FEED THE FUTURE
The U.S. Government's Global Hunger & Food Security Initiative

FEED THE FUTURE ENABLING ENVIRONMENT FOR FOOD SECURITY PROJECT




PRACTICAL ANALYTICAL FRAMEWORK FOR INCLUSIVE ENTREPRENEURIAL MARKET SYSTEMS:

ASSESSING THE UNDERLYING FACTORS ENABLING INCLUSIVE ECONOMIC GROWTH

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USAID
FROM THE AMERICAN PEOPLE

CONTENTS

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ACRONYM LIST

ADR	Alternative Dispute Resolution
DRC	Democratic Republic of the Congo
EEFS	Feed the Future Enabling Environment for Food Security Project
GEDI	Global Entrepreneurship and Development Institute
GDP	Gross Domestic Product
IEMS	Inclusive Entrepreneurial Market Systems
IP	Implementing Partner
ISO	International Organization for Standardization
QA	Quality Assurance
R&D	Research and Development
TEA	Total Early-Stage Entrepreneurial Activity
USAID	United States Agency for International Development
WVS	World Values Survey

1. BACKGROUND

Successfully supporting the United States Agency for International Development's (USAID) Journey to Self-Reliance will depend on facilitating economic growth that expands market system participation and delivers broad-based wealth creation. Too often, potential gains from economic activity are captured by agents within narrow patronage networks, hindering incentives for wider participation in productive ventures and new business formation. To support self-reliance, it is necessary to identify and support the underlying, foundational factors that strengthen a market system's capacity to allocate resources efficiently, solve problems, and generate wealth inclusively.

Informal norms are the unwritten values and beliefs within a system that guide what is considered acceptable behavior alongside, or in the absence of, formal rules. Market systems are inherently social constructs, so it is widely assumed that these informal societal norms will disproportionately affect market opportunities, incentives for entrepreneurial participation, and the inclusivity of gains. Yet, these underlying variables are rarely considered in assessing the business enabling environment of developing countries, particularly the enabling environment for entrepreneurship as a driver of inclusive growth.

The primary (and often exclusive) focus of existing enabling environment tools and indices has been the existence of formal policies, laws, regulations, and public sector institutions without sufficient consideration of whether, how, and why formal rules are implemented. Where the introduction of formal rules and institutions has failed to change outcomes in a market system, this may be due to poor enforcement as a result of limited resources and/or capacity, or it may also reflect a disconnect between the formal rules and the informal norms within the society.

Often, where the formal rules are nonexistent, incomplete, and/or weakly enforced, informal norms then fill the void and take precedence in guiding market actor behavior. In these instances, it is necessary to more explicitly examine how the political economy — systemic bias shaped by social norms — influences incentives within a system. In other words, it is necessary to observe the broader systemic context to understand what is driving market actor behavior, and why, to better design development interventions, avoid unexpected or unintended outcomes, and achieve sustainable results.

In recent years, USAID has been a global thought leader in market systems thinking, particularly in the agricultural sector, encouraging implementing partners (IPs) to understand the complex interactions within systems and to employ a facilitative approach to avoid negatively disrupting private markets. Still, the existing enabling environment tools at USAID's disposal do not yet sufficiently consider underlying, informal variables that influence market system outcomes.

The Inclusive Entrepreneurial Market Systems (IEMS) framework is a first step in building on existing enabling environment tools and market system theoretical frameworks to provide concrete guidance to USAID Missions, Operating Units, and IPs on how to examine the underlying variables in systems that may present barriers or opportunities to private sector engagement efforts. Designed by the Feed the Future Enabling Environment for Food Security (EEFS) project team in collaboration with EcoVentures International, the IEMS framework:

- identifies and clearly documents a comprehensive set of underlying, systemic variables that influence new business formation, growth, and inclusive gains in market systems;
- builds on existing business enabling environment measurement tools and indices that have focused on formal legal/regulatory variables to include a more explicit consideration of the informal, underlying variables that influence the policymaking process and the enforcement of formal rules; and
- provides practical guidance for USAID and IPs to assess systemic factors that may affect project investment outcomes.

2. UNDERSTANDING THE USE CASE

At its root, the IEMS framework represents a new lens through which to understand political and economic behavior. The framework is based on an acknowledgement that social norms and cultural constructs have a significant impact on behavior in a market system. A Theory of Change that fails to take this into account can be incomplete, and the resulting project design risks unintended consequences.

In particular, the IEMS framework responds to a common need to understand the disconnect between law and practice. For example, a country adopts a strong and effective bankruptcy regime, yet few firms use it. A state-of-the-art one-stop shop for business registration is established but fails to generate new market entrants. A country enacts robust laws on contracts and secured transactions yet sees no increase in collateral-based lending. These are just a few examples of this disconnect in practice.

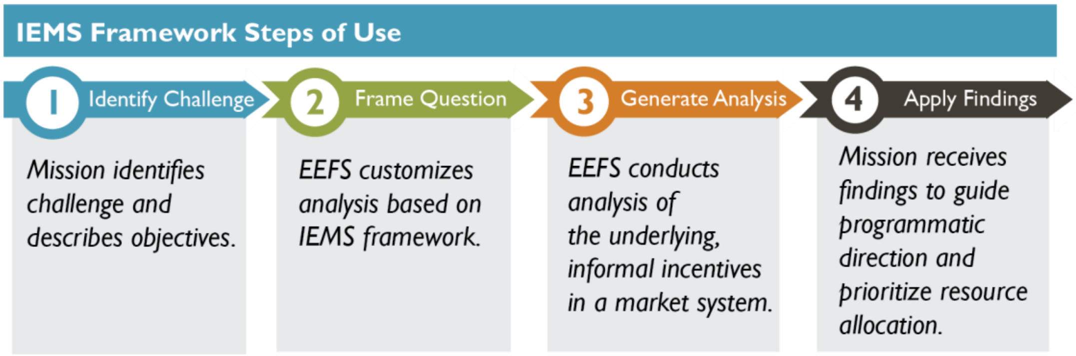
Existing indices such as the World Bank's Doing Business Index measure formal variables (i.e., regulatory, government-enforced rules), such as the strength of the formal legal framework or how effectively it is implemented. Yet they do not explain why some laws fail to be enforced, why patronage networks persist, or why the private sector continues to engage in business practices viewed as less efficient or against their economic best interest. By focusing exclusively on the formal system, these tools drive investments in legal reforms to match international best practice, with the assumption that practice will follow.

The IEMS framework recognizes that these tools, while important, fail to capture the whole story. Market system behavior reflects a complex interplay between formal variables and underlying informal variables that exist in a constant coevolution. The IEMS framework posits that a misalignment between formal rules and informal norms can lead to weak institutional incentives for the introduction and/or enforcement of formal rules. Nonexistent or poorly enforced formal rules create a void where informal norms can exert the primary influence on market behavior, potentially leading to unexpected outcomes, narrow market participation, and elite capture.

Understanding these dynamics can reveal a different landscape of constraints and opportunities for investment. For example, where a strong law is supported by societal norms, weak enforcement may reflect a lack of resources or a need for capacity building. By contrast, where the law requires behavior that contradicts societal norms, investments may be better spent on reforming the legal framework to achieve its goals in a manner consistent with the local context, or on behavior change initiatives to build societal support for the principles behind the law.

The IEMS framework can be applied at the national, subnational, or even institutional level to evaluate the interplay between formal laws and regulations and informal norms. By providing a methodology for assessing informal variables, the IEMS framework fills a key gap in existing analytical tools. The IEMS assessment provides a snapshot in time, similar to other index tools, that answers the question, "Why isn't this working?" (e.g., "Why aren't property rights being effectively implemented in Kenya?"). While the approach is practical and user-friendly, it rests on a thorough review of academic theories on market system development and the relationship of formal and informal institutions.

Figure 1. The IEMS Framework in Action



The results of the IEMS assessment will indicate the entrepreneurship and inclusivity orientation in the target market system and whether stakeholder behavior is responsive to formal institutions, informal institutions, or both. These results will suggest the types of reform initiatives that may be most effective.

Although the IEMS assessment will provide a snapshot in time — similarly to other index tools — the market system should be viewed more as a moving picture that is constantly evolving. To the extent possible, in addition to diagnosing where a country or region currently sits, the results should be interpreted in the context of both its history (past evolution) and its future (current direction of change or momentum). This longitudinal view can also be achieved by reassessing the market system over time.

Moreover, the practitioner must be flexible and willing to evolve the approach in response to changes in the market system. Accordingly, programming strategies require an active management style that readily re-evaluates and adapts interventions over time. Guiding operational principles and key targets should be established, and the risks inherent in this type of approach should be discussed and managed between the IP, the USAID Mission, and USAID/Washington.

3. LITERATURE REVIEW SUMMARY[1]

Neoclassical economic theory is based on the concept of the rational economic actor who pursues his or her own material best interest. While this theory provides the basic assumptions and theories around supply and demand, equilibrium, and production functions that underpin much economic research[2] and policy today, the associated models fail to adequately explain individual and system-level patterns of economic behavior. Neoclassical economic theory assumes that market actors will make rational decisions that seek to maximize utility, which is equated with monetary gain. By equating utility with monetary gain, neoclassical models ignore the important role that socio-cultural values, social feedback, and even human biology play in the decision-making process.[3]

The bounded rationality and socio-cultural embeddedness of economic behavior have been widely studied in diverse disciplines from institutional economics to sociology, psychology, and cultural anthropology through the lens of new institutional economic theory. As Douglass North, a prominent new institutional economist, defined, "[i]nstitutions are the rules of the game in a society, or more formally, are the humanly devised constraints that shape human interaction."[4] Rules, both formal and informal, not only serve as barriers to unwanted behavior, they also provide the incentives for actors to engage in different types and structures of economic interaction.

North and other economists draw a clear distinction between formal and informal institutions. Formal institutions, such as property rights, contracts, and other legal frameworks, are typically set by governments or other organizations. Informal institutions are more embedded in a society's cultural interactions and include belief systems, social norms, and cognitive frames for perceiving and understanding reality. Although researchers in various social sciences employ slightly different definitions, assumptions, and theories to explain economic behavior, all of these studies acknowledge the key distinction between formal and informal institutions. Despite their definitional distinction, there is an

[1] The IEMS framework is based on the findings of an extensive literature review encompassing more than 60 academic books and articles, dozens of sources from grey literature, and global metrics and indices. The goal of the literature review was to synthesize the state of academic research on the underlying formal and informal variables that shape inclusive and entrepreneurial market systems. The literature review examined a wide range of academic disciplines that study entrepreneurship and inclusivity, including economics, sociology, social psychology, and anthropology.

[2] Several of the empirical papers reviewed for this study also include analyses of how to incorporate cultural variables or informal institutions into complex production functions.

[3] Platteau, Jean-Philippe. *Institutions, Social Norms and Economic Development*. London: Routledge, 2015.

[4] North, Douglass C. *Institutions, Institutional Change and Economic Performance*. Cambridge: Cambridge University Press, 1990.

increasing awareness of the intertwined nature of the formal and informal rules in a system, and an appreciation of the need to understand their interactions better.[5]

The sociologist W. Richard Scott conducted a widely cited interdisciplinary review of these theories and integrated the findings into three types (or pillars) of institutions: regulative, normative, and cultural-cognitive.[6] The regulative institutions reflect explicit policy and law; normative institutions mirror the norms, relationships, and structural elements of systems; and cultural-cognitive institutions are akin to mental models, which makes them the slowest variable to change and hardest to measure. As described below and in Figure 2, the pillars differ in how they operate and manifest in behavior, such as the basis of compliance, legitimacy, and logic.

Figure 2. Scott's Three Pillars

	Regulative	*Normative*	*Cultural-Cognitive*
Basis of Compliance	Expedience	Social obligation	Taken-for-grantedness Shared understanding
Basis of Order	Regulative rules	Binding expectations	Constitutive schema
Mechanisms	Coercive	Normative	Mimetic
Logic	Instrumentality	Appropriateness	Orthodoxy
Indicators	Rules Laws Sanctions	Certification Accreditation	Shared logics of action Isomorphism
Affect	Fear Guilt/Innocence	Shame/Honor	Certainty/Confusion
Basis of legitimacy	Legally sanctioned	Morally governed	Comprehensible Recognizable Culturally supported

Source: Scott 2008.

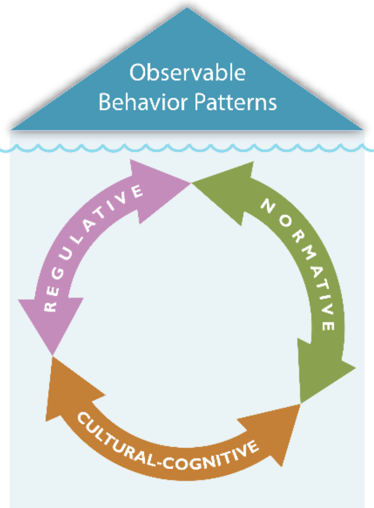
- ***Regulative institutions (formal)*** explicitly coerce behaviors through rules, laws, or sanctions enforced by external organizations. Examples include laws governing contracts, property rights, and bankruptcy, but also agricultural subsidies and incentives as well as public and private quality assurance mechanisms.
- ***Normative institutions (informal)*** influence behavior through a social obligation to adhere to desirable group norms. They operate by appealing to an individual's need to fulfill his or her social roles to meet the expectations of others. They are morally binding according to the values of the society or group and are socialized over time and reinforced through repeated social interactions. Examples include the social appropriateness of demanding loan repayment from a neighbor versus an outsider and expectations that children take over a family business.
- ***Cultural-cognitive institutions (informal)*** influence behavior by shaping subconscious assumptions of how the world works and what is possible. They construct a taken-for-granted view of the world, based on common beliefs and shared logics of action. Examples include the purpose of a business (e.g., to subsist versus to create value) and unquestioned assumptions of what it means to be a farmer.

3.1 INSIGHTS FOR THE DEVELOPMENT OF INCLUSIVE ENTREPRENEURIAL MARKET SYSTEMS

Through understanding the types of regulative, normative, and cultural-cognitive institutions at work in a given market system and how they interact, institutional theory can explain why market systems perform as they do and how they evolve over time. A conceptual framework from systems thinking shows the relationship between the visible pattern of events and behaviors, underlying structures, and the mental models that underpin those structures. Figure 3 below illustrates that the rules (regulative institutions), structures (normative institutions), and mental models (cultural-cognitive institutions) interact and co-evolve to create observable patterns of behavior and development outcomes.

[5] Zenger, T. et al. "Informal and Formal Organization in New Institutional Economics." *The New Institutionalism in Strategic Management (Advances in Strategic Management)*, 19, Emerald Group Publishing Limited, Bingley, (2000): 277-305, https://doi.org/10.1016/S0742-3322(02)19009-7.
[6] Scott, W. Richard. *Institutions and Organizations: Ideas and Interests*. Los Angeles: SAGE, 2008.

Figure 3. Understanding Market System Behavior



Scott's three pillars have been widely used by entrepreneurship researchers to better understand the factors influencing entrepreneurial behavior.[7] For example, researchers have found that when regulative, normative, and cultural-cognitive institutions are not aligned, the more informal institutions tend to take precedence, which is why the same formal institutions can have radically different outcomes in terms of entrepreneurship behavior and economic growth in different contexts.[8]

In market systems that have substantial levels of corruption or inconsistent, unpredictable, and unequal enforcement of formal rules, understanding the informal practice through normative and/or cultural-cognitive institutions often provides substantial clarity on the institutional drivers of behavior.[9] A misalignment between the formal and informal institutions can hamper entrepreneurship by contributing to rent-seeking and corruption, at times perpetuated by the entrepreneurs themselves.[10] For example, if an agro-dealer sells counterfeit herbicides but receives neither legal sanction from regulative institutions nor social sanction from customers who stop purchasing, he or she will likely continue the practice.

Unlike formal institutions, which rely on enforcement mechanisms, informal institutions are self-enforcing. For example, shaming and shunning if one does not obey the norm, or respect and honor if one does; these social sanctions in turn lead to cognitive impacts, such as remorse and loss of self-respect. This insight has substantial ramifications for how development is done. For example, in developed countries, formal laws and regulations are often a reflection of the shared societal norms and values, because these two types of institutions have coevolved — and continue to.[11]

In many developing countries, however, formal legal reforms have led to the adoption of laws copied from other jurisdictions with little connection to local norms. Unsurprisingly, these reforms often fail in implementation, as they are rejected due to misalignment with cultural values, norms, and concepts of reality.[12]

In addition, institutional theory posits a strong theoretical link between informal institutions, trust in formal institutions, and the emergence of impersonal transactions that allow mechanisms such as financial

7 Casero, Juan Carlos Díaz et al., "Institutional Variables, Entrepreneurial Activity and Economic Development." *Management Decision*, 51, no. 22 (March 2013): 281-305. https://www.doi.org/10.1108/00251741311301821.

8 See, e.g., North, *Institutions, Institutional Change and Economic Performance*, p. 36: "In our daily interaction with others, whether within the family, in external social relations, or in business activities, the governing structure is overwhelmingly defined by codes of conduct, norms of behavior, and conventions. Underlying these informal constraints are formal rules, but these are seldom the obvious and immediate source of choice in daily interactions."

9 As stated by Scott, "[w]hen the pillars are aligned, the strength of their combined forces can be formidable;" where they are not, "they provide resources that different actors can employ for different ends."

10 Williams, N., & Vorley, T. "Institutional asymmetry: How Formal and Informal Institutions Affect Entrepreneurship in Bulgaria. *International Small Business Journal 33*, no. 8 (2015): 840–861. https://doi.org/10.1177/0266242614534280.

11 Ang, Yuen Yuen. *How China Escaped the Poverty Trap*. Ithaca: Cornell University Press, 2016.

12 Urbano D. et al. I*nstitutions, Entrepreneurship, and Economic Performance. International Studies in Entrepreneurship*. Springer International Publishing, 2019, p. 7: "Formal institutions are subordinate to informal institutions in the sense that they are the deliberate means used to structure the interactions of a society in line with the norms and values that make up its informal institutions. North's definition implies that policy-making which attempts to change the formal institutions of society without measures to adjust the informal institutions in compatible ways will have marginal success."

and capital markets to function, thereby vastly increasing productivity and efficiency.[13] For example, norms around interaction across identity groups have a significant impact on the degree and type of trust within a given society, which determines the barriers and risks for people to engage in anonymous transactions. Interventions that can shift trust away from clans, for example, towards trust in the formal societal institutions that can effectively facilitate anonymous exchange can thus generate greater opportunity for inclusive participation and a more merit-based, solution-seeking entrepreneurial mindset.

Understanding how these institutions evolve can guide development agencies to better strategies for developing inclusive entrepreneurial market systems. For example, researchers acknowledge that certain variables (e.g., cultural-cognitive institutions) are more controlling, slower to change, and thus more likely to create a level of path dependency, whereas laws and regulations (e.g., regulative institutions) have a narrower scope and are less likely to control behavior, but can be much faster to change.[14] Faster-moving variables can also influence slower variables, which partly explains why path dependency is not 100 percent — i.e., societies do change all the time, even though many patterns remain robust and give the impression of stability or stagnancy.

4. INCLUSIVE ENTREPRENEURIAL MARKET SYSTEMS AND WHY THEY MATTER

4.1 WHAT IS AN INCLUSIVE ENTREPRENEURIAL MARKET SYSTEM?

The IEMS framework takes a broad view on the definition of **entrepreneurial** to include both individual- and systemic-level incentives for entrepreneurship. The framework evaluates not just *if* the market system encourages entrepreneurship but also what *type* of entrepreneurship it incentivizes. Entrepreneurship researchers distinguish between "necessity" entrepreneurs and "opportunity" entrepreneurs.[15]

For necessity entrepreneurs, a venture is a means to obtain immediate income, often based on emulating an existing, small-scale business model. Research has shown that necessity entrepreneurship is negatively correlated to economic growth and other economic outcomes at a national level.[16] By contrast, opportunity entrepreneurs are motivated by a market opportunity for a new product or service, with the prospect for significant growth of the company, including hiring employees and foregoing immediate revenue with an eye to long-term value creation.

An entrepreneurial market system for purposes of the IEMS framework is one in which the institutions that define the role of entrepreneurship in the society support the emergence of firms that value solution-seeking, consumer feedback, and merit-based distribution of gains. This value-creation orientation is closely tied to the inclusivity objectives defined below.

By contrast, a non-entrepreneurial market system is characterized by extractive business strategies that reward short-term wins and view market transactions as a zero-sum game. Non-entrepreneurial market systems are frequently governed by patronage networks and reflect low levels of intra-industry cooperation and little investment in marketing or other consumer-focused activities.

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[13] North, Douglass C. "The New Institutional Economics and Development." *Economic History*, no. 9309002, University Library of Munich, Germany (1993).

[14] Walker, B. et al. "Drivers, 'Slow' Variables, 'Fast' Variables, Shocks, and Resilience," *Ecology and Society* 17, no. 3 (September 2012). https://www.doi.org/10.5751/ES-05063-170330. See also Roland, Gerard. "Understanding Institutional Change: Fast-Moving and Slow-Moving Institutions." *Studies in Comparative International Development* 38, no. 4 (2004). https://www.doi.org/10.1007/BF02686330.

[15] Álvarez, Claudia et al. "GEM Research: Achievements and Challenges," *Small Business Economics* 42, no. 3 (2014). https://doi.org/10.1007/s11187-013-9517-5.

[16] Casero et al., "Institutional Variables, Entrepreneurial Activity and Economic Development" (2013).

An **inclusive** market system is defined under the IEMS framework as one in which the system enables the broad-based creation of wealth. More specifically, the framework examines the institutions that support or hinder broad-based participation in the market system in a variety of roles (i.e., as entrepreneurs, employees, supply chain partners, and consumers).

Market systems often reflect laws or norms that create barriers to market entry based on gender, ethnicity, socio-economic status, or other group-specific biases. Whether implicit (normative) or explicit (legal discrimination), these institutions undermine equal opportunity through disparate outcomes in asset ownership, market access, and access to basic education and healthcare. Social and cultural norms can also include strict rules regarding in-group preferences, social hierarchy, and communal sharing of resources and risks that inhibit growth-oriented entrepreneurship and transactions outside of the community.

An inclusive market system includes institutions that enable market transactions beyond one's social group, such as those that facilitate trust in anonymous (i.e., arm's-length) exchange and engender high levels of bridging capital. Inclusive market systems provide a level playing field for market participation through the recognition of individual rights, setting fair "rules of the game" for market transactions. In addition, systems can facilitate risk-taking by providing an effective floor against loss through social safety nets, rules, and norms around business failure that promote rather than hinder entrepreneurship.

Box 1. Examples of Inclusive Entrepreneurial Market Systems

South Korea emerged from poverty to become a global industrial leader within decades, including a transition from subsistence to commercial farming through targeted government investment in agricultural technologies and the continual adaptation by the private sector of production to consumer preferences. Today, macroeconomists see South Korea's vibrant middle class as an example of inclusive market system outcomes.

In Vietnam, livestock farmers transformed the cattle production system from traditional grazing methods to commercial, stall-fed production in 10 years to meet the growing demand for high-quality meat in urban areas. The new market system thrived through establishing strong links between farmers, traders, and end markets, a process that was facilitated by a multistakeholder coalition united in a common vision for the industry.

In East Africa, mobile platforms that provide market information and finance solutions have enabled smallholder farmers to better connect with agricultural markets. For example, Kenyan-based Twiga Foods has connected 17,000 small farmers to buyers in Nairobi.[17] Esoko, an SMS messaging service for market information, regularly serves roughly 1 million farmers in 19 African countries.[18]

4.2 WHY INCLUSIVE ENTREPRENEURIAL MARKET SYSTEMS MATTER FOR DEVELOPMENT

Growing research supports the relationship between institutions, entrepreneurship, and inclusive economic growth.[19] The characteristics of the institutions present in a market system influence the type of entrepreneurship (opportunity or necessity) that emerges, which in turn affects the impact of

[17] See https://twiga.com/.

[18] See https://esoko.com/.

[19] See Urbano, D. et al. "Twenty-Five Years of Research on Institutions, Entrepreneurship, and Economic Growth: What Has Been Learned?," *Small Business Economics*, 53, no. 1, (2019): 21-49. https://doi.org/10.1007/s11187-018-0038-0.

Acemoglu, D. et al. "Institutions, Human Capital and Development." *The Annual Review of Economics* 6, (2014): 875–912. https://scholar.harvard.edu/files/jrobinson/files/annurev-economics-080213-041119.pdf.

Bjornskov and Foss. "Institutions, Entrepreneurship, and Economic Growth: What Do We Know? And What Do We Still Need to Know?" *Academy of Management Perspectives* 30, no. 3 (2016). https://www.doi.org/10.5465/amp.2015.0135.

entrepreneurship on economic growth.[20] Entrepreneurial market systems support value-oriented entrepreneurs who drive innovation towards solutions for societally meaningful problems.[21]

These systems are also crucial to ensure a constant flow of new ideas, and new configurations of firms, to avoid getting caught in a rigidity trap where a single firm or business model becomes entrenched and is vulnerable to major shocks. A regular churn of firm creation and destruction supports the health of the market system, but this can only happen when there is ease of entry and exit as well as sufficient safety nets to protect entrepreneurs from financial or social ruin. In the aggregate, entrepreneurial market systems promise to deliver both inclusive economic outcomes for a wider range of society.

In addition, there is increasing recognition that inclusivity in market systems is not only critical to general development (i.e., individual and societal well-being) but also for resilience. As markets become more inclusive, human resources in a society are increasingly allocated to solving problems to mitigate risks and better absorb, adapt, and transform in the face of shocks and stresses. This shift to being more proactive in managing risks is highly dependent on market systems evolving mechanisms that can maximize merit-based entrepreneurial connections and market-based responsiveness to consumers' needs.

4.3 THE SHIFT FROM SMALL- TO LARGE-GROUP INSTITUTIONS

The most inclusive and entrepreneurial market systems reflect the adoption of what economist David Rose has identified as large-group institutions. As Rose explains:

> … an important step in the economic development of any society is being able to move from only being able to support personal exchange to being able to support impersonal exchange. A completely small group sense of morality is adequate for personal exchange but becomes increasingly inadequate as exchange and cooperation becomes impersonal because it is conducted in larger group contexts.[22]

Rose's economic argument is that large-group dynamics are necessary for general prosperity because they spread fixed costs across a society, enable specialization and therefore division of labor and innovation, and that they can spread the costs of formal institutions that drive down transaction costs in market systems. This allows for a society to manage risks proactively and at a higher level, improving resilience by increasing diversity, and thus building capacity to neutralize risks through more inclusive market mechanisms. The trade-off is that group size worsens the problem of opportunism because "group size intensifies commons dilemma incentives to behave opportunistically, while increasing opportunities for opportunism at the same time."[23] Thus, one of the essential prerequisites for a large-group-focused market system is the establishment of institutions that enable secure anonymous transactions.

By contrast, small-group dynamics centralize resources and control, thus biasing supply and demand towards the interests of the powerful. This type of market system shifts the focus of entrepreneurship and reinforces barriers that hinder different groups of society from participating in markets, whether as suppliers, employees, or consumers. From capital markets to labor markets, merit is devalued in favor of

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[20] Amorós J.E., et al. "Quantifying the Relationship Between Entrepreneurship and Competitiveness Development Stages in Latin America." *International Entrepreneurship and Management Journal* 8 (2012): 249-270. https://www.doi.org/10.1007/s11365-010-0165-9.

Terjesen S. and Amoros J.E. "Female Entrepreneurship in Latin America and the Caribbean: Characteristics, Drivers and Relationship to Economic Development", The European Journal of Development Research 22, no. 3 (2010): 313-330. https://www.doi.org/10.1057/ejdr.2010.13.

[21] According to Urbano et al. (2019), p. 35: "those institutions shaping entrepreneurial behavior have a vital influence on the growth and innovation that characterizes each economy."

[22] Rose, David, *The Moral Foundation of Economic Behavior.* Oxford: Oxford University Press, 2011.

[23] Tabellini, Guido, "Culture and Institutions: Economic Development in the Regions of Europe," *Journal of the European Economic Association* 8, no. 4 (2010). https://doi.org/10.1111/j.1542-4774.2010.tb00537.x.

patronage and loyalty to identity groups. For example, in Kenya the division between perceived ethnic identity groups has been a defining factor in how political and economic power is distributed and wielded.

Even within an identity group, there are rigid hierarchical and other barriers, such as gender norms, that further erode the capacity of the system to generate value through a process of solving challenges or seizing opportunities as they emerge via consumer feedback. For example, in the Kenyan dairy industry, the accumulation of power has evolved so that a single business has gained substantial power via its close connection to political power. In the context of robust ethnic and gendered hierarchies, this power dynamic has resulted in informal barriers to growth. Many high potential dairy firms are very cautious about growing to a point where the dominant firm might identify them as a threat and engage in predatory practices. This environment substantially limits effective participation, fosters disproportionate benefit flows, and dampens the influence of consumer feedback.

Regulative, normative, and cultural-cognitive institutions can all reflect a small-group or a large-group bias. In any given market system, it is also likely that elements of both small-group and large-group dynamics coexist. What matters most, however, is which dynamic is dominant. A common situation occurs when the regulative institutions have been reformed to align with large-group principles, yet the normative and cultural-cognitive institutions continue to reflect small-group norms. As discussed above, in these cases, the informal institutions typically control behavior, leading to the disconnect between law and practice experienced in developing countries around the globe.

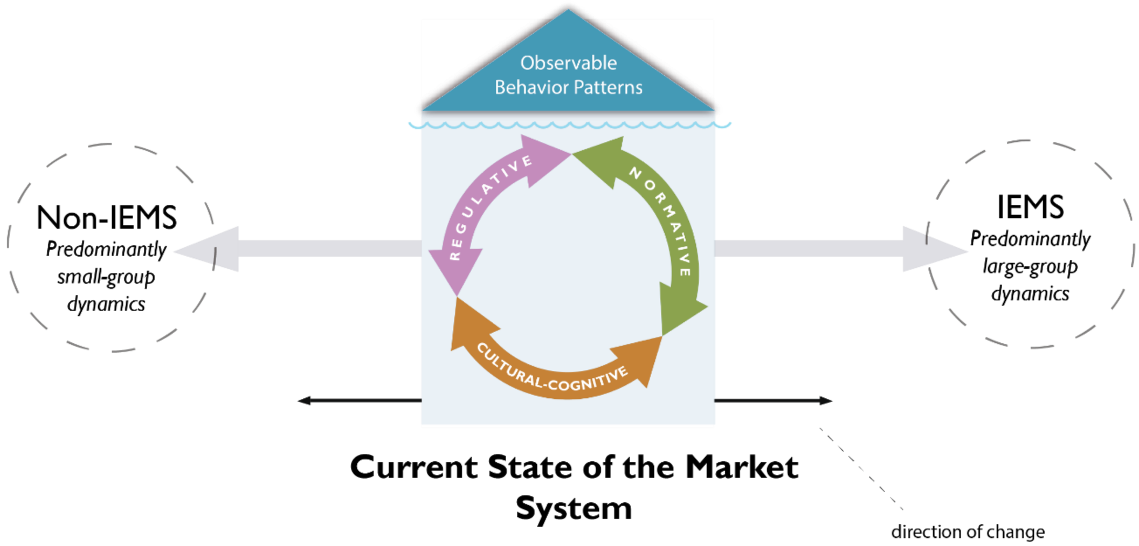
For example, in Ghana, the introduction of a national law on standard weights and measures at agricultural markets has had little impact, as produce continues to be packed and sold by volume or by sack.[24] The resistance to adopt standard measures demonstrates that practices which rely on relationships, rather than rules, to manage counterparty risk have persisted. The effective introduction of market standardization, where properly enforced, has the potential to enable impersonal transaction that can expand opportunities for a wider range of suppliers and buyers alike — a shift from small-group to large-group orientation.

In a context where the desired change from formal enabling environment reform is not taking place as expected, it would be valuable for policymakers and practitioners to understand better why actors are hesitant to adopt the formal measures, as well as which actors have greater incentives for lesser degrees of formality. In some contexts, small group-oriented practices are preferred and promoted by entrenched actors who have an information asymmetry advantage over less powerful and less informed actors. Further, entrenched interests often coopt regulators to favor the status quo, thus limiting the enforcement of formal measures. Understanding these systemic dynamics could assist in improving the design and implementation of the formal laws and regulations to improve opportunities for a wider network of market actors.

The IEMS framework helps the user to determine where a given market system falls on the spectrum of inclusive entrepreneurial market systems and how formal rules and informal norms interact to orient a system towards small- or large-group dynamics by observing patterns of market behavior. Importantly, systems are not static, they are constantly changing, and thus analytical results should be considered as a snapshot in time, in the context of what has come before and observable trends that suggest in what direction the system is headed. The IEMS framework suggests that as systems shift from small-group to large-group orientation, economic opportunities will expand for a wider network of actors. These concepts are further discussed in Section 6.4, "Applying the Results."

[24] Feed the Future Enabling Environment for Food Security Project, "AgCLIR Ghana," *USAID*, (September 2017). https://www.agrilinks.org/sites/default/files/resources/agclir_ghana_full_report_-_final_2017_web_v2.pdf.

Figure 4. Understanding Market System Evolution



The constant tension between regulative, normative, and cultural-cognitive institutions contributes not only to the market behaviors observable in the present but also to the direction of change for the system as a whole.

5. THE IEMS ANALYTICAL FRAMEWORK

The IEMS analytical framework is divided into four components: two related to entrepreneurship (supply and demand) and two related to inclusivity (the level playing field and the floor). The four components offer different lenses through which to analyze the operative institutions and where small- and large-group dynamics manifest in market system behavior.

The **entrepreneurship** components evaluate how institutions shape the role of entrepreneurship in society, the types of firms that emerge, and how supply and demand are organized and oriented.

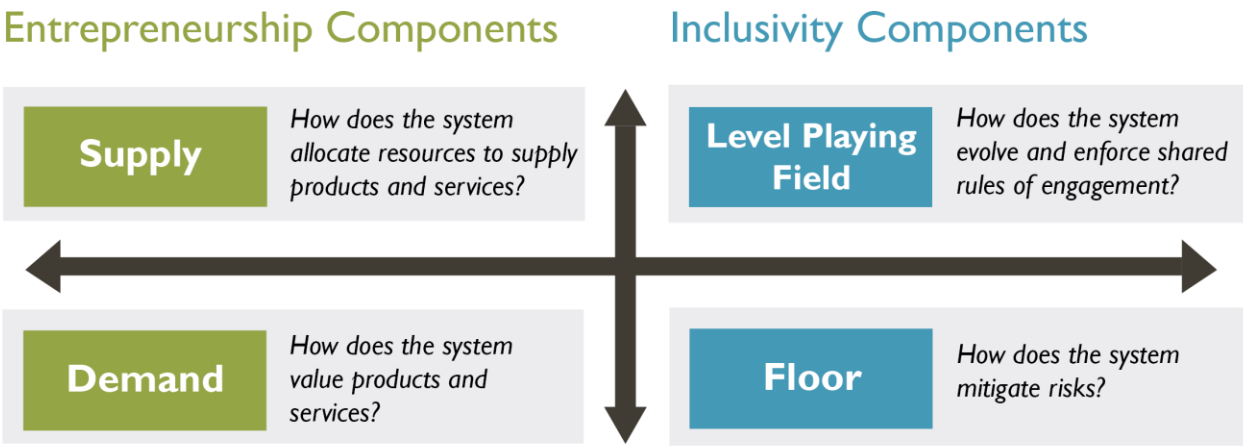
- The **supply** component assesses how the system allocates and manages resources in the production and design of products and services, including entrepreneurial motivations, firm structure, and business strategy.
- The **demand** component evaluates how a market system signals what products and services are valued in the society, the feedback mechanisms between firms and consumers, and industry-level norms around firm interaction.

The **inclusivity** components evaluate institutions that create barriers or opportunity for broad-based participation in the market system. These institutions support or hinder the existence of a level playing field and/or the existence of risk management mechanisms ("a floor") to facilitate risk-taking.

- The **level playing field** component considers whether the market system provides equal opportunity for economic and political participation, including laws and norms regarding rights in economic areas such as property, contract, and bankruptcy, as well as how disputes over such rights are resolved. This component also examines the institutions that enable or hinder bridging capital and anonymous transactions.

- The **floor** component evaluates whether the market system provides sufficient protection against failure, shocks, and stresses, so as to enable broad-based investment and risk-taking, including the existence of formal and informal social safety nets and their impact on entrepreneurial behavior.

Figure 5. The Four Components of the Inclusive Entrepreneurial Market System Framework



The assessor will conduct an assessment of the regulative, normative, and cultural-cognitive institutions that govern how business is done in the market system, including an evaluation of common patterns of behavior and the small- versus large-group orientation of various aspects of the market system.

An overview of the IEMS indicators is presented in Table 1 below and is organized according to the aforementioned analytical framework. A thorough discussion of the content and relevance of each indicator, as well as guidance on how to collect and score the data, can be found in Section 6. Much of the analysis relies on qualitative research methods, such as surveys, interviews, or focus groups. While the framework assumes some level of familiarity with these tools on the part of the assessor, additional guidance on research methods for collecting and interpreting qualitative information can be found in Annex II.

Table 1. IEMS Indicators of Regulative, Normative, and Cultural-Cognitive Institutions

Entrepreneurship	Inclusivity
Component 1: Supply 1.1 Barriers to market entry/exit • Formal/informal business start-up requirements *(regulative/normative)* • Monopolistic/powerful interests *(regulative/normative)* 1.2 Individual-level motivations • Accepted purpose of entrepreneurship *(normative)* • Individualism vs. collectivism *(cultural-cognitive)* 1.3 Firm-level business strategies • Extractive vs. value creation *(normative)* 1.4 Industry-level cooperation and advocacy • Long-term vs. short-term efforts *(normative)*	**Component 3: Level Playing Field** 3.1 Anonymous transactions • Contract laws/norms *(regulative/normative)* • Group loyalty *(cultural-cognitive)* 3.2 Access to capital and control over assets • Property rights *(regulative)* • Securitized lending laws *(regulative)* • Cultural structures for asset ownership *(normative)* 3.3 Hiring practices • Employment laws (regulative) • Family vs. hired labor *(normative)* 3.4 Dispute resolution • Formal, alternative, and traditional judicial mechanisms *(regulative/normative)*
Component 2: Demand 2.1 Firm-level feedback • Responsiveness to consumer preferences *(normative)*	**Component 4: Floor** 4.1 Individual safety nets • State-based safety nets *(regulative)* • Communal sharing *(normative)*

Table 1. IEMS Indicators of Regulative, Normative, and Cultural-Cognitive Institutions

Entrepreneurship	Inclusivity
2.2 Industry-level competitive focus • Firms competing on price and/or quality vs. patronage *(normative)* 2.3 Quality assurance mechanisms • Public safety standards enforcement *(regulative)* • Private voluntary standards systems *(regulative)* • Sanctioning mechanisms*:* media, civil society, consumer response to zero-sum tactics *(normative)*	4.2 Firm-level safety nets • Bankruptcy laws (*regulative)* • Business liability protections *(regulative)* • Informal barriers to market exit *(normative)* 4.3 Market-based risk management mechanisms • Access to market-based risk management mechanisms *(regulative)* • Trust in market-based risk management mechanisms (*normative)*

6. METHODOLOGY AND INDICATORS

The following subsections describe in detail the IEMS indicators and provide guidance on how to frame the analysis, develop a tailored data collection plan, and score the results.

6.1 FRAMING THE ANALYSIS

The IEMS framework is designed to help users interpret and explain patterns of behavior in market systems. It can be applied to evaluate agricultural market systems in a wide variety of contexts, depending on the needs of the assessor. To gain the most insight from the assessment, an important starting point is to define parameters or boundaries to frame the inquiry, such as the geographic scale (regional, national, or subnational) and sectoral focus (specific crop market system[s] or wider agricultural system). It is also helpful to have a small number of overarching questions that drive the analysis. Depending on the assessor's level of familiarity with the context and level of focus, these questions might take different forms.

- ***Significant context-specific knowledge, narrow analytical focus:*** Why have X regulatory reforms had such limited influence on patterns of behavior in ABC sector? Why do market actors continue to behave in certain patterns, despite attempts to change this? What underlying informal institutions are shaping behavior?
- ***Significant context-specific knowledge, broad analytical interest:*** What informal institutions explain the dominance of X group in Y country? In what areas or sectors are there examples of countervailing institutions that might be amplified to encourage change?
- ***Limited context-specific knowledge, narrow analytical focus:*** What are the formal and informal institutions at play in X subsector in Y subregion? Where are informal institutions dominant, and what are the resulting patterns of behavior?
- ***Limited context-specific knowledge, broad analytical interest:*** What are the main informal institutions affecting agricultural market systems in country X? In which sectors is there the greatest alignment (or misalignment) between formal and informal institutions?

Identifying the primary objectives of the IEMS inquiry will help the assessor to select more focused questions to drive data collection, thus ensuring the insights generated feed directly into the decision-making process.

6.2 DATA COLLECTION

Desk Review of Entrepreneurship and Inclusivity Outcomes for the Target Market System

With the overall framing of the analysis in mind, the assessor should conduct a review of the current level of entrepreneurship and inclusivity in the target market system using readily available datasets, indices, and other reports. Conducting a high-level secondary data review provides a good baseline understanding of the context in which the assessment team will be working, and may help to further refine the framing of the analysis to focus on specific barriers to inclusive, entrepreneurial market systems that can be explored in more detail through the IEMS indicators. Annex 1 provides a list of recommended, readily available published statistics that provide insights into the current state of entrepreneurship and inclusivity.

Assessment of the Underlying Regulative, Normative, and Cultural-Cognitive Institutions

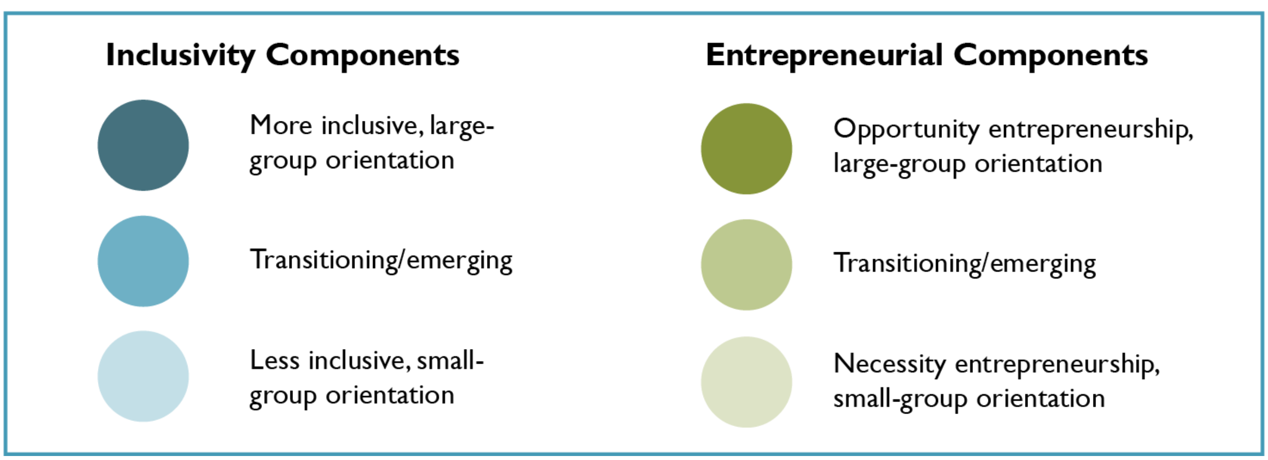
The IEMS indicators provide a thorough assessment of the underlying regulative, normative, and cultural-cognitive institutions governing behavior in the market system. These institutions drive the inclusive and entrepreneurial outcomes observed during the initial desk review. Data will be collected for each of the three pillars of institutions: regulative, normative, and cultural-cognitive. Certain data on regulative indicators can be obtained via secondary sources, such as existing enabling environment indices or through official government documentation in the national or subnational target setting. For normative and cultural-cognitive indicators and some regulative indicators, the assessor will need to conduct primary data collection via survey, interviews, or focus groups.

In Section 6.5, Tables 4-17 provide detailed descriptions of each IEMS indicator, including data sources, target informants, and sample survey or interview questions, as well as illustrative responses with suggested scoring. The focus of the inquiry will determine whether all indicators are relevant or only a subset, and the choice of indicators will shape decisions on the mix of data collection methods. The assessor should assemble a tailored data collection plan, including questions designed based on the context and frame for the analysis.

6.3 SCORING METHODOLOGY

The IEMS framework employs a non-numeric scoring system (e.g., color-coded Likert scale) for each indicator. An indicator shaded dark blue or green reflects primarily large-group dynamics, whereas a light shade of blue or green reflects primarily small-group dynamics. A medium shade of blue or green implies elements of both are present.

Figure 6. Color-Coded Scoring System



A non-numeric scoring system enables the results of assessments to be compared across different countries (cross-sectional comparisons) or across different points in time within one country (longitudinal comparisons) while avoiding the inherent difficulty of applying a strict numeric score to qualitative variables. The Likert scores can be used for:

- cross-sectional comparisons that help understand if/how a system compares to its peers; and
- longitudinal comparisons that provide insights into if/how a system may be evolving over time.

Box 2. Case Example of Regional Comparison of Pastoralist Communities

A regional development program seeks to reduce investment risks and increase resilience of pastoralists across Africa by encouraging the use of livestock insurance. They are considering supporting the development of an index-based livestock insurance product in Countries A and B. An IEMS assessment yields the following results:

Subtopic	Indicator Type	Title	Country A	Country B
Individual-level motivations	Cultural-cognitive	Individualism vs. collectivism		
Individual safety nets	Normative	Communal sharing		
Market-based risk management mechanisms	Regulative	Access to market-based risk management mechanisms (e.g., insurance)		
	Normative	Trust in market-based risk management mechanisms		

The program learns that in Country A, pastoralist communities recognize individual ownership and control over the herd and have a strong belief in individual achievement and entrepreneurship. The herders also have a nascent understanding of and trust in formal financial products such as insurance, even if they are not yet available at scale. Operational costs of administering the insurance in rural areas is quite high, but the Ministry of Agriculture and Livestock formally subsidizes premiums for pastoralists in target drylands to increase uptake of the product as a form of formal social safety net.

By contrast, in Country B, the pastoralist community retains a strong sense of collectivism and communal decision-making over assets. There are long-standing informal community risk management mechanisms, such as heifers-in-trust, that spread out the impacts of mortality risk across the community. Therefore, there is little willingness to pay for formal insurance products, and the communities express a fundamental mistrust of how they work (e.g., expectation that premium payments result in annual payouts regardless of loss, and resent the company when payouts are not received every season). Operational costs of administering the insurance are similarly high in Country B, but the state has not subsidized premiums because local patronage networks are stronger than formal public services.

Rather than simply applying international best practice for insurance product design from one country to the next, the project now recognizes the need to work with local stakeholders to craft a product that pastoralists want and need based on their norms and values. In Country A, where there is a nascent appetite for insurance and strong individual values, the program focuses on support for insurance providers to streamline information technology-based operations to achieve scale and reduce transactions costs as a means of eliminating the need for ongoing premium subsidies from the government. In Country B, traditional individual market-based insurance products are unlikely to experience uptake in the near term. Instead, the program focuses on strengthening communal risk-management mechanisms while facilitating community engagement with the insurance company, and introducing games and other community-based programs to increase herders' awareness of and trust in how formal insurance products can manage risks in different scenarios over many years.

The non-numeric scores across indicators may be aggregated to provide an overall score; however, this may require an additional level of subjectivity to provide relative weighting of importance for each type of institution and/or each individual indicator. An aggregate score may certainly be generated more pragmatically through equal weightings to each type of institution and across all indictors, but the value of an overall score may be less consequential and useful than analyzing each individual indicator score.

The IEMS framework is expected to provide utility as a decision-making tool by identifying and highlighting where barriers to, or pockets of, opportunities exist in the enabling environment for inclusive, entrepreneurial outcomes. For instance, where there is a misalignment of formal and informal institutions within a particular area, this may shed light on why an expected project outcome is not materializing. Further, for cross-sectional analysis, comparing overall scores between countries may prove overly simplistic, while comparing a particular indicator across countries may provide a more practical and useful benchmark to identify where project resources may be most impactful. Nonetheless, individual indicators exist within complex market systems, therefore examining and understanding the interaction of variables is likely to be an important consideration.

6.4 APPLYING THE RESULTS

The results of the IEMS assessment will indicate the entrepreneurship and inclusivity orientation in the target market system (in terms of small-group versus large-group dynamics) and whether associated patterns of behavior are attributable to formal (regulative) institutions, informal (normative or cultural-cognitive) institutions, or both. Table 2 provides examples of the types of investments that may be most effective depending on the overall results of the assessment.

Table 2. Sample IEMS Results and Implications for Program Design and Investment

	Regulative	Normative/ Cultural-Cognitive	Implications for Program Design and Investment
Results reveal dynamics that are primarily:	Small-group	Large-group	Legal reform or greater resources to improve efficiency of regulative institutions
	Large-group	Small-group	Grassroots activities focused on cultural norms; look for disruptive behavior by influential community leaders, firms, new technologies, media, or civil society
	Small-group	Small-group	Pursue long-term multi-pronged approach that favors co-evolution of legal framework and cultural norms; if time is limited, reconsider investment
	Large-group	Large-group	Unlikely to be a priority investment area

It is important to keep in mind that even in the most inclusive and entrepreneurial market systems, there are always elements of small-group dynamics. What is critical to interpreting results and designing solutions is how predominant or influential small-group institutions are and the ways they manifest in market system behavior. In addition, while regulative variables are considered "faster" (i.e., easier to change), interventions based on "slower" normative or cultural-cognitive variables will be more likely to yield sustainable, self-enforcing changes to the market system.

Through their interaction (at times clashing, at times mutually reinforcing), regulative, normative, and cultural-cognitive institutions coevolve. The nature of this interaction determines the direction and pace of systemic change. As more controlling variables, changes in normative and cultural-cognitive institutions are crucial to understand, as they can reveal latent support for and ultimately drive change in regulative institutions. Similarly, a well-designed and properly enforced regulative institution can lead to deeply rooted changes in normative and cultural-cognitive institutions over time.

Box 3. Case Example of Contract Farming Arrangements

Country X has the potential to produce high-value horticulture for a rising urban consumer class as well as export. Several supermarket chains and exporters have expressed interest in establishing contract farming arrangements that will enable them to source the quality and quantity required to meet market standards and consumer demand. To facilitate these new market linkages, Donor Y plans to help these buyers to establish contracts with local farmers that provide inputs on credit. Donor Y will also facilitate the delivery of embedded extension services from the buyer throughout the growing season to train farmers to meet the more stringent quality requirements.

Before launching a contract farming support program, Donor Y decides to conduct an IEMS assessment and gets the following results:

Subtopic	Indicator Type	Title	Sample Results
Anonymous transactions	Regulative	Strength of formal contract law	
	Normative	Accepted norms of contractual behavior	
	Cultural-cognitive	Group loyalty	
Access to capital and control over assets	Normative	Cultural structures of asset ownership	

Donor Y learns that the formal contract law reflects international standards of good practice, but the local community's contract norms are not in line with the law, which implies that the farmers are likely to put little weight on the written contract with the buyer. In addition, the community displays a high degree of group loyalty, which suggests they are likely to put the needs of their community and/or group over a contractual obligation with an outsider. The assessment also reveals that local traders and farmers in the target area come from the same ethnic group and have longstanding informal purchase arrangements. Finally, while the farmers are recognized as independent landowners under the law, a strong sense of communal ownership within the community prevails, and there may be social pressure for farmers to follow the decision-making of community leaders and peers.

In reviewing the IEMS results, Donor Y identifies the potential clash of norms between the small-group-motivated farmers and large-group-motivated buyers. The results suggest a standard contract between buyers and sellers will most likely lead to side-selling, (e.g., farmers selling produce to traders rather than the contractual buyers).

Using this information, Donor Y instead facilitates discussions between buyers and farmers to customize terms of the contract according to local norms, including agreeing on market-based scenarios where a farmer is permitted to sell proportions of their supply to their local traders. Additionally, Donor Y facilitates community engagement between the buyer and community leaders to build their buy-in/commitment on an ongoing basis. Through this program, Donor Y builds a bridge between the buyers and sellers that, over time, will lead to an evolution in cultural norms and a strengthening of formal contract-based relationships that enable mutual opportunity and risk management for buyers and farmers.

Despite the snapshot format of the IEMS findings, the market system should be viewed as constantly evolving, similar to a moving picture. The results should be evaluated in the context of past events and current trends that suggest its direction of evolution. The IEMS analysis can be repeated periodically to increase understanding of how the market system changes over time.

The program design and investment examples above are provided to seed ideas for how to interpret and apply the IEMS results. However, each context is different, and no amount of pilot data or academic research can give an authoritative how-to manual for designing an effective intervention. Additionally, the practitioner must adopt an adaptive approach to program management to allow the intervention to respond to changes in the market system. The IP and USAID counterparts should discuss the risks inherent in this type of approach and adopt guiding operational principles and key targets to provide overarching structure for the intervention.

6.5 IEMS INDICATOR TABLES

The following tables define the IEMS indicators for each of the four components of the analysis:

(1) Supply
(2) Demand
} Entrepreneurship Components

(3) Level Playing Field
(4) Floor
} Inclusivity Components

Within each component, the indicators are grouped into categories of related regulative, normative, and cultural-cognitive variables. This approach aids the assessor in identifying where there is a misalignment between formal and informal institutions that may lead to disparate outcomes and opportunities to influence market system change.

Table 3. Indicator Categories by IEMS Component

Entrepreneurship	Inclusivity
Component 1: Supply 1.1 Barriers to market entry/exit 1.2 Individual-level motivations 1.3 Firm-level business strategies 1.4 Industry-level cooperation and advocacy	**Component 3: Level Playing Field** 3.1 Anonymous transactions 3.2 Access to capital and control over assets 3.3 Hiring practices 3.4 Dispute resolution
Component 2: Demand 2.1 Firm-level feedback 2.2 Industry-level competitive focus 2.3 Quality assurance mechanisms	**Component 4: Floor** 4.1 Individual safety nets 4.2 Firm-level safety nets 4.3 Market-based risk management mechanisms

Each table contains an introductory paragraph explaining the category using illustrative country examples. In addition to the indicators, each table provides a list of relevant patterns of behavior that the assessor may observe.

COMPONENT 1: SUPPLY (ENTREPRENEURSHIP)

This component evaluates how the system allocates and manages resources in the production and design of products and services. Overall, this component seeks to examine the factors affecting the breadth and depth of solution-seeking, opportunity entrepreneurship. It answers the key question: *"How does the system allocate resources to supply products and services?"* Supply indicators are divided into the following categories:

1.1 Barriers to market entry
1.2 Individual-level motivations
1.3 Firm-level business strategies
1.4 Industry-level cooperation and advocacy

1.1 BARRIERS TO MARKET ENTRY

There are various factors that impede the ease by which an entrepreneur can enter the market. Some of them are regulative, such as business licensing/registration requirements and antitrust laws. Others may be normative, such as rent-seeking by officials to facilitate access to licensing/registrations and/or by powerful actors that actively restrict disruption from entrepreneurial interests. Additionally, cultural norms may discourage certain individuals from taking on certain economic roles. For example, in the Democratic Republic of the Congo (DRC), women are still legally required to obtain their husband's permission to start a business or seek a loan, and the women who pass this hurdle still face significant social opposition to their ambitions. Ultimately, these institutional factors create a moat around an industry and affect the entrepreneurial products and services that can emerge in a particular system.

Observable patterns of behavior may include: rates of new firm creation, strategies by incumbent firms to block access to new entrants, enforcement of formal start-up requirements, and patterns of participation in new firms by individuals of different genders or ethnicities.

Table 4. Barriers to Market Entry (1.1)

Institutional Pillar	Indicator	Target Informants	Sample Survey Questions[25]	Illustrative Responses and Scoring
Regulative: Formal business start-up requirements	Time (days), cost (percentage of income per capita), and procedures (number) required to start a business *Source: World Bank, Doing Business Index*	N/A	N/A	● Efficient, reasonably priced requirements that enable business creation in a timely manner. These are enforced and fairly implemented. ● Formal business start-up requirements are inefficient, costly, or unevenly enforced.

[25] The sample questions in the indicator tables below are intended as examples to seed ideas for the assessor but can be amended and supplemented as desired.

Table 4. Barriers to Market Entry (1.1)

Institutional Pillar	Indicator	Target Informants	Sample Survey Questions[25]	Illustrative Responses and Scoring
				● Formal business start-up requirements are used to bar formal market entry.
Normative: Informal barriers to market entry	The existence of informal business start-up requirements or restrictions	Agribusiness owners (traders, processors, input suppliers, etc.) and employees; youth; women	If you had a business idea, what obstacles might discourage you from acting on it? Why aren't there more new businesses being created in sector X?	● Main barriers relate to lack of skills or resources (which could be addressed through capacity building or regulatory reform/subsidy). ● Broad cultural barriers (low respect for entrepreneurs) hold some people back, but do not exclude any particular group. ● Informal payments that must be made to powerful actors; existing market players would undermine new entrants. Social barriers based on gender or ethnicity that make it difficult for certain groups to start a business.
Regulative: Regulation of competition	Qualitative questions regarding regulatory institutions governing competition	Industry experts; lawyers	Is there a competition law in country X? Is it enforced evenly and effectively across all sectors? What are the gaps, if any, and why?	● Strong competition laws and regulations based on international best practice effectively prevent anticompetitive practices and abuse of dominant position. ● Strong competition laws and regulations exist but are ineffectively or selectively enforced, allowing certain firms to engage in anti-competitive practices. ● No competition law exists.
Normative: Monopolistic or other powerful interests	The extent to which monopolistic or other powerful interests impede market entry	Large firms; suppliers and customers of large firms; new/small firms	Do you think there is a lot of competition in sector X or only a little? Why? How do the businesses with the largest market share maintain their position?	● The government plays a useful role in making sure competition is fair, so larger or more politically connected companies cannot dominate unfairly. ● Despite stated support for competition, the government is not able to effectively control anti-competitive behavior, and new market entrants find it difficult to compete on the same terms as existing players.

Table 4. Barriers to Market Entry (1.1)

Institutional Pillar	Indicator	Target Informants	Sample Survey Questions[25]	Illustrative Responses and Scoring
				Large and/or politically connected market players use their power to directly attack new market entrants or subvert the rules in their favor.
Cultural-Cognitive: Mental models of competition	Implicit assumptions regarding market competition	All actors	Do you think competition leads to positive outcomes, such as greater innovation and productivity, or negative outcomes? Why?	Belief that competition is good and useful, as it provides better quality and prices to customers. People with good ideas should be able to enter the market on equal terms with existing market players without being unfairly attacked or undermined. Belief that competition can be good for consumers, but only in some sectors. Belief that competition is harmful, and that the government should control the number of businesses in each sector and/or the prices they charge to consumers.

1.2 INDIVIDUAL-LEVEL MOTIVATIONS

This category of indicators evaluates whether and how a society supports and values individualism as compared to collectivism. Where underlying social norms do not support individual entrepreneurial success, formal initiatives to facilitate business start-up or growth-minded investment may have little effect. For example, in Papua New Guinea, community social norms require any income earned by an individual to be shared with his or her community, or *wantok*.[26] In other countries, entrepreneurs face cultural approbation for individual ambition, such as through the myth of the "tall poppy" in Southern Africa or the generalized suspicion of the private sector in Tanzania. The political history of the country or region can heavily influence these norms. For example, in Tajikistan, norms around collectivism and hierarchy that date from the Soviet era continue to influence farming choices, as farmers defer to guidance from Ministry of Agriculture extension agents despite formal elimination of the quota-based production system.[27]

Observable patterns of behavior may include the degree of individual control over entrepreneurship revenues (reinvested or taken out of business, given to community, or used by family).

[26] Enabling Agricultural Trade Project, "AgCLIR Papua New Guinea," *USAID*, (May 2012). https://www.agrilinks.org/sites/default/files/resource/files/USAID-EAT%20AgCLIR%20Papua%20New%20Guinea%20Recommendations.pdf.
[27] Enabling Agricultural Trade Project, "AgTCA Tajikistan," *USAID* (June 2014). https://culturalpractice.com/wp-content/uploads/2014/08/EAT_AgTCA_Tajikistan_Report.pdf.

Table 5. Individual-Level Motivations (1.2)

Institutional Pillar	Indicator	Target Informants	Sample Survey Questions	Illustrative Responses and Scoring
Normative: Accepted purpose of entrepreneurship	Stated motivations for starting or running a business	Agribusiness owners (traders, processors, input suppliers, etc.)	Why did you start the business? Where do you want to see the business in 5-10 years?	● Long-term growth: building a company that delivers value to customers; willingness to forego salary/dividends in short run. ● Answers focus mainly on revenue/profitability and benefits to the owner; some limited discussion of growing customer base. ● Narrow focus on immediate cash flow and using business to manage risks and capture resources.
Cultural-Cognitive: Individualism vs. collectivism	The extent to which it is believed that individuals are supposed to take care of themselves (individualism) as opposed to being strongly integrated and loyal to a cohesive group (collectivism)	Wide cross-section of society	Use aggregate scores from the World Values Survey (WVS) (if available), or use a subset of the WVS survey questions	● Strong cultural beliefs around individualism, possibly enshrined in legislation around individualized rights. Collective action is focused on interest-based cooperation through business alliances and social networks rather than small-group patronage. ● Mixed, indicating presence of both sets of values, likely working at cross-purposes as individuals experience a conflict between individual achievement and community contribution. ● Weaker cultural beliefs around individualism, stronger cultural beliefs around communal responsibility and identity oriented narrowly towards benefiting a smaller identity group to the exclusion of wider social cohesion and economic growth benefitting all individuals.

1.3 FIRM-LEVEL BUSINESS STRATEGIES

Small-group business strategies often reflect a short-term extractive mentality with little regard to creating value in response to end-user demand specifications, whereas large-group business strategies focus on long-term customer retention through activities such as satisfaction guarantee pledges. Extractive business strategies often arise in settings where trust is low and the rules of the game are unpredictable, undermining attempts at long-term investment. For example, anecdotally it has been shared that Ugandan farmers routinely add water to maize bags to increase weight because they perceive traders as misrepresenting 110 kg bags as 100 kg bags. The perception of cheating by traders leads to mistrust and cascading cheating by farmers to compensate, with quality and the final consumer as the losing party. In contrast, businesses that are interested in creating value for different customers care more about the value perception in the customer's mind and will commit more resources to branding and marketing to develop customer loyalty.

Observable patterns of behavior may include rates of repeat customers and extent of customer loyalty.

Table 6. Firm-Level Business Strategies (1.3)

Institutional Pillar	Indicator	Target Informants	Sample Survey Questions	Illustrative Responses and Scoring
Normative: Extractive vs. value-creation	Whether firms manifest a primarily extractive or value-creation focus in their business strategies	Agribusiness owners (traders, processors, input suppliers, etc.)	For a given agricultural product or service, is the price related to the perceived quality of the product or service received? How much do you trust your buyers or suppliers to fairly assess the quantity and quality of your products?	● Focused on customer needs, value-creation and willing to invest in marketing/branding and product development to grow customer base over the long run. High trust in systems of standardized weights and standards, applied equally by all actors. ● Some willingness to adapt product offerings based on customer needs; but not willing to invest in proactive marketing and still emphasizing the margin as key to "winning" a transaction. Mixed trust in other actors (and low trust in institutional systems). ● Little interest in customer needs. Focused on maximizing value per transaction and exploiting opportunities to increase margins. Low trust in other market actors, reinforcing a zero-sum, short-term mentality.

1.4 INDUSTRY-LEVEL COOPERATION AND ADVOCACY

Industry associations are found in nearly every agricultural market system. However, the character of the cooperation these associations engender can significantly impact the industry's focus on value and the emergence of opportunity entrepreneurs. Where industry associations have been captured by lead firms, they can be used to undermine competition and consumer protection. For example, anecdotally it has been reported that Ugandan input suppliers have regularly derailed industry efforts at verification tools to limit the trade of fake and adulterated crop protection products. Additionally, industry cooperation can be leveraged to extract higher margins without providing value, or they may alternatively participate in evidence-based policymaking to support the industry as a whole. In Zambia, for example, anecdotal evidence indicates that an initial effort to formalize better controls on veterinary drugs was coopted by pharmacists who succeeded in including a provision requiring that a pharmacist provide a prescription for designated veterinary drugs before a veterinarian could sell or use the product. This cooptation of the policymaking process created an unnecessary regulatory barrier to the uptake of important preventative and therapeutic vaccines in animal source food market systems.

Observable patterns of behavior may include: patterns of participation in industry associations and the focus of industry strategies (i.e., on the sector as a whole or on individual participating firms).

Table 7. Industry-Level Cooperation and Advocacy (1.4)

Institutional Pillar	Indicator	Target Informants	Sample Survey Questions	Illustrative Responses and Scoring
Normative: Long-term vs. short-term efforts	Evidence of industry-level collaboration to invest in joint goods through market research, branding, etc.	Industry associations; chambers of commerce	What are the main examples of collective efforts to promote the industry? Who are the influential players in the industry association?	● Widespread and effective cooperation around joint threats (e.g., counterfeit products) and opportunities for growth (e.g., market research or industry-specific regulatory reforms), including the emergence of specialized industry services. ● Firm-to-firm or small clusters of cooperation for growth. Less formal association activity and minimal emergence of specialized industry services. ● Higher incidence of cartel or other extractive forms of cooperation with the intent of extracting unfair returns via price fixing, manipulation of grades and standards, or uneven rule enforcement.

COMPONENT 2: DEMAND (ENTREPRENEURSHIP)

This component evaluates how market systems signal what products and services are valued in the society, including how customer feedback mechanisms are structured into industry norms, as well as the how the nature of competition between firms at the industry level affects responsiveness. Overall, this component examines whether and how characteristics of consumer demand for products and/or services is integrated into firm-level decisions, which ultimately influences the opportunities for entrepreneurs to emerge. It answers the key question: *"How does the system value products and services?"* Demand indicators are divided into the following categories:

2.1 Firm-level feedback
2.2 Industry-level competitive focus
2.3 Quality assurance mechanisms

2.1 FIRM-LEVEL FEEDBACK

Feedback between consumers and firms impacts incentives for growth and quality assurance. Firm response to price signals and consumer sentiment is a key indicator of a functioning market system. Where the responsiveness to price signals breaks down, firms are unable to capitalize on opportunities and organize their production and/or service delivery decisions effectively. These breakdowns may be due to weak regulative institutions, such as access to price information mechanisms. Additionally, firm-level unresponsiveness to consumer preferences may be indicative of a normative institutional bias towards value extraction versus creation. In these contexts, the space for opportunity entrepreneurs to emerge may be more limited.

Observable patterns of behavior may include investments in market research and marketing functions.

Table 8. Firm-Level Feedback (2.1)

Institutional Pillar	Indicator	Target Informants	Sample Survey Questions	Illustrative Responses and Scoring
Normative: Responsiveness to consumer preferences	Degree to which firms make decisions based on customer feedback (e.g., which products to stock, where to place them)	Firms who are directly interacting with farmers	What information do you gather about your customers? What have you learned about your customers' needs? What change have you made as a result?	● Firms gather data that tell them about their customer preferences and underlying needs, segmenting the customer base by identifying the needs of specific subsegments. Firms build relationships with individual customers to understand how their use of product/service affects their own business/farm. Firms will proactively change product/service mix to respond to demand and ensure value to customers. ● Firms gather some data, but don't use them to change business decisions. Customer service focuses on surface-level issues (e.g., cleanliness of store, politeness

Table 8. Firm-Level Feedback (2.1)

Institutional Pillar	Indicator	Target Informants	Sample Survey Questions	Illustrative Responses and Scoring
				of front-line staff) rather than understanding customer needs. • Firms gather no data on customers and do not build relationships. Instead, they stock products or offer services that maximize their margins regardless of whether they are useful to their customers. Firms may use their position to limit choice or force customers to select their product.

2.2 INDUSTRY-LEVEL COMPETITIVE FOCUS

Where firms in a particular system compete on price and/or quality, this further suggests a responsiveness to providing value to consumers. Alternatively, businesses may compete by reinforcing well-established patronage networks rather than value creation. In Kenya for instance, observations from field practitioners indicate that local supermarkets used patronage networks to increase burdens on South African supermarket chains, ultimately limiting competition from firms providing customer value. These small-group tactics are rooted in normative institutions and are demonstrative of less entrepreneurial systems. In contrast, industries with a large-group competitive focus promote value delivery that moves beyond a basic value proposition (price-quality mix) to include factors such as trust, convenience, respect, and customer service. When this occurs, competition shifts from narrow product-based competition to brand- or firm-level competition, as customer willingness to accept product innovations increases with trust in a firm or brand.

Observable patterns of behavior may include the advertising strategies of larger firms and how they appeal to customers.

Table 9. Industry-Level Competitive Focus (2.2)

Institutional Pillar	Indicator	Target Informants	Sample Survey Questions	Illustrative Responses and Scoring
Normative: Firms competing on price and/or quality vs. patronage	The key factors/criteria that define competition in a given industry	Industry experts/ consultants; main industry competitors; sampling of key consumers	What are the competitive advantages of the top companies in this industry?	• Industry competition centers on quality and price. There are clear industry segments that cater to different customer categories, and they compete within their own customer segment for brand loyalty. • Nascent attempts to build brand loyalty, competition still heavily influenced by

Table 9. Industry-Level Competitive Focus (2.2)

Institutional Pillar	Indicator	Target Informants	Sample Survey Questions	Illustrative Responses and Scoring
			What are the main things that drive brand loyalty in this industry?	patronage or identity group loyalty over customer needs. • Industry competition focuses on patronage and identity group loyalty. No differentiation by customer type or needs and no attempt to build brand recognition or loyalty.

2.3 QUALITY ASSURANCE MECHANISMS

There are several different market systems-supported mechanisms to assure product quality and safety, and the emergence of these mechanisms demonstrate that the system values the preferences and safety of consumers. Public sector quality assurance systems (e.g., national standards, laws, and regulations, including consumer protection regulations) are government-administered, while private voluntary systems (GLOBALG.A.P., International Organization for Standardization [ISO], Hazard Analysis Critical Control Point, various ethical standards, etc.) are administered by buyers through third party auditors to control quality along their supply chains. Each of these mechanisms is rules-based and therefore considered a regulative institution; however, where they fail to emerge, there may be underlying normative institutions that place lower value on responsiveness to consumer preferences and safety. Consumer-driven sanctioning mechanisms also drive quality assurance and can be observed through the response of the media, civil society, and consumers themselves in response to zero-sum tactics. The existence and effectiveness of these mechanisms demonstrate opportunities within a system for entrepreneurs to compete on the basis of value creation in response to consumer demands.

Observable patterns of behavior may include high-profile cases of offending firms being held to account in public forums, including a collective rejection based on their actions.

Table 10. Quality Assurance Mechanisms (2.3)

Institutional Pillar	Indicator	Target Informants	Sample Survey Questions	Illustrative Responses and Scoring
Regulative: Public safety standards enforcement	Strength and enforcement of laws and regulations related to product quality and safety	Government regulators; consumer safety regulator; industry experts; consumers (focus group)	What are the key public safety standards in this industry? How well are they enforced? What is a recent example of a firm that broke the rules?	• Clear public safety standards that are enforced and respected by firms. Effective mechanisms for consumers to complain without repercussions; functioning liability or other redress mechanisms that allow customers to take firms to court. • Ambiguous or poorly enforced public safety standards that are inconsistently applied.

Table 10. Quality Assurance Mechanisms (2.3)

Institutional Pillar	Indicator	Target Informants	Sample Survey Questions	Illustrative Responses and Scoring
			How aware are consumers of the standards?	● Nonexistent standards or politically influenced application to block competition. Powerful firms are not sanctioned but smaller ones, or their rivals, are.
Regulative: Private voluntary standards systems	Adoption and enforcement of private/voluntary systems (e.g., GLOBALG.A.P., ISO)	Third party auditors; firms who adopt these systems; consumers (focus group)	What firms, in what segments of the industry, have adopted private voluntary standards? To what extent do these quality assurance (QA) systems drive competition between companies? How are they enforced?	● Supermarkets and other key demand nodes have adopted private QA standards that drive up quality and are recognized by consumers. There is acceptance of broad-based QA standards as a prerequisite for industry participation, while more specialized standards (e.g., organic or fair trade) may provide a competitive advantage for a specific market segment. ● Some export-oriented firms (e.g., in horticulture) selectively adopt standards for international markets, but they do not influence most of the sector. Some early indications of consumer awareness exist but are not a main driver in product/brand choice. ● There are no private/voluntary standards, or small numbers of large firms use the private QA mechanisms as a way to block competition and to capture high-value markets. Consumers have no awareness or interest in QA mechanisms.
Normative: Normative sanctioning mechanisms	Societal expectation that businesses should inherently be providing safe, quality products that consumers can trust, including a willingness to publicly challenge dangerous practices (via	Consumer protection advocacy groups; civil society; media actors	How much of a factor is QA in driving consumer decisions? What are some recent examples of companies in this industry cheating or deceiving consumers? What was the response from consumers?	● Consumers broadly reject unfair practices and firms are held to account. Consumers can draw on media platforms for publicity, consumer protection advocacy groups, civil society, or commercial firms that act as consumer advocates. High-profile cases lead to other consumers shunning offending firms. ● Customers are frustrated with certain companies but do not have safe or reliable outlets to hold them to account. Some fledgling independent media is willing to cover company abuses. Consumer protection advocacy groups may exist but lack

Table 10. Quality Assurance Mechanisms (2.3)

Institutional Pillar	Indicator	Target Informants	Sample Survey Questions	Illustrative Responses and Scoring
	media, lawsuits, etc.)			sufficient lobbying power or voice. Civil society is disengaged from consumer protection issues. • Customers expect to be cheated and are afraid to voice dissatisfaction for fear of personal backlash. Firms can manipulate media or consumer protection groups to avoid social sanction.

COMPONENT 3: LEVEL PLAYING FIELD (INCLUSIVITY)

This component evaluates whether the market system provides equal opportunity for economic participation, including laws and norms regarding rights in property, contracts, and employment, as well as how disputes over such rights are resolved. This component also examines the institutions that enable or hinder bridging capital and anonymous transactions. It answers the key question: *"How does the system enforce shared rules of engagement?"* Level playing field indicators are divided into the following categories:

3.1 Anonymous transactions
3.2 Access to capital and control over assets
3.3 Hiring practices
3.4 Dispute resolution

3.1 ANONYMOUS TRANSACTIONS

Inclusive market systems typically must have in place reliable institutions (whether formal or informal) that support transactions between strangers, regardless of their identity group, according a commonly accepted set of rules. This type of anonymous exchange is the bedrock of large-group market systems and the foundation of modern contract law. Institutions that facilitate anonymous exchange include commodity exchanges, food traceability systems, and mobile banking technologies. Where exchange mechanisms cannot ensure the objective application of these accepted rules, businesses will not engage in arm's-length transactions but rather restrict their activities to known business associates within the community. For example, the failure of the Zambian Commodity Exchange has been blamed in part on the inability of the exchange to effectively screen potential trade partners, which caused the majority of traders to revert to long-term commercial relationships as a better means of managing risk.[28] Anonymous transactions indicators are closely tied to those for dispute resolution below.

Observable patterns of behavior may include the extent of out-group, arm's-length contracting that takes place; the extent of bridging capital; and the existence and use of anonymous exchange platforms.

Table 11. Anonymous Transactions (3.1)

Institutional Pillar	Indicator	Target Informants	Sample Survey Questions	Illustrative Responses and Scoring
Regulative: Contract law	Strength of formal contract law	Lawyers	Is there a law or commercial code governing contract rights in commercial transactions?	● Contract law is based on international best practice for fair, arm's-length transactions between strangers, regardless of gender, ethnicity, etc.

[28] Feed the Future Enabling Environment for Food Security Project. "Assessing the Preconditions for Commodity Exchange Success: A Guidance Document," *USAID*, (November 2017). https://www.agrilinks.org/sites/default/files/resources/eefs_comm_exchange_guidance_november_2017.pdf.

Table 11. Anonymous Transactions (3.1)

Institutional Pillar	Indicator	Target Informants	Sample Survey Questions	Illustrative Responses and Scoring
			Does contract law apply equally to all individuals regardless of gender, ethnicity, etc.?	• Contract law exists, but is discriminatory or favors certain groups over others. • No contract law exists.
Normative: Contract norms	Accepted norms of contractual behavior	Agribusiness owners; farmers	Would you do business with a stranger from outside your community? Would your approach to that relationship be the same or different from a business transaction with a friend or family member? In what way(s)? Would you feel obligated to honor the agreement with that person? Why or why not? Do/would you use [name of anonymous exchange platform]? Why or why not?	• Responses demonstrate it is acceptable to do business with anyone, and that respondents trust that most people have integrity and behave honestly in commercial transactions. Respondents readily use/trust anonymous exchange platforms (such as commodity exchanges, mobile banking, food traceability systems, etc.). • Respondents believe most people are trustworthy, but to be sure their rights are respected, respondents only do business within the community where they have relationships. Respondents are aware of anonymous exchange platforms but do not trust them. • Responses indicate that one should not do business with strangers, and it is acceptable to cheat someone from a different group.
Cultural-Cognitive: Group loyalty	General beliefs regarding universal rights vs. group loyalty	All actors	How much do you trust people from [your family, neighborhood, personal connections, people you meet for the first time, different religion, different nationality, etc.]?[29]	• Responses show a belief in universal moral standards applicable to all individuals and a respect for and a willingness to do business with all individuals regardless of group status. • Responses indicate belief that some members of the out-groups are good and trustworthy, but a preference for in-group loyalty remains.

[29] *Source:* World Values Survey, http://www.worldvaluessurvey.org/wvs.jsp.

Table 11. Anonymous Transactions (3.1)

Institutional Pillar	Indicator	Target Informants	Sample Survey Questions	Illustrative Responses and Scoring
				● Responses indicate a strong loyalty to small-group identity at the family, community, or ethnic/religious group level and a belief in moral standards that apply only to one's identified group.

3.2 ACCESS TO CAPITAL AND CONTROL OVER ASSETS

How capital is raised and how assets are controlled both impact who invests and in what ways. There are several regulative institutions that affect an entrepreneur's access to capital and control of assets, such as securitized lending laws, the structure/breadth of public and private capital markets, and land tenure laws. Nonetheless, in some countries, the control of assets is influenced by rigid cultural power structures. These cultural systems exist alongside and often take priority over legal rights recognized by the state. In the DRC, traditional *chefs de terre* control access to land pursuant to customary law, which can be granted or withdrawn without legal recourse, inhibiting long-term investment incentives. Similarly, cultural expectations on the use of capital may shape the types of entrepreneurial endeavors that can be undertaken. For example, anecdotally, it has been reported that in Zambia social norms around communal sharing of resources may limit an individual farmer's ability to purchase inputs without seeking the consensus of the community. For women, despite common acknowledgement from lenders that women are more reliable borrowers, women rarely manage to transition from micro- or group-based finance to formal lending, as cultural norms favoring male land ownership leave women without collateral for larger loans.[30]

Observable patterns of behavior may include types and amounts of lending, the depth and breadth of private equity/debt market activity and who has access to it, and non-merit-based restrictions on access to finance (e.g., based on group membership rather than loan application).

[30] See e.g., Feed the Future Enabling Environment for Food Security Project, "AgCLIR Ghana," (2017) and Enabling Agricultural Trade Project, "AgCLIR Benin," *USAID* (February 2014). https://www.agrilinks.org/sites/default/files/resource/files/EATAgCLIRBeninEnglish.pdf.

Table 12. Access to Capital and Control over Assets (3.2)

Institutional Pillar	Indicator	Target Informants	Sample Survey Questions	Illustrative Responses and Scoring
Regulative: Property rights	Registering Property: Quality of land administration index score (0-30) *Source: World Bank, Doing Business*	N/A	N/A	● The law provides clear property rights that can be exercised by any individual regardless of gender, marital status, ethnicity, etc. ● The law recognizes individual land ownership with some restrictions (e.g., certain areas covered by customary land tenure, restrictions on single or married women, prohibition on foreign ownership, etc. ● There is no law granting individual property rights.
Regulative: Securitized lending laws	Getting Credit: Strength of legal rights index score (0-12) *Source: World Bank, Doing Business Index*	N/A	N/A	● The law provides clear rights and procedures for the use of moveable assets as collateral for loans. ● Law is incomplete, contains unnecessary restrictions, and/or does not provide clear rights/procedures for use of immoveable and moveable assets as collateral. ● No secured transaction law exists.
Normative: Cultural structures for asset ownership	Cultural norms regarding ownership and control of land and moveable assets	All actors *Note: women should be interviewed separate from men*	In your community, who owns the land [or substitute other type of asset]? Who makes decisions regarding how the land [or other type of asset] will be used? Is land [or other asset] ever used as	● Land and other assets are individually owned and respected as private property to be used as the owner sees fit. Assets can be owned and transferred on equal terms by any individual. ● Certain assets are subject to individual private ownership and use while others are not. Assets can be privately owned but only by certain types of individuals (e.g., men, not women). Assets can be privately owned by any individual but use decisions are reserved for certain members of the community (e.g., husbands over wives' property).

Table 12. Access to Capital and Control over Assets (3.2)

Institutional Pillar	Indicator	Target Informants	Sample Survey Questions	Illustrative Responses and Scoring
			collateral for a loan? If not, why not? Who typically decides whether to seek a loan using land [or other asset] as collateral? Can land [or other asset] be sold? If so, can it be sold to anyone? Who decides when and to whom it will be sold?	- Land and other assets are communually owned or state-owned; decisions regarding the use of assets are made according to long-standing cultural norms/practices.

3.3 HIRING PRACTICES

In small group-focused market systems, firms tend to center around the family, which strongly influences hiring decisions. This approach can create difficulties when the good of the family runs counter to the good of the business. For example, a qualitative study of the business strategies of Afrikaans family-owned wine estates revealed tensions between "innovative" entrepreneurial strategies required in the rapidly changing post-apartheid South African wine market and maintaining legitimacy as family-run estates.[31] Similarly, anecdotally it has been reported that an agrodealer in Kenya refused to remove a family member after realizing the family member was stealing. These hiring practices shift the primary focus of the business from solution-seeking to social obligation and constrain its capacity to adapt and innovate.

Observable patterns of behavior may include levels of diversity in hiring, how prevalent family-owned businesses are, and commonly accepted or acknowledged restrictions on participation of certain groups in certain industries or businesses.

[31] Brundin, Ethel and Caroline Wigren-Kristoferson. "Where the Two Logics of Institutional Theory and Entrepreneurship Merge: Are Family Businesses Caught in the Past or Stuck in the Future?" *South African Journal of Economic and Management Sciences* 16, no. 4 (2013): 452-467. https://www.doi.org/10.4102/sajems.v16i4.367.

Table 13. Hiring Practices (3.3)

Institutional Pillar	Indicator	Target Informants	Sample Survey Questions	Illustrative Responses and Scoring
Regulative: Employment laws	Whether employment laws protect against discrimination in hiring, firing, or terms of employment based on non-merit-based considerations	Lawyers; agribusiness owners; employees	Does your country have formal employment laws? Do those laws provide protections against discrimination? Who is protected (and not protected) under the law? What types of non-merit-based considerations may be used in hiring, firing, or setting terms of employment?	● Employment laws balance effective labor market mobility with protection against discrimination in hiring, firing, and terms of employment. ● Employment laws provide only limited protections against discrimination. ● No formal employment laws exist, or existing laws explicitly discriminate based on gender, ethnicity, etc.
Normative: Family vs. hired labor	Whether cultural norms support merit-based employment or a preference for in-group members	Lawyers; agribusiness owners; employees	Are hiring decisions typically based on merit or other considerations? [Hypothetical hiring decisions based on context-specific groups]	● Businesses almost always hire on the basis of merit, because it is important to hire competent people. ● Merit-based hiring is preferable, but in practice cultural norms may push employers to hire family or friends. ● A business exists to provide resources for the family/community, so a family member would be hired regardless of skills and training.

3.4 DISPUTE RESOLUTION

Just as the laws and social norms around economic rights must evolve to be more inclusive, dispute resolution mechanisms must effectively protect those rights, whether through the formal judicial system, alternative dispute resolution, or traditional conflict resolution methods. Where the judge is swayed by in-group loyalties, ethnic or gender-based biases, or corruption, the institutions supporting inclusive economic participation will not take root. For example, in Papua New Guinea, the local community, or *wantok*, serves as the de facto rule of law in most rural communities. The cultural norms of protecting one's *wantok* make it nearly impossible for an outsider to obtain a favorable judicial decision or police support to enforce a loan. As a result, this small-group dynamic cuts these communities off from formal finance. Dispute resolution indicators are closely tied to those for anonymous transactions above.

Observable patterns of behavior may include which type of dispute resolution methods are used, how the outcome of a dispute is enforced (whether by in-group loyalty or according to law), and whether the decision is based on universally applicable legal/regulatory principles or cultural norms (regardless of applicable law).

Table 14. Dispute Resolution (3.4)

Institutional Pillar	Indicator	Target Informants	Sample Survey Questions	Illustrative Responses and Scoring
Regulative: Formal dispute resolution mechanisms (courts and formal alternative dispute resolution [ADR])	Country score (distance-to-frontier score, not rank) on the Enforcing Contracts indicator *Source: World Bank, Doing Business Index*	N/A	N/A	● Formal courts/ADR exist and are effective. ● Formal courts/ADR exist but are ineffective due to time/cost, perceived bias, inability to enforce decisions. ● Formal courts/ADR perform extremely poorly or do not exist.
Normative: Informal alternative and traditional dispute resolution mechanisms	Social and cultural norms regarding the resolution of disputes	Agribusiness owners (traders, processors, input suppliers, etc.), including men and women	If there is a dispute between business partners, how should it be resolved? Would you take a commercial dispute to court/ADR? If not, why not? If you believe disputes should be resolved in the community, why do you feel that way?	● There is a belief that disputes should be resolved in accordance with established formal laws and regulations. Individuals trust courts or recognized ADR mechanisms to follow fair and transparent rules of procedure and evidence. ● There is a belief that disputes should be resolved in accordance with the law following fair and transparent rules of procedure and evidence, but courts and formal ADR are seen as ineffective or unfair due to time/cost, perceived bias, or inability to enforce decisions. ● There is a belief that disputes should be resolved in the community according to cultural norms, which may include the acceptance of different rights based on gender, ethnicity, or social group.

COMPONENT 4: THE FLOOR (INCLUSIVITY)

This component evaluates whether the market system provides sufficient protection against failure, shocks, and stresses, so as to enable broad-based investment and risk-taking, including the existence of formal and informal social safety nets and their impact on entrepreneurial behavior. It answers the key question: *"How does the system mitigate risks?"* Floor indicators are divided into the following categories:

4.1 Individual safety nets
4.2 Firm-level safety nets
4.3 Market-based risk management mechanisms

4.1 INDIVIDUAL SAFETY NETS

In the absence of effective state-based social safety nets, local communities derive their own systems to protect individuals and the community as a whole. To protect the resources of the community, these social systems evolve to include their own norms around business and risk-taking that can impede opportunity entrepreneurship and the adoption of profit-minded business strategies. For example, anecdotally it has been reported that in Zambia, pastoralist communities maintain their herds as a source of community savings, not for profit. Thus, efforts to encourage better herd management practices or fairer trade mechanisms (e.g., regulative institutions such as auctions) to protect their interests all failed. To the community, strategies that might increase the quality and value of the cattle, such as the adoption of grades and standards or veterinary treatment, did not align with the reason for owning the cattle in the first place.

Observable patterns of behavior may include a reluctance to take risks or engage in entrepreneurship.

Table 15. Individual Safety Nets (4.1)

Institutional Pillar	Indicator	Target Informants	Sample Survey Questions	Illustrative Responses and Scoring
Regulative: State-based social safety nets	Whether the state provides a strong safety net for individuals (unemployment, social security, etc.)	All actors	If you lost your job, would you have access to unemployment insurance? When you retire, will you receive social security from the government? If you were disabled, would you have access to state support?	● State-based social safety nets provide robust protections in case of unemployment, disability, and old age. ● State-based social safety nets provide minimal and insufficient protections, with uneven distribution of access. ● No state-based social safety nets exist, or those that do are controlled by powerful small-group interests.

Table 15. Individual Safety Nets (4.1)

Institutional Pillar	Indicator	Target Informants	Sample Survey Questions	Illustrative Responses and Scoring
Normative: Communal sharing	Impact of cultural norms regarding obligations to the community on business and risk-taking	All actors	Is entrepreneurship considered a good career path? Why or why not? If a friend or family member went out of business or lost his/her job, where would he/she turn to for help?	● Individuals should be encouraged to take risks and test novel business ideas, with an understanding that they will be supported even if they fail. ● Individual entrepreneurship can be a good thing, but not if it causes the individual to become a burden on the community. Risks should be kept to a minimum. ● Entrepreneurship is too risky; it is irresponsible for an individual to take business risks that may create a liability or loss for the community. One person's success is a success for the community, and one person's loss is a loss for all.

4.2 FIRM-LEVEL SAFETY NETS

Formal institutions such as bankruptcy laws allow entrepreneurs to take risks beyond those accepted by the community, because the entrepreneur no longer needs to rely on the informal safety net in the event of failure. By reducing the burden on the community, formal safety nets may also slowly allow a shift in community norms that have evolved to discourage entrepreneurial risk-taking. Conversely, social norms that stigmatize business failure may inhibit entrepreneurs from taking advantage of existing bankruptcy protections. For example, Palestinian entrepreneurs fear loss of trust from customers and future business partners if they declare bankruptcy. To reduce the risk of failure, firms maintain a lower debt-to-equity ratio, which limits opportunities to leverage external capital for business growth.[32]

Observable patterns of behavior may include whether businesses use formal bankruptcy proceedings or other methods of winding down business operations and whether failing businesses continue to operate or are wound down in favor of new, more successful ventures.

[32] BizCLIR Project, "BizCLIR: for the Palestinian Economy," *USAID* (March 2010).

Table 16. Firm-Level Safety Nets (4.2)

Institutional Pillar	Indicator	Target Informants	Sample Survey Questions	Illustrative Responses and Scoring
Regulative: Bankruptcy laws	Country score (distance-to-frontier score, not rank) on the Resolving Insolvency indicator *Source: World Bank, Doing Business Index*	N/A	N/A	● Formal bankruptcy procedures exist and provide for the efficient and fair wind-down of a failing business. ● Formal insolvency procedures exist but are ineffective due to time/cost, perceived bias, inability to enforce decisions. ● No formal insolvency laws exist.
Regulative: Business liability protections	The existence of business types offering limited liability protection	Lawyers, agribusiness owners (traders, processors, input suppliers, etc.)	Can you form a business with limited liability protection? Can limited liability protections be effectively exercised in practice? Why or why not?	● Business owners can effectively protect their personal assets by selecting a type of business entity that provides limited liability protection (e.g., corporation, limited liability company, limited partnership, etc.). ● Limited liability business entities exist in the law but are too expensive, administratively complex, or provide little liability protection in practice. ● No limited liability business entities exist under the law; entrepreneurs face personal financial risk beyond the assets of the business.
Normative: Informal barriers to market exit	The existence of informal obstacles to the use of formal insolvency proceedings	Agribusiness owners (traders, processors, input suppliers, etc.)	If your business was failing, would you declare bankruptcy? What might discourage you from using formal bankruptcy procedures? Would you work with someone who had	● There are no obstacles. Respondents would readily use the insolvency procedures. ● Respondents would not use formal insolvency proceedings because it is less costly and faster to wind up operations informally. Respondents do not trust that the insolvency proceedings would yield a fair result. ● Respondents would not consider formal insolvency proceedings because it would damage their professional reputation or

Table 16. Firm-Level Safety Nets (4.2)

Institutional Pillar	Indicator	Target Informants	Sample Survey Questions	Illustrative Responses and Scoring
			previously failed in business?	cause them to lose respect in their community or family.

4.3 MARKET-BASED RISK MANAGEMENT MECHANISMS

While social safety nets exist to provide a floor in the event of major shocks, as societies move towards large-group dynamics, layered floors are developed via risk management mechanisms from private insurance to derivatives and securitization that shift risks from individuals and firms to broader society. For example, observations from field practitioners indicate that the introduction of index-based livestock insurance for pastoralists in Kenya led to greater investment in veterinary services and increased milk production. The adoption of these financial tools requires a certain level of trust in the firms that manage them and the institutions that guarantee the rights they provide to the consumer. For example, a bank collapse in the DRC in the 1990s continues to impede the use of banking services beyond the most basic deposit accounts.[33] When it comes to more sophisticated tools like derivatives, these may only emerge after volumes grow to a point where specific risks can be effectively priced and sold through securitization.

Observable patterns of behavior may include the existence of market-based risk management mechanisms and whether or not they are widely used.

Table 17. Market-Based Risk Management Mechanisms (4.3)

Institutional Pillar	Indicator	Target Informants	Sample Survey Questions	Illustrative Responses and Scoring
Regulative: Access to market-based risk management mechanisms	Legal framework supportive of market-based risk mechanisms	Lawyers, insurance providers, bankers	Does the law allow for financial products designed to distribute risk, such as insurance, derivatives, and securitization? What products are allowed?	● Finance laws permit a wide variety of market-based risk mechanisms, such as insurance, derivatives, and securitization. ● The legal framework allows some of these products but not a wide variety, or the legal framework places heavy restrictions on these products that limit their availability.

[33] BizCLIR Project, "AgCLIR: Democratic Republic of the Congo," *USAID* (October 2010). https://www.yumpu.com/en/document/read/20852431/agclir-democratic-republic-of-the-congo-fintrac-inc.

Table 17. Market-Based Risk Management Mechanisms (4.3)

Institutional Pillar	Indicator	Target Informants	Sample Survey Questions	Illustrative Responses and Scoring
			What restrictions are there on their use, and how does that impact their availability?	● The legal framework does not permit these types of products.
Normative: Trust in market-based risk management mechanisms	Trust in market-based risk mechanisms	Agribusiness owners (traders, processors, input suppliers, etc.); bankers; insurance providers	Would you consider buying [name of product]? Why or why not? Does your [bank/ insurance company] provide [name of product]? Who is eligible/not eligible and why?	● Market-based risk management products are widely trusted and used. ● Respondents understand how these products could be useful but are not certain they can be trusted. Respondents' bank/insurance company offers these products but only to a small subset of very trustworthy clients. ● Respondents do not trust in market-based risk management products. Respondents' bank/insurance companies do not offer those products.

ANNEX I. RECOMMENDED DATA ON ENTREPRENEURSHIP AND INCLUSIVITY OUTCOMES

The first step in the assessment is to conduct a high-level desk review of key statistics regarding entrepreneurship and inclusivity. The resulting data will provide the assessor with an overall understanding of where the country sits on the IEMS spectrum. Table 18 below presents recommended relevant statistics according to the IEMS analytical framework structure. Low scores for specific entrepreneurship or inclusivity outcomes will provide guidance to the assessor on where to dig more deeply during the assessment to gain a better understanding of the underlying factors influencing these outcomes. Please keep in mind that while the focus of the inquiry may be at a sector-specific or subnational level, the data sources below are more commonly available at the national level.

Table 18. Recommended Data Sources for Desk Review of Entrepreneurship and Inclusivity Outcomes

Outcome	Indicator	Data Source
Component 1: Supply (Entrepreneurship)		
Level of opportunity entrepreneurship	**Opportunity motivation:** Percentage of Total Early-Stage Entrepreneurial Activity (TEA) businesses initiated because of opportunity startup motive	Global Entrepreneurship and Development Institute (GEDI), Global Entrepreneurship Index
	Gazelle rate: Percentage of TEA businesses that intend to employ at least 10 people and plan to grow more than 50 percent in five years	GEDI, Global Entrepreneurship Index
Industry churn	**Firm entry/exit[34] rates:** Number of new businesses registered each year	National business registry
Industry structure	**Retail firm size:** Number of retail firms with more than 10 employees	National business registry
Rates of innovation	**Patent applications:** Total number of patent family applications per million population	World Economic Forum, Global Competitiveness Index
	Research and development (R&D) expenditures: Expenditures on R&D, expressed as a percentage of Gross Domestic Product (GDP)	World Economic Forum, Global Competitiveness Index

[34] Firm exit rates are difficult to measure as firms that exit the market do not always go through formal wind-up procedures. This information may only be captured through qualitative assessment of the related IEMS indicators around insolvency (see Firm-level Safety Nets under Inclusivity Component 2: Floor).

Table 18. Recommended Data Sources for Desk Review of Entrepreneurship and Inclusivity Outcomes

Outcome	Indicator	Data Source
Market concentration	**Herfindahl-Hirschman Index score:** Measure of market concentration in a specific industry based on the market share of each firm (0-10,000)	National statistics agency and assessor's own calculations
Component 2: Demand (Entrepreneurship)		
Purchasing power	**Median income:** GDP per capita (current US$)	World Bank
	Real income growth: GDP per capita growth (annual percent)	World Bank
Consumer consciousness	**GLOBALG.A.P.-certified producers:** Number of GLOBALG.A.P.-certified producers by product	GLOBALG.A.P. database
	ISO-certified agribusinesses: Number of third-party ISO certification and auditing organizations in the country	International Accreditation Forum
Component 3: Level Playing Field (Inclusivity)		
Governance	**Rule of law:** Rule of Law Index score (0-1)	World Justice Project
	Control of corruption: Corruption Perception Index score (0-100)	Transparency International
	Voice and accountability: Freedom of Speech and Access to Information score (0-100) Political Accountability score (0-100)	Legatum, Prosperity Index
Inequality	**Gini coefficient:** Level of inequality in income distribution (0-100)	World Bank, Development Research Center, GINI Index
	Women's economic empowerment: Women, Business, and the Law Index score (0-100)	World Bank
Education	**Average years of schooling:** Education level of adult population	Legatum, Prosperity Index
Access to capital	**Agricultural lending:** Percent of total domestic credit that goes to the agricultural sector	FAO or domestic central bank statistics
	Commercial, investment, and venture banking firms: Number of commercial banks; number of investment and venture capital firms	Domestic central bank statistics
	Breadth and liquidity of public equity markets: Number of firms listed on domestic equity exchange	Domestic equity exchange statistics

Table 18. Recommended Data Sources for Desk Review of Entrepreneurship and Inclusivity Outcomes

Outcome	Indicator	Data Source
	Rural access to mobile and internet: Mobile cellular subscriptions (per 100 people) Fixed broadband subscriptions (per 100 people) Individuals using the internet (percent of population)	World Bank[35]
	Mobile banking penetration: Connectedness: Use of Digital Payments indicator (percent of respondents age 15+)	Legatum, Prosperity Index
Component 4: Floor (Inclusivity)		
National social safety nets	**Unemployment insurance:** Number or percent of the adult population covered by unemployment insurance	National statistics agency
	Social security/pensions: Number or percent of the adult population covered by social security; number or percent of the adult population with a pension plan	National statistics agency
	Access to healthcare: Care systems: healthcare coverage indicator (percent of population)	Legatum, Prosperity Index
Market-based risk management mechanisms	**Exchange-based platforms:** Number of private insurance providers Stock market capitalization to GDP Total debt securities to GDP	Domestic central bank statistics

[35] See World Bank, "Mobile Cellular Subscriptions (per 100 People)" at https://data.worldbank.org/indicator/IT.CEL.SETS.P2?view=chart; "Fixed Broadband Subscriptions (per 100 People)" at https://data.worldbank.org/indicator/IT.NET.BBND.P2?view=chart, and "Individuals Using the Internet (% of Population)" at https://data.worldbank.org/indicator/it.net.user.zs.

ANNEX II. GUIDANCE FOR QUALITATIVE RESEARCH

The table below differentiates between three main primary data collection survey type options: closed-form surveys, semi-structured interviews, and focus group discussions.

Table 19. Primary Data Collection Methods

Instrument	Description	Strengths	Weaknesses	When to Use
Closed-form survey	Pre-set questions with closed-ended answers	Can reach wider scale, potentially broader or more representative sample. Comparability of answers. Speed to analyze.	Surface-level answers, no chance to probe meaning. Requires reading and writing ability.	Understanding prevalence of an attitude or norm; when there are large numbers of actors in a given category. Researchers have sufficient understanding of the context to anticipate most/all feasible responses.
Semi-structured interview	1-on-1 interview with pre-set questions, option for respondents to expand on answers	High-trust, in-depth exploration, chance to probe answers.	Costly, more time-intensive to conduct and analyze than closed-ended surveys.	Questions that require explanation; small number of influential actors.
Focus group discussion	Pre-set questions but high responsiveness, and ad-hoc follow up questions to group responses	Understand similar and different thinking within a group.	Group dynamics will influence certain answers. Time-intensive to write-up and analyze.	Non-sensitive subject matter; for obtaining a broader range of inputs than with interviews. Can reach a broader range of respondents with fewer interviews.

In addition to the desire to gather the best available information, there are also practical considerations that may prioritize the design of data collection instruments:

- **Time**: Available time for the assessment and analysis.
- **Human resources**: Budget (level of effort), language ability, interviewing/facilitation skills, survey design and interpretation skills.
- **Population:** Number of market actors of each type in the target market system.
- **Sample frame:** Determination of a reasonable number of individuals to consult per actor type and within/across a particular geography.[36]
- **Sensitivity of questions:** How personal/individualized are the questions, and how much are group dynamics likely to influence responses?

[36]The goal is not necessarily to obtain statistically significant results, as this adds significant time and cost to primary data collection; however, the assessment team should nonetheless ensure that the sample frame is relatively representative (whether national, regional, subnational, sector-specific, etc.) to gain sufficient insights into the beliefs, perceptions, and behavioral drivers of actors at the target level of a market system.

- **Assessment team knowledge:** Does the assessment team have sufficient existing knowledge to anticipate potential responses (closed-ended questions), or might new/unknown responses emerge that provides rich information (open-ended questions)?

For each of these methods, it is essential to ensure anonymity and obtain informed consent from the interviewee, focus group discussion participant, or survey respondent. These best practices will encourage frank and honest responses.

Additional Resources on Qualitative Research Methods

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The **Feed the Future Enabling Environment for Food Security** project is a global support mechanism for Feed the Future-focused and aligned Missions and Washington-based USAID offices to address policies as well as legal, institutional, and regulatory factors that function as market constraints affecting food security. Launched in September 2015, the project enables the rapid procurement of technical analysis, advisory services, and strategic knowledge management. For more information, contact Lourdes Martinez Romero (COR) at lmartinezromero@usaid.gov or Adam Keatts (Chief of Party) at akeatts@fintrac.com.

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