an emerging system. However, one of the market systems (finished leather) was weaker and less resilient after the project ended, largely due to government policies which did not reflect the reality of the finished leather market system and resulted in penalizing Ethiopian firms rather than enabling them. The details of the assessment for these market systems are presented in annex 2.

*Figure 6: EP Supported Agro-Industry Market Systems on the Continuum*



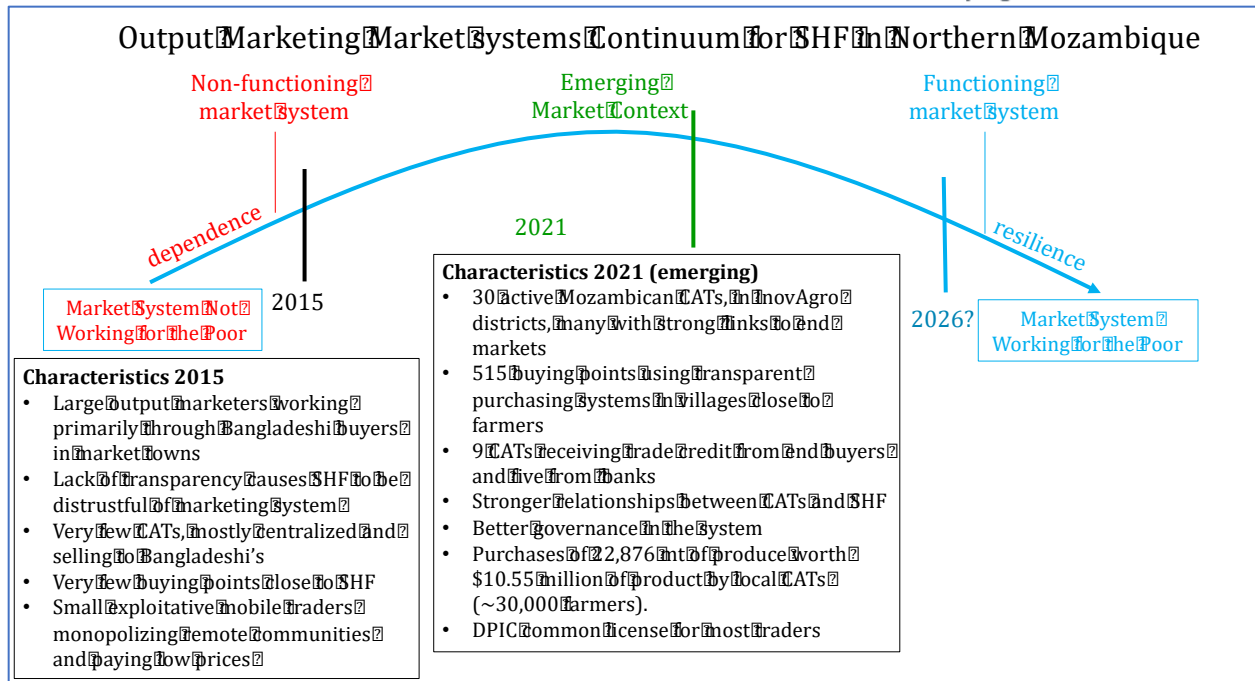
## Annex 1: Characteristics of Three Market Systems in 11 districts of northern Mozambique

The figures below present the main quantitative indicators in each of the market systems. But these are also complemented by many qualitative factors which comprise indicators of the strength and resilience of the market systems.

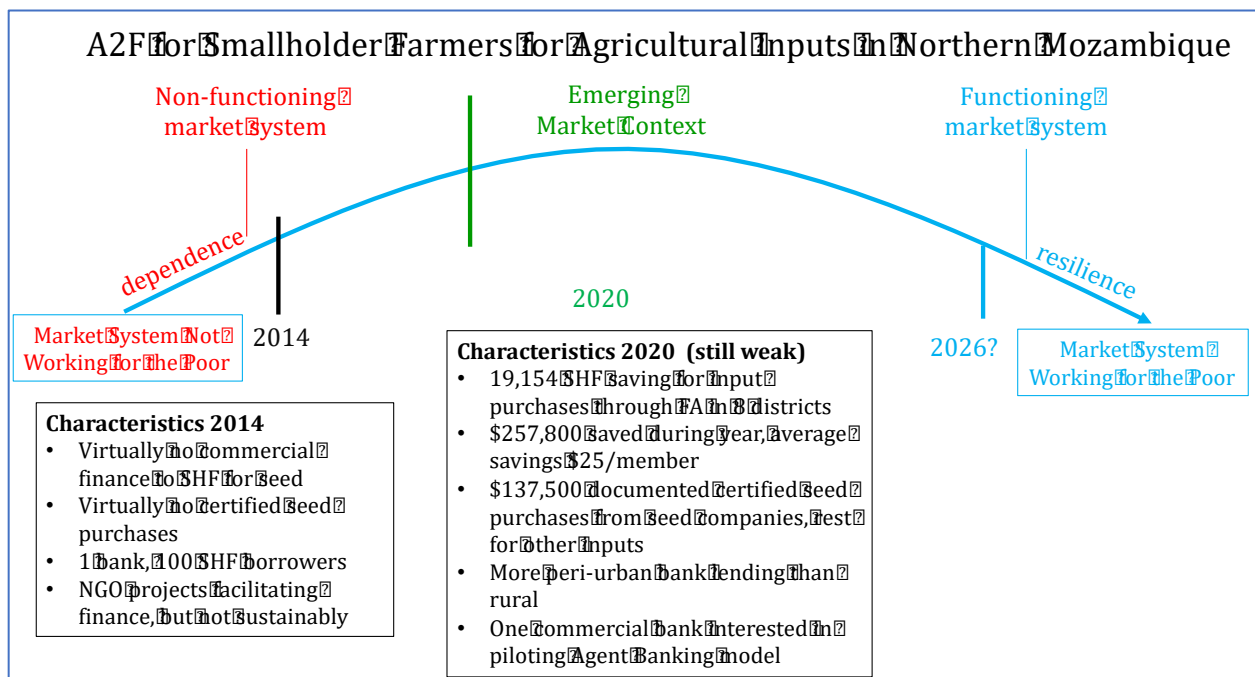


In addition to the quantitative indicators, above, the sector began to be characterized by much stronger relationships between the different market actors and increasing levels of specialization. There were more distributors taking on roles from the seed companies and building the capacity of their agrodealers; stronger relationships between seed companies, agrodealers, and lead farmers allowed for more effective information transfer to farmers. Increased numbers of competing firms were stimulating innovation in how the seed companies and distributors would compete to expand their sales. Increased information flow on regions with purchasing power to the seed companies, increased their ability to target and build stronger supply relationships to regular buyers.

The output marketing indicators are captured below. The qualitative changes included increased upgrading of the business practices by CATs, investing in automating their record keeping. The Ministry of Industry and Commerce had changed the regulatory framework to make it more efficient for CATs to transport their commodities, bringing down their costs (and all CATs were getting licensed to take advantage of this regulation).



The qualitative factors to compliment the quantitative figures below, included better knowledge of agricultural inputs and improved relationships with the suppliers of inputs. Average savings per member were increasing steadily, indicating increasing trust in the system by the members. Stronger district management committees were engaging directly with seed companies. In zones that had graduated from project support, continued use of the Fundo Agricola system highlighted its sustainability. With the presence of so many small farmers saving, numerous formal financial institutions have expressed interest and are exploring ways to engage directly with the FA members to provide them with more services.



## Annex 2: Characteristics of EP’s contribution to four Agro-industry Market Systems transformation

In contrast to the more quantitative assessment from InovAgro, the EP assessment included many more qualitative indicators in the review and explanation of why the market system is in its new location on the continuum.

Table 2: EP’s Contribution to Agro-Industry Market Systems Transformation

MARKET SYSTEM	CHARACTERISTICS		
	WEAK	EMERGING	STRONG
LABOUR IN GARMENTS		<ul style="list-style-type: none"> <li>Labour Supply Gaps Narrowing</li> <li>Improvements in HR Systems Needed to Boost Labour Productivity and Retention</li> </ul>	<ul style="list-style-type: none"> <li>Institutional Arrangements Coalesced Around PP Model of Cooperation</li> <li>All Garment Factories in Industrial Parks Participate in Labour Market System</li> <li>Transparent/Fair Rules for Sourcing, Grading and Allocating Workers to Factories</li> <li>Crowing-In of Specialized Training and Financial Service Providers</li> <li>Geographic Spread to 2 Regions Beyond Hawassa</li> </ul>
COTTON SEEDS	<ul style="list-style-type: none"> <li>Large Gap Remains between Seed Coverage and Need</li> </ul>	<ul style="list-style-type: none"> <li>Institutional Arrangements Coalescing Around Adoption of New Cotton Sector Strategy (implementation underway)</li> <li>6 different cotton seed varieties available</li> <li>7 MOA Licensed Seed and 13 ARC Seed Multiplication Companies</li> <li>Contract Farming Model with Textile Buyer</li> <li>Introduction of Identity Cotton Market</li> </ul>	
FINISHED LEATHER	<ul style="list-style-type: none"> <li>Domestic Firms Lose Market Share</li> <li>Many Domestic Tanneries Closed</li> <li>Jobs Lost Not compensated by Jobs Gained in FDI Tanneries</li> <li>FDI Technology Transfer Not Apparent</li> <li>Disrupted Trade Relationships between Tanneries and RHS Suppliers</li> </ul>	<ul style="list-style-type: none"> <li>Institutional Arrangements Coalescing Around Leather Sector Roadmap (implementation just starting)</li> <li>Importer Agent Model Succeeds in Organizing Tannery Output Against Buyer Specifications</li> </ul>	
HORTICULTURE SEEDLINGS	<ul style="list-style-type: none"> <li>Large Gap between Coverage and Demand</li> <li>National FAV Output/Productivity Stagnates</li> <li>Unclear Institutional Arrangements with GOE on Seed Policy</li> </ul>	<ul style="list-style-type: none"> <li>Demonstration of Small Holder Farmer Demand</li> <li>Evidence of SHF Output/Productivity Increases</li> <li>Viable, Scalable Commercial Business Model through Local Propagators</li> </ul>	