

# Market Systems Development

Introduction for LIFT

Myanmar, 29 February 2016

# Introduction

- What is a market?
- What do you know about market development approaches?

# Markets emerge everywhere



A market stall on the Champs Elysees, in the Zaatari refugee camp, Jordan.

Source: Wikimedia. By Russell Watkins/Department for International Development. CC, some rights reserved.

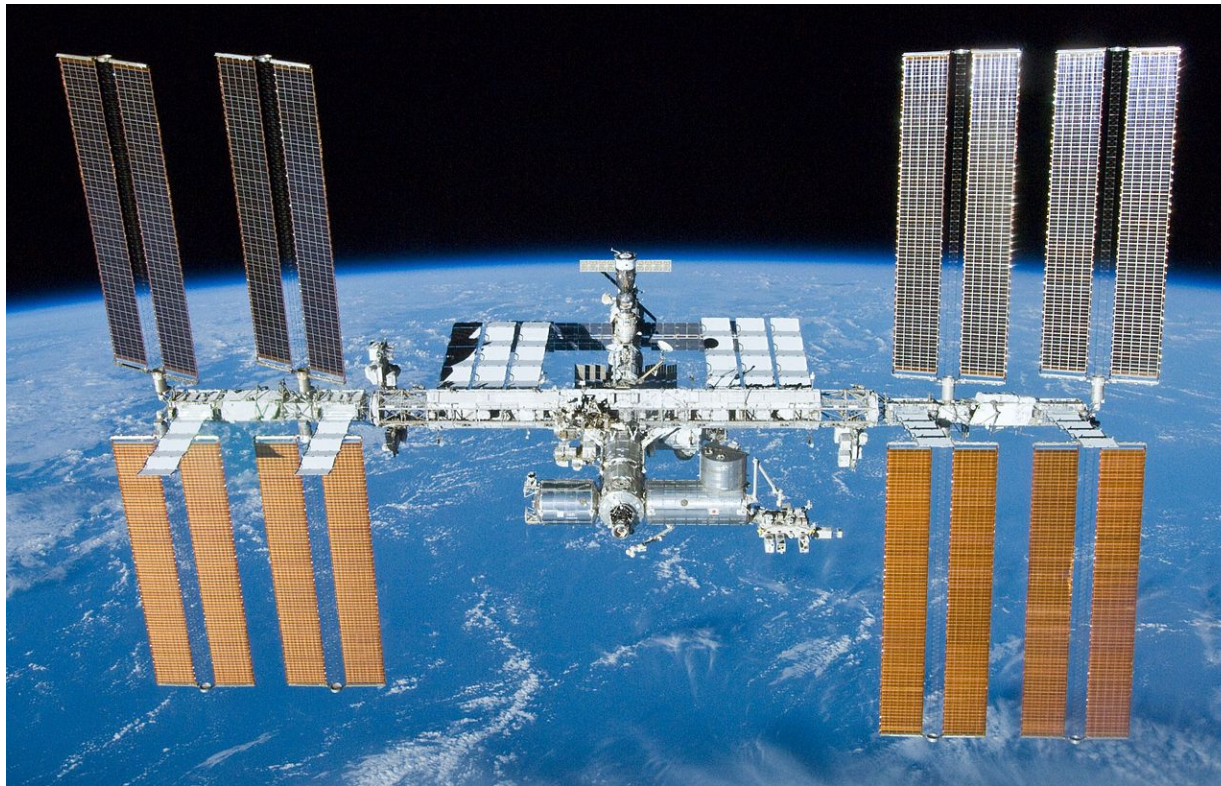
# Markets emerge everywhere



"Drug Markets Thrive in US Prisons." thefix.com

Source: <https://www.thefix.com/content/prison-drug-dealing-oxycontin90211>

# Markets emerge everywhere



Trade on the International Space Station

Source: Wikimedia

# Markets are resilient



# Why market development?



Source: Talea Miller, PBS NewsHour

# Markets as complex systems

- Have a large number of interacting elements
- Are dynamic
- Have a history / are path dependence
- Have (open) boundaries
- Have adapting actors



# Consequences of complexity

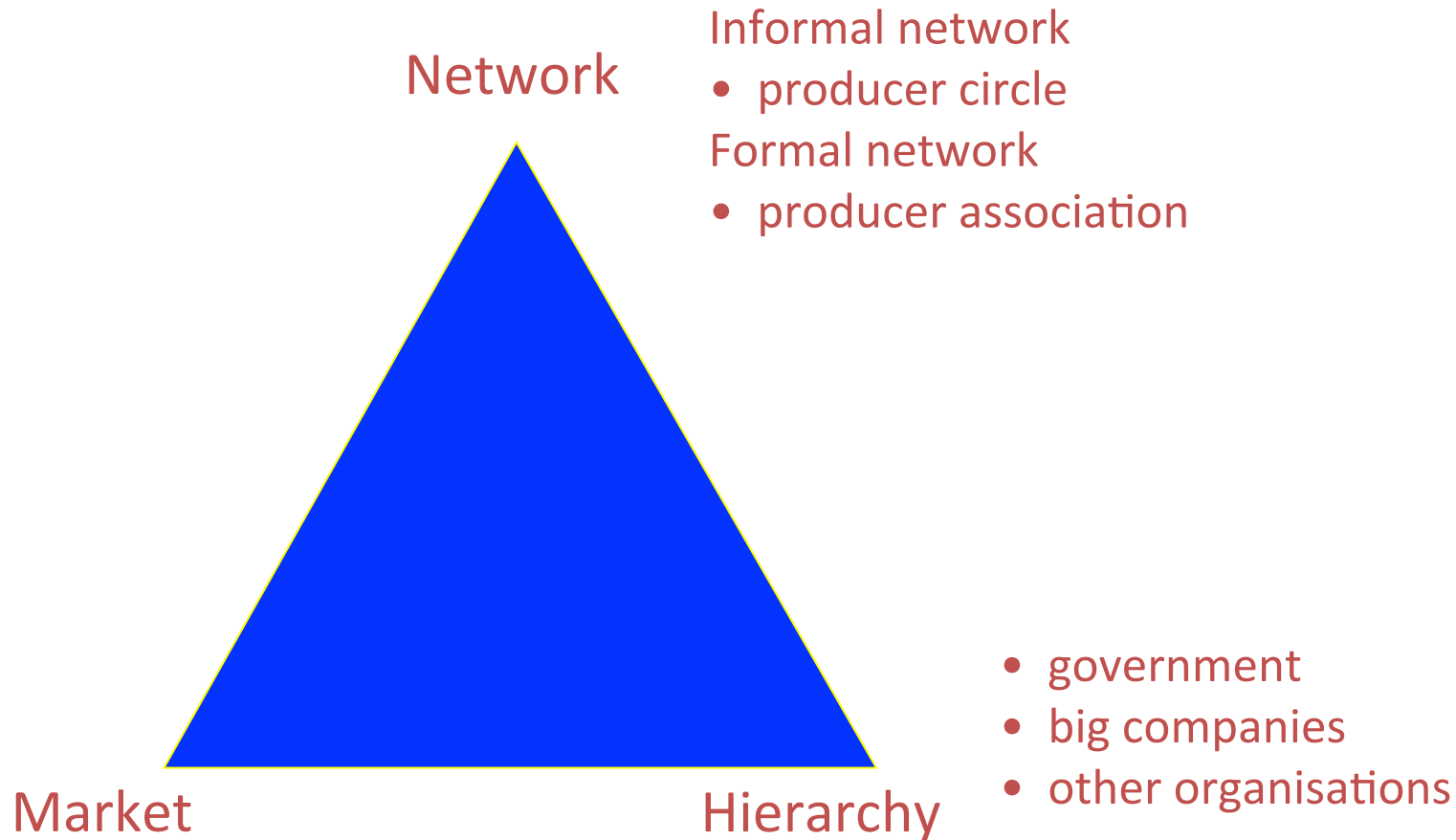
- Non-linear effects
- Cause and effect far removed from each other
- Unpredictability and uncertainty
- Decoupling of target group and beneficiaries
- Look at the market as a whole system!

# What is needed for markets to work?



- Property rights
- System to enforce rules, manage conflict and build trust
- Smooth information flow
- Competition
- Negative effects curtailed

# Three modes of coordination



**Coase (1937): Why  
are there companies, and not just markets?  
Because of transaction cost.**

# Why markets fail

In cases where markets do not organise production or goods allocation efficiently the situation is described as a market failure

“Market failure” does not imply that a market is not working at all, but that it is not working efficiently by not producing goods that are wanted

# Market failures

- Natural monopoly
- External effects
- Indivisibilities or economies of scale
- Asymmetric information
- Public goods
- Incomplete or non-existent property rights
- Sub-optimal market structures

# Market failures

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Products where markets cannot work, mostly for technical reasons

- Water
- Waste water
- Electricity
- Telecommunications
- Train transport

# Market failures

- Natural monopoly
- **External effects**
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- Public goods
- Incomplete or non-existent property rights
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Positive external effects:

- companies' investment adds value to everyone

Negative external effects:

- costs for external damage is not internalised

# Market failures

- Natural monopoly
- External effects
- **Indivisibilities or economies of scale**
- Asymmetric information
- Public goods
- Incomplete or non-existent property rights
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## High entry-barriers:

- limited engagement
- limited investment
- monopolistic behaviour

## Low entry-barriers:

- over-crowdedness
- limited investment
  
- Exit barriers
- Small indivisibilities



# Market failures

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One party in a market transaction has more information than the other

Works in both directions

Not all information is needed for a transaction to happen

# Market failures

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- Indivisibilities or economies of scale
- Asymmetric information
- **Public goods**
- Incomplete or non-existent property rights
- Sub-optimal market structures

Consumption of a public good does not diminish anyone's access to the good

- non-rivalrous

No-one can be effectively excluded from using that good

- non-excludable

# Market failures

- Natural monopoly
- External effects
- Indivisibilities or economies of scale
- Asymmetric information
- Public goods
- **Incomplete or non-existent property rights**
- Sub-optimal market structures

Without full and complete property rights, markets are unable to take all the costs of production into account.

- Land/assets
- Profits
- Knowledge/Patents

# Market failures

- Natural monopoly
- External effects
- Indivisibilities or economies of scale
- Asymmetric information
- Public goods
- Incomplete or non-existent property rights
- **Sub-optimal market structures**

- Sub-optimal market structures lead to
- imperfect competition
  - price discrimination
  - monopolies

## Reasons

- way markets evolve
- lock-in
- network externalities

# Consequences

1. Market failure leads to uncompetitive situations
2. Market failure generates low-level equilibrium
3. Market failure generates sub-optimal delivery of critical investment
4. Market failure creates barriers to entry
5. Market failure has negative welfare implications

# Principles of market development

1. Learning and adjustment at the core
2. Take a diagnostic approach
3. Zoom in, zoom out
4. Build up hypotheses and test them small
5. Take a facilitative role
6. Keep monitoring, learning and adjusting