



Ezra Millstein/Mercy Corps

BEYOND CASH

Making markets work in crisis

MARCH 2018 — ABRIDGED



Table of Contents

A better approach to crisis response	3
Why work through market systems	5
The role of markets in coping and recovery	5
Differences across crisis contexts	6
Progress to date—Increasing the use of cash transfers	7
Moving beyond cash to strengthen markets	7
Barriers to market-driven efforts	7
New vision for market-based coping and recovery	9
Meet basic needs while protecting future productivity	9
Address immediate barriers to individual participation in the local economy	10
Support coping through local market systems	11
Improve market systems over time	12
Challenges and limitations of a market-driven approach	14
Making this vision a reality	15
Policy	15
Practice	16
Opportunities for further research and learning	16
Appendix	17
Social and financial capital	17

ACKNOWLEDGEMENTS

This paper was written by Alison Hemberger, Sasha Muench, and Dave Algozo with advisory support from Jon Kurtz and Alexa Swift. We would like to thank Selena Victor, Marilyn Shapley, Thea Anderson, Sanjay Gurung, Jenny Vaughan, Nicki Post, Amy Fairbairn, Dina Esposito, and Dafna Rand for their thoughtful inputs at various stages in the writing process. We would also like to thank our peers who have helped to move markets in crisis thinking forward, including CRS, IRC, the Springfield Centre, and ODI, as well as Mercy Corps' Markets, Economic Recovery, and Growth team. Most importantly, we would like to thank the members of Mercy Corps country teams, especially Syria, South Sudan, Uganda, Iraq, Jordan, and Nigeria for sharing evidence and supporting market-based programming in crises.



A better approach to crisis response

Markets are vital to our well-being, yet they falter when war, violence, and natural disaster rip through communities. Goods become less accessible, incomes fall, and uncertain futures limit willingness to invest.

Yet even during prolonged conflicts, markets rarely collapse entirely. People find new ways to produce, exchange, and consume. Not only do they find new economic outlets: they depend on their markets, social networks, and local support systems more than they depend on external aid.¹

Despite this, traditional aid often overlooks these market systems; it may bypass them through the direct delivery of in-kind assistance and can undermine them with supply-driven programs. This is a mistake the aid sector is recognizing it can no longer make. Conflict currently drives 80% of humanitarian needs. By 2030, half of the world's extreme poor will live in conflict-affected settings.² We must serve those affected better. That requires moving past traditional approaches and recognizing the capacity that sits within crisis-affected communities and networks, particularly their durable markets.

The growth of cash transfer programs is a critical first step in this shift. Compared to in-kind assistance, which can undercut local economies and their ability to supply key goods, cash transfers enable households to purchase

1 Megret, Frederic. (2009) Beyond the "Salvation" Paradigm: Responsibility to Protect (Others) vs. the Power of Protecting Oneself. *Security Dialogue* 40 (6): 575–595. (Jose and Medie 2015; Baines and Paddon 2012; Megret 2009).
2 Fragility, Conflict, and Violence Overview. World Bank, 2018.

what they need through local actors, invest in economic opportunities, and repay debts.³ But cash transfers still focus on directly providing resources (in this case, cash) to people, rather than strengthening people’s capacity to access those resources themselves through local systems.

The aid sector needs a new vision for crisis response—one that is market-driven, that leverages the capacities of non-aid actors in local and global economic systems, and that ultimately gives crisis-affected individuals the ability to drive their own decisions and secure their own lives and livelihoods. The approach in this paper, grounded in resilience thinking, recognizes that systems-led responses are central to helping individuals cope and recover. It requires aid actors to focus on core cross-cutting issues, including strengthening financial services systems and understanding the role of social and political power in markets. At a practical level, it involves targeted market support to essential business and local institutions that have more reach and sustainable impact than aid agencies. While this paper focuses on economic systems, these theories have broader implications—they also impact health, education, and other systems crucial to life and livelihoods.

Moving this agenda forward requires a distinct set of changes. They include:

Changes to Donors’ Policy

- › Fund programs with longer timeframes and adaptable implementation strategies.
- › Fund programs early in a crisis response that plan for, and address, longer-term coping and recovery needs.
- › Address regulatory barriers that make it challenging to rapidly transition between aid modalities and partner with local actors.
- › Prioritize funding for context analysis and field-driven learning, as well as broader research to test and improve market-driven concepts.

Changes to Implementers’ Practice

- › Overcome the inertia of initial response plans to respond to changing needs and program learning.
- › Improve the quality and frequency of market analysis.
- › Invest in staff with a range of expertise.
- › Support relief and development teams to work together in planning and implementation.
- › Develop finance, compliance, and procurement policies that support nimbleness in field teams.

³ <https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/9591.pdf>

Why work through market systems

Historically, the aid community has only given cursory attention to markets in relief efforts: Relief programs identified the most urgent needs facing crisis-affected groups and then directly provided assistance to meet them. We now understand better the vital and complex role local systems play in shaping households' ability to survive during crisis.

The role of markets in coping and recovery

People facing crisis must find ways to accomplish two related goals: coping with the immediate impacts of the crisis, and recovering some form of stability. Markets are key to both these. The supply of goods and services enable people to feed, clothe, and shelter their families. They also help people generate vital income. In fact, crisis-affected households often rely much more on local markets and social networks than on externally provided humanitarian aid. In a study of coping strategies in Syria, Mercy Corps found access to functioning markets was significantly correlated with better household welfare. Several of these market factors were also associated with greater psychosocial well-being, including lower stress and feelings of insecurity.⁴

The markets that support coping and recovery stretch beyond where a household directly buys goods or makes a living.⁵ They involve complex systems of market-supporting functions, including financial services, transportation, information services, energy, natural resources, and infrastructure, as well as other components of the enabling environment, such as social norms and regulations. (See diagram.⁶)

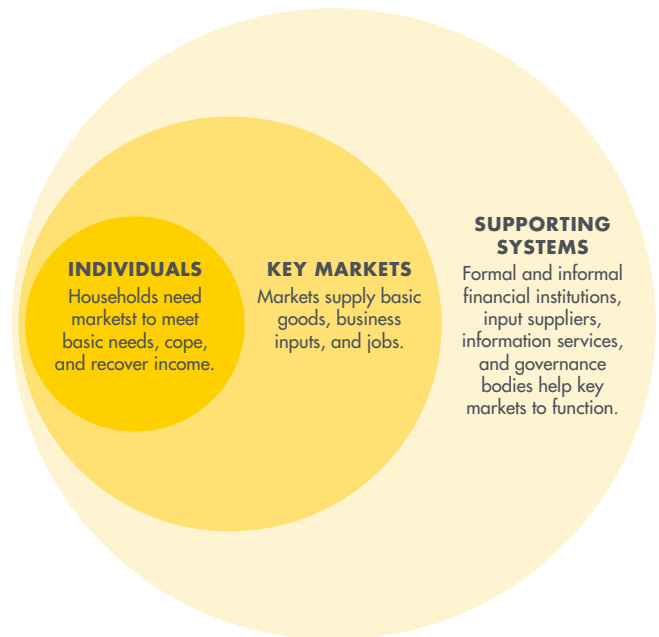
Actors at all levels of these systems struggle to cope and recover from crisis just as households do, further disrupting market function. During conflict in Mali, for example, suppliers based in stable, conflict-free areas went out of business because retailers in unstable areas failed to repay debts.⁷

Nevertheless, local market actors are also among the quickest to adapt to meet vulnerable populations' needs. For example, a multi-agency market assessment in northeast Nigeria found that some traders in conflict-prone areas could quickly identify which marketplaces were open and closed, obtaining special permits, and negotiating with security forces and local leaders for safe transport of food.⁸

Two important elements of market systems in crisis are social capital and financial capital. **Social capital**—the relationships and trust between individuals—helps crisis-affected households and businesses access information and

MARKETS SYSTEMS IN CRISIS

Individuals rely most on markets and their supporting systems to cope and recover. In protracted crises, these market systems suffer, but also adapt quickly to serve local populations.



4 The Wages of War: Learning from how Syrians have adapted their livelihoods through seven years of conflict. Mercy Corps, 2018. In this report, market access is frequently correlated with improved food security outcomes, though may not always be sufficient. For more information see, "Resilience for Food Security in Complex Crises." Mercy Corps. Draft.
5 For the purposes of this paper, a marketplace refers to a physical location where exchange of goods and services occurs.
6 For more background on market systems, see: <http://www.springfieldcentre.com/wp-content/uploads/2014/09/2014-09-M4P-Operational-Guide-with-watermark1.pdf>.
7 <https://www.odi.org/sites/odi.org.uk/files/resource-documents/11722.pdf>
8 Source: <https://www.mercycorps.org/sites/default/files/Northeast%20Nigeria%20Joint%20LMRA%202017.pdf>

resources. Multiple studies have found a strong, positive link between households' social connections and their ability to access sufficient food and assets during crises.⁹ However, social capital is neither neutral nor evenly distributed. A lack of social connections can exacerbate the disadvantages faced by certain groups, such as youth, women, and displaced populations.¹⁰ The wrong kind of social connections can also deepen existing power dynamics, leading to restricted market access, elite capture, and collusion that can be harmful for vulnerable groups. Social capital is also an important component to households' ability to access **financial capital** (funds), which is necessary to purchase essential goods, pay expenses, stabilize income streams, and invest in opportunities. This financial access requires a system of **financial services**, such as savings accounts, remittances channels, informal and formal credit sources, and insurance plans. In times of crisis, social capital often provides the foundation for critical financial activity, especially receiving remittances and obtaining informal credit. Evidence from Syria shows that households with access to financial services and relationships outside their communities were more likely to find new sources of income or restart economic activities during the conflict.¹¹

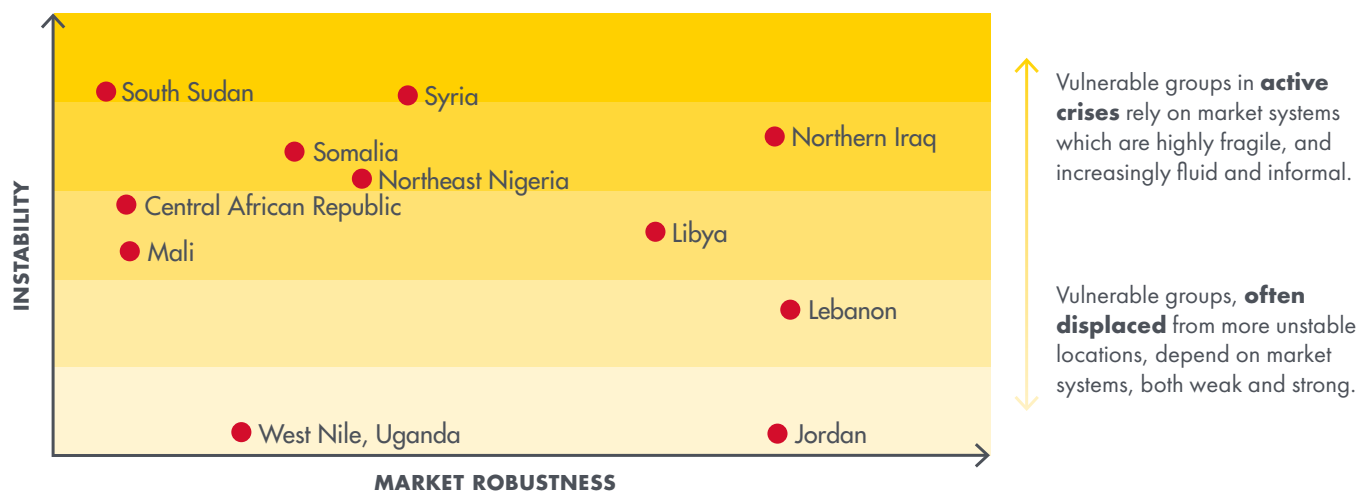
Differences across crisis contexts

Markets vary greatly from crisis to crisis. People fleeing instability and violence will likely lose assets, information networks, and sources of credit and income. They might struggle to earn income due to a lack of legal status or tensions with host communities. Or they might find themselves in a place with more robust markets—including diverse, viable businesses and an effective enabling environment—and may be able to participate in those markets over time.

In contrast, people who remain at or near home in a protracted crisis may maintain market and social relationships, but conflict will frequently deplete their sources of financial capital, hinder supply chains, and undermine the markets on which they depend. In order to tackle the most significant drivers of persistent humanitarian needs, this paper will focus on protracted crisis, where individuals facing ongoing conflict or displaced by such conflicts struggle to cope and recover. (See diagram.¹²)

CONTEXTS FOR COPING AND RECOVERY IN CRISIS

In complex crisis, the robustness and instability of markets shape people's resources for getting by.



9 <https://www.mercycorps.org/sites/default/files/Social-Capital-Good-Governance-Mercy-Corps-2017.pdf>. For experience from Somali region, see: <http://fic.tufts.edu/assets/Facing-Famine-high-quality.pdf>
 10 <https://www.mercycorps.org/sites/default/files/Social-Capital-Good-Governance-Mercy-Corps-2017.pdf>
 11 Source: https://www.mercycorps.org/sites/default/files/RD_SyriaReport_dl_FINAL_US-web.pdf
 12 Market robustness refers to the strength, diversity, and redundancy in a market system. The number of viable businesses, diversity of businesses, and prevalence of needed supporting functions and enabling environment are indicators of robust market systems. Instability refers to the prevalence and severity of shocks and stresses that undermine market systems in a complex crisis. Diagram examples are solely illustrative and reflect crisis contexts at the time of paper writing.

Progress to date—Increasing the use of cash transfers

Recognizing that the distribution of in-kind aid can undercut local businesses and local market recovery, cash-based modalities are increasingly being used by the aid community to support basic needs. In contrast to recipients of in-kind aid, cash recipients have the flexibility to purchase goods, invest in economic opportunities, and reduce debt. Alongside creating economic multiplier effects,¹³ these commercial interactions between households and local businesses create the potential to reinforce social capital and maintain and build trust over time.¹⁴

For these reasons and more, as part of the Grand Bargain at the 2016 World Humanitarian Summit, over 30 donors, UN agencies, and implementing organizations agreed to increase the use of cash-based programming. As of July 2017, cash transfers make up 34% of all Mercy Corps' humanitarian programming.¹⁵ But change is never easy. Aid actors still struggle to use cash transfers over in-kind aid in many appropriate contexts. And the market distortion caused by in-kind distributions can be used to justify its continuation. In a recent review of responses to three crises, the Overseas Development Institute found in-kind aid distribution prevented market supply from returning to previous levels—a problem that was then used to justify continuing in-kind aid.¹⁶ Increasing the use of cash transfers in appropriate locations, i.e. moving beyond the rhetoric to action, is the crucial first step shifting to a market-driven crisis response.

Moving beyond cash to strengthen markets

While cash transfers avoid the negative market impacts of in-kind aid, they still provide resources directly to individuals, rather than strengthening other actors' capacity to provide individuals with these resources. This limits aid's potential reach and impact, as there is typically insufficient funding to reach everyone in need over extended crisis timeframes.

Aid organizations that recognize cash transfers as just the first step in market-driven programming are now testing responses that strengthen local systems and improve livelihood opportunities. They have developed standard tools for analyzing key market systems and the impact a crisis has on them.¹⁷ Led by Catholic Relief Services, the aid community has also developed a market-based programming framework covering immediate relief delivery as well as proactive market-strengthening, including components such as cash transfers, trader support, and market-related policy change.¹⁸

Despite these improvements, many recovery and livelihood programs fall into the same patterns of traditional relief programming: often using in-kind distributions to replace lost assets (like livestock) and distributing inputs (such as seeds and tools) without regard for how market actors and local institutions might better provide these goods and services. Moreover, programs often fail to consider ways to strengthen demand for economic activities, leading to situations where individuals have received skills training from aid agencies but have no way to earn income with those skills.

Barriers to market-driven efforts

There are a few central barriers preventing the aid sector's smarter engagement with markets in crisis. For cash transfers, one of the most significant constraints is the political sensitivity over misuse of funds. Despite solid evidence that program participants overwhelmingly spend funds to meet priority basic needs, political concerns in donor countries lead to increased scrutiny of cash transfer programs. The resulting validation and reporting requirements for these programs can create a disincentive to use this modality.¹⁹ Moreover, once field teams

13 For example, in one case in Zimbabwe, every dollar of cash distributed as a humanitarian transfer generated more than \$2.50 in additional income in the economy. <https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/9731.pdf>

14 Save the Children. "How Markets Alleviated the Impact of Ebola for Vulnerable Families and Children." 2015.

15 <https://interagencystandingcommittee.org/grand-bargain-hosted-iasc>

16 <https://www.odi.org/sites/odi.org.uk/files/resource-documents/11722.pdf>

17 For more information on EMMA and other tools, see: <http://www.cashlearning.org/markets/humanitarian-market-analysis-tools>.

18 See <http://www.cashlearning.org/downloads/mbp-framework2may2017final-2.pdf> for full framework.

19 Improving the Uptake of Humanitarian Market Analysis. IRC, CRS, and Mercy Corps. Draft.

have developed supply chains and operational structures to support in-kind aid, organizational incentives make it challenging for programs to switch from one modality to another. Another barrier results from the sectoral silos of donor and implementing agencies. Cash transfer programs are inherently multi-sectoral in nature because they serve multiple needs, while donors, aid implementing aid agencies and coordination clusters are frequently organized around specific sectors such as WASH or food security. Thus humanitarian responses are structure within sectoral silos and individual programs are analyzed, designed, and funded accordingly.

Similarly, market-strengthening approaches call for aid organizations to bridge the divide between humanitarian interventions and development programming, which often sit under separate funding structures and departments and hire different skill sets. Donor restrictions and compliance requirements, as well as short time frames for humanitarian programming, narrowing the range of humanitarian programming possibilities and discourage programs from building longer-term strategies.

Market-based programming also requires a greater understanding of the contexts, actors, and systems program participants rely on. In practice, this means in order to coordinate, design, and implement a market-based response, implementers need staff and capacity with a different range of expertise than required for traditional humanitarian responses. Although changing rapidly, teams and individuals equipped to do this within the humanitarian sector are still few in number relative to the scale and ambition for mainstreaming the use of cash and market strengthening approaches.

Recent research by the International Rescue Committee identified barriers to the uptake of humanitarian market analysis, highlighting many of the constraints mentioned here.²⁰ These barriers included staff biases and preferences resulting, in part, from a lack of experience with different modalities and market support programs; limited sharing of expertise between humanitarian and development practitioners; a lack of evidence on various approaches; and restrictions on the use of funds (at both the implementer and donor level) which limited program options and made it more difficult to implement certain modalities.²¹

MISSED OPPORTUNITIES IN A REFUGEE CONTEXT



Agriculture in Uganda²²

Nearly one million refugees who have fled South Sudan's conflict currently live in West Nile, Uganda, and are expected to live there for at least three years. Despite their long-term need for food, agricultural inputs, and income-earning opportunities, humanitarian activities continue to focus on direct distribution, including monthly food rations (which many households resell) and seeds. This distribution hampers trade of the key items people will continue to need throughout their displacement, such as food, even while local market places expand rapidly to sell other items to this new population.

This example highlights the need to transition from in-kind aid to cash in functional market areas. But it also highlights an outdated approach to livelihoods programming in key sectors like agriculture: Across 22 implementing agencies, only one project has worked to strengthen local networks for agro-dealers. Very few partners have invested resources in attracting agricultural buyers to the area. Instead, projects have focused on giving out seeds and tools directly to farmers in their programs.

20 Improving the Uptake of Humanitarian Market Analysis. IRC, CRS, and Mercy Corps. Draft.

21 See, also: https://www.mercycorps.org/sites/default/files/Mercy_Corps_ADAPT_Adapting_aid_report_with_case_studies.7.21.16.pdf

22 Refugee Markets Brief: The power of markets to support refugee economic opportunities in West Nile, Uganda. Mercy Corps, 2017. https://www.mercycorps.org/sites/default/files/WestNileRefugeeMarketsBrief_MercyCorps_Feb2018_2.pdf

New vision for market-based coping and recovery

The humanitarian sector’s evolving understanding of the role of markets in coping and recovery has helped charter a new direction for crisis response. Building on emerging practice, the outlines of an overarching vision come into focus: a response that meets the immediate needs of affected populations while, at the same time, enabling them to take increasing control of their own coping and recovery through local systems and resources.

This vision has four interconnected components. The first two components acknowledge the role of existing approaches that provide direct support to individuals and households, where needed:

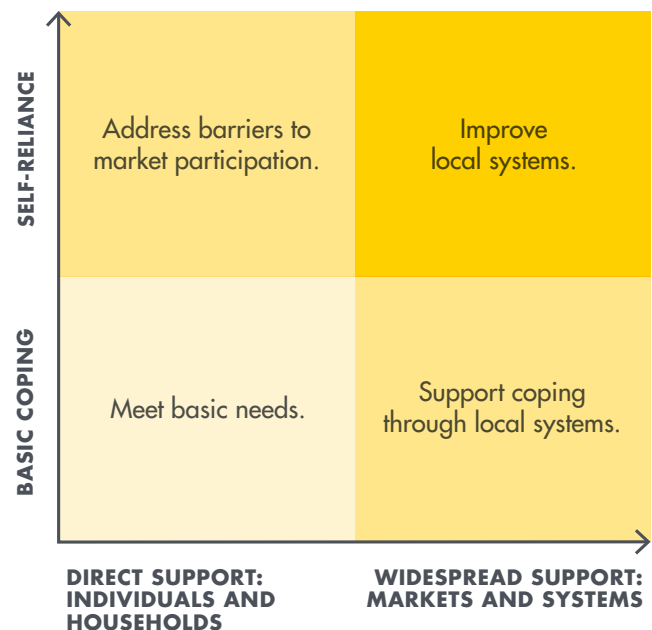
1. Meet basic needs while protecting future productivity
2. Address immediate barriers to individual participation in the local economy

The last two components of this vision challenge the aid sector to engage more deeply with the systems individuals rely on most, to increase the durability and reach of our work:

3. Support coping through local market systems
4. Improve market systems over time

IMPROVING CRISIS RESPONSE THROUGH MARKET SYSTEMS

Aid agencies must meet immediate needs of crisis-affected groups, but support to local systems can increase the reach and durability of aid efforts.



Meet basic needs while protecting future productivity

People facing crises are often forced to take actions that undermine their future productivity, such as selling assets or taking on debt to pay for urgent needs. Such actions make it much harder to cope with a prolonged crisis or prepare for a post-crisis future. One key benefit of cash transfers is their flexibility: Households can meet basic needs while also protecting productive assets and capital.

Different cash transfer approaches have different effects on households’ interest in, and ability to, seize economic opportunities. Recipients of smaller, more frequent transfers are more likely to spend them on food and small purchases. In contrast, recipients of less-frequent but larger lump-sum transfers are more likely to invest in economic opportunities. Increasing the consistency of cash transfers also improves the likelihood that households spend cash on economic investments, because they can better plan their spending.²³

23 <https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/5745.pdf>

Some programs choose to use vouchers, rather than multi-purpose cash transfers, to channel spending through local market networks.²⁴ In these cases, and in cases of in-kind distribution via local procurement, the choice of which vendors are included has implications for local markets and networks. This has ramifications for households' ability to access goods and informal credit. It can also affect local social capital and cohesion.²⁵

LESSONS ON MEETING NEEDS THROUGH MARKETS



Risks of supporting the wrong businesses in northeast Nigeria

Contracting with the wrong business, for either in-kind aid or vouchers poses a risk of undermining markets across complex crises. A market assessment in 2017, led by a consortium of six humanitarian organizations, found NGO supply agreements in northeast Nigeria were mostly benefitting large businesses, which were growing larger due to the contracts. Meanwhile, smaller businesses, including those in periphery markets serving rural populations, were struggling. This creates the risk that smaller businesses will lack capacity to re-enter the market when humanitarian distributions end, with implications for households' ability to access goods and economic opportunities in the future. Without a change of course, humanitarian efforts may be undermining long-term reliability of local market systems.

■ Address immediate barriers to individual participation in the local economy

People facing severe shocks over prolonged crises often lose the ability to earn income or productively engage in the local economy. They may be forced to sell productive assets or lose access to time-sensitive goods and services that help them earn a living. For example, markets may not be able to restock agricultural inputs in time for planting season, or displaced urban households may lack awareness of local demand for goods and services they could produce or sell.

Though the best solution is to build these resilience capacities before crises strike, in moments of acute need humanitarians can provide gap-filling services so households can continue their economic activities. Beyond cash transfers that protect assets, this type of aid often requires direct support through knowledge and skills-building, provision of short-run in-kind aid, or cash-based livelihoods interventions.

These direct-support efforts should be time-bound to moments of acute need and driven by demand and market gaps. For example, job and skills training should respond to an unmet demand for skills and include strategies to link participants to jobs. Similarly, agriculture support should target crops that have identified sales markets or household production gaps tied to food insecurity and nutrition.

Finally, these activities should always include strategies to increase the engagement of local actors, such as local training providers, over time. Humanitarian agencies should transition as quickly as possible to systems-level support through businesses and market institutions, as discussed below.

24 Procurement rules often make it easier for larger, formal businesses to supply aid agencies. By conducting analysis to understand who controls resources and how people use social capital, our programs can aim to support local vendors that are the most critical to household coping.

25 For more information on partner choice and social capital, see: <https://www.mercycorps.org/sites/default/files/Mercy-Corps-Market-Systems-Resilience-Fragile-Contexts-Myanmar-092917.pdf>

SHORT-TERM SUPPORT IN CRISIS

Besieged markets in Syria's active conflict

In Syria, Mercy Corps and its partners provided direct support to vulnerable households, giving cows, sheep, and goats to besieged households who had lost their ability to purchase dairy products. The project also recognized that in order to raise cattle for consumption and sell surplus meat and milk in the localized market, households would need access to feed and other inputs. The project started by directly bringing feed to program participants but then realized that vulnerable households would have more consistent and sustainable access to feed if it was locally produced. Following a market assessment, the program adapted to support local community members grow feed they could sell through their community networks. The quick transition from providing feed directly to supporting the feed market was important for ensuring consistent supply and enabling more households to benefit. (This is covered under "Improve market systems over time.")

Support coping through local market systems

Targeted market support to businesses and local institutions can improve their ability to provide households with critical goods, services, and credit with greater reach and adaptability than humanitarian agencies can achieve directly. These approaches should vary by context, taking into account market robustness and the constraints in each market. Interventions can include simple financial support to businesses, such as cash transfers or co-investments to re-stock supplies. At a more involved level, activities could help merchants build supply relationships or ensure transportation networks are functional. This component leverages the resources and adaptability of market systems to sustain market activity for the duration of programs and increase the reach of programming efforts. It may also have implications for preserving social capital and access to informal financial services throughout crises. The next component will address techniques that go beyond directly sustaining markets and improve their ability to support coping and recovery outside of direct aid support.

WORKING THROUGH MARKETS TO SUPPORT COPING

Supporting traders in South Sudan

In 2015, a market assessment in Panyijar, South Sudan, found that food drops by the World Food Program (WFP) were harming traders' fragile businesses, with negative consequences for consumers. Households were selling food they did not want in local markets in order to buy goods they needed more.²⁶

In response to an assessment which showed the negative impact of in-kind aid on local markets, Mercy Corps designed a program to assist both households and traders with cash transfers. The program provided households with monthly unconditional cash transfers over seven months to access the goods they preferred through the market. The program matched this with three months of cash transfers to a set of cash-strapped traders, helping them replenish stock and meet increased demand. The program's evaluation showed greater increases in sales revenue for supported traders (75 percent vs. <10 percent for non-supported traders) along with increased supply of food in markets.

} MORE

26 Emergency Cash Transfer Programme Feasibility Study. Altai Consulting, 2015.



Supporting bakeries in Syria

Prior to the Syria conflict, the government subsidized flour for a network of private bakeries supplying staple bread to the population. The onset of conflict left bakeries without supplies to provide affordable bread to their communities. In addition to the basic need for food, keeping bread prices low was important for social stability and mitigating risk of violence.

Instead of trucking in food to provide directly to households in need, Mercy Corps designed a program that provided bakeries with roughly 50 percent of flour for production, ensuring local bakeries were able to continue operating and selling bread at an affordable price. The program also monitored prices of other key inputs identified in market assessments (in particular, yeast and fuel) to ensure they remained available to bakeries.

Using this market-driven approach, the program reached an average of 100,000 people per day, far more than a model of direct bread delivery could have managed. However, the program, which operated for four years, recognized that in-kind flour reimbursements threatened local markets for wheat production, procurement, and milling. While the program struggled to make adjustments to support a durable flour market, it was able to reduce the flour subsidy percentage over time.²⁷

Improve market systems over time

The final component—improving local market systems—is closely linked with market-based coping but calls for the greatest departure from current practice.

In addition to the work captured in the three earlier components, humanitarian actors need to look beyond immediate marketplace activity and address the various supporting systems that shape markets so households can better rely on them for goods, services, and income. These systems include financial services, transportation, energy, natural resources, and input provision, as well as parts of the enabling environment such as regulations and social norms.

Strengthening supporting systems can take many forms. For example, linking traders to suppliers with cash reserves and providing them coaching or short-run subsidies can reduce their operating risks. This, in turn, can improve traders' ability to access key goods and provide sales on credit to cash-strapped households. Likewise, working with governments on regulatory changes can make it easier for refugees to get identification documents and secure access to work. And partnering with businesses in key employment sectors can create new job opportunities. The prior components of this vision also connect to this work, as efforts to improve market systems can complement market-based support for basic needs.

This vision requires humanitarian agencies to rethink their roles in crisis contexts: from not just saving lives and ensuring protection for crisis-affected populations but to implementing activities that were historically considered "development" interventions. This shift will force relief and development teams to work together to design programs that combine quick response methodologies and complex technical approaches. This vision builds upon other systems-led approaches, including market systems development and resilience, but recognizes that using these approaches in a crisis setting requires a shift in program tactics as well as the institutional incentives and structures of aid.

27 BREAD Flour Market Analysis report 2015, BREAD II program reports, staff interviews.

Naturally, this new vision also calls for different approaches in different protracted crisis contexts. Robust and stable contexts that host refugees, like Jordan, offer opportunities for agencies to shape existing markets, strengthening them to provide employment for refugees and improve market-based employment services. Weak and unstable market contexts, like South Sudan, require approaches to improve basic trade flows for key goods.

IMPROVING MARKET SYSTEMS



Strengthening trade routes in South Sudan

In the example described above, Mercy Corps supported traders with cash to purchase supplies and thus keep markets functioning in a conflict context. However, when the program ended, the final evaluation warned that traders might not be able to continue supplying the market at current levels without continued support. In order to encourage more durable trade in program areas, the subsequent program partnered with traders to address other constraints related to transport and business capacity. In addition to continuing cash support to traders who had not yet received capital injections, the program provided business skills training hosted and cost-shared with the local traders' association and supported the association in negotiating improved transit fees for its members. In the follow-on phase, the program made plans with the association to provide affordable loans to purchase boats for river trade.



Building agriculture market systems in Uganda

Across the border, in West Nile, Uganda, Mercy Corps and its partners are strengthening agricultural input and produce markets for South Sudanese refugees. The model builds on market systems experience from the Acholi region of Uganda, where program investments have helped agro-input and output businesses reach 60,000 farmers on an annual basis.

Because there were previously no input sellers in local refugee settlements, the project supported agro-dealer network growth from the ground up. It partnered with agro-dealers in nearby towns who saw the business potential of working with refugees, but had limited experience expanding their networks and wanted to mitigate the financial risks of doing so. To address this, the project helped agro-dealers identify agents in the settlements who could help market and sell seeds. To encourage refugee purchases and avoid the negative effects of in-kind aid, the project funded a 60 percent discounted voucher for inputs, marketed as a coupon-based promotion to reduce the visibility of aid actors in the transaction. This strategy encouraged longer-run direct relationships and social capital between agro-dealers, agents, and farmers, with the goal of increasing farmers' access to market-based goods and services after the project ended. It also aimed to make project dollars go further by leveraging local purchasing power and the resources of local businesses.

In the first growing season, 75 percent of refugees who received input coupons purchased seeds through agro-dealers. One partner agro-dealer noted that his customer base (beyond program activities) is now 20-25 percent refugees, a point echoed by other input suppliers in the area. He has since opened a shop in a refugee settlement to better serve his new customers. The same project then worked to increase farmers' income potential after harvest: By partnering with domestic and export-oriented businesses to expand their operations in West Nile, farmers had improved access to markets where they could sell their surplus crops. However, the project recognized that supporting durable changes in the agriculture market would take multiple seasons of interventions and also required work on other aspects of West Nile's market systems, such as financial services.

Challenges and limitations of a market-driven approach

Putting this new approach into practice requires aid agencies to understand its limitations and mitigate its risks. The design and implementation of market-based interventions must include an explicit focus on the barriers most relevant to vulnerable groups, such as lowering the cost of goods and inputs or increasing the availability of appropriate jobs.²⁸ Where possible, approaches for market-based coping should also be paired with efforts to improve social safety nets that serve the most vulnerable over the long run.

Similarly, a market-driven approach contributes to basic food security by ensuring availability and access, but complementary efforts may be needed to achieve nutrition outcomes. Other determinants affect whether individuals consume the type and amount of food they need for their physical well-being, or whether they can maintain sufficient health to allow their bodies to make use of that food.²⁹ For example, social norms, gender, and youth dynamics all play critical roles in food security and nutrition.³⁰ Availability of safe water and sanitation, which are often disrupted when crisis causes displacement, are also vital.

As with many aid approaches, market-driven programming risks reinforcing local power structures in ways that harm or exclude the vulnerable (see Appendix). Political economy and “Do No Harm” analyses, aimed at understanding who controls resources in markets as well as factors that divide and connect actors, are critical steps in designing effective partnerships and interventions. This includes identifying who has the social capital to access resources, such as information, credit, and jobs, and who does not. Gender, identity, and age dynamics are all important dimensions. In conflict-affected areas, this analysis should also include efforts to understand and mitigate risks of conflict actors controlling resources or limiting market access. Acting on this information, agencies can identify interventions that reduce inequalities between conflicting identity groups.

Finally, investments that strengthen local coping through markets may take time to implement and show results. For this reason, the market-driven approach outlined here allows the flexibility to respond to urgent, life-saving needs through direct interventions, while adapting and complementing these activities with those that improve households’ market access over time.

Ultimately, this vision is aimed at supporting crisis-affected populations on a path toward greater resilience. However, we recognize that strengthening market systems is only a part of the solution. It alone is not likely to be sufficient to build long-term resilience without work to support other crucial enabling systems, including effective governance and social systems. Yet market systems are a critical entry point in protracted crises given these contexts are typically characterized by a breakdown in formal governance institutions that people rely on to manage shocks and stresses.

28 An example of selecting markets based on vulnerability in conflict: <https://www.mercycorps.org/sites/default/files/Northeast%20Nigeria%20Joint%20LMRA%202017.pdf>

29 For more information, see Mercy Corps’ food security approach: <https://mcdl.mercycorps.org/gsd/docs/FoodSecurityApproach.pdf>

30 For more information, see, “Resilience for Food Security.” Mercy Corps. Draft.

Making this vision a reality

The following recommendations aim to push the international community further. The increase in cash transfers is a good step, but it is only the first step to increasing the agency and independence of vulnerable groups caught in crisis. At its core, this approach relies on the principles of adaptive management, which enable programs to respond to shifts in needs, engage with markets when they show the capacity to recover, and test and learn from new approaches.³¹

Policy

For donor institutions and governments

- › Increase the timeframes for program funding in crisis contexts beyond six-month and one-year cycles. Consistent funding and staffing improve implementers' ability to learn, test, and improve interventions. Longer timeframes also reduce administrative burdens of project start-up and close-out and increase program cost-efficiency.³²
- › Increase the flexibility of funding mechanisms so implementers can change course based upon contextual realities. Reduce compliance and reporting barriers that make it more difficult for implementers to switch between in-kind aid and cash transfer programming and limit agencies' ability to partner with local businesses and informal institutions.³³ Remove limitations on budget flexibility and minimize pre-approval requirements for shifts in implementation approaches.
- › Release program funds in protracted crises from both humanitarian and development funding pools. Minimize bureaucratic processes that delay and obstruct the implementation of co-funded programming.
- › Fund multi-sectoral programs robust enough that beneficiaries can effectively meet a range of needs with a single program. Encourage cooperation across the cluster system, emphasizing support that is most efficient for the participant, rather than for the UN system or implementing agency.
- › Encourage host-government policies and practices that enable crisis-affected populations to drive their own coping and recovery strategies. This includes the right to work for displaced populations and refugees; support with verified identities, business registration, and recovery of land titles and other legal documentation; access to financial services and information; and other practices that encourage displaced communities to become positive contributors to the local economy.

For implementers

- › Ensure internal policies and structures; including procurement and operational systems, financial rules, and monitoring guidance; support field teams to be nimble in switching modalities and building program partnerships, including with businesses and informal organizations.

31 For more on adaptive management in humanitarian contexts, see: <https://www.mercycorps.org/research/adaptive-management-case-studies>

32 Some donors, such as DfID, are providing longer-term funding in high risk environments, including a four year grant in South Sudan and five year grants in Syria. The examples of trader support in South Sudan mentioned in this paper are possible as a result of this funding structure.

33 https://www.mercycorps.org/sites/default/files/Mercy_Corps_ADAPT_Syria_case_study.7.21.16.pdf

Practice

For donor institutions and governments

- › Fund better market analysis and learning and encourage broad sharing of learning. Support budgets to monitor the effects humanitarian programs have on households and market actors beyond those directly involved in program activities, and beyond the end of program activities.
- › Break down funding and coordination barriers, such as those between development and humanitarian programs, in order to increase implementers' capacity to adapt to changing circumstances and implement complementary relief and recovery programming that responds to the realities of the context.
- › Fund and encourage testing of activities that support local businesses and market institutions. These activities include cost-sharing with private sector actors to spark market activities that benefit crisis-affected groups.

For implementers

- › Elevate the quantity and quality of market analysis, both formal and informal. Commit to more in-depth context analysis and identify light-touch, fast, and informal feedback systems that help program teams adapt. Be willing to share lessons, both positive and negative, with the wider community.³⁴
- › Use this information to select local partners that improve vulnerable groups' market access, realizing that *how* programs implement market approaches is as important as *what* they implement.
- › Where possible, use multipurpose cash transfers that enable households to cover a range of immediate needs. Be ready to adapt as needed to market signals. Where market conditions do not support the use of cash transfers, work to improve and sustain market solutions over time and shift modalities as soon as possible.
- › Reduce silos between programs and sectors, recognizing that basic needs and recovery programming should happen at the same time and that populations' needs cross sector lines. Build partnerships between aid groups, private sector and financial entities, government departments, regulatory bodies, and researchers and learn from the experience of established actors in contexts where crises and displacement occur.
- › When donor funding cycles are shorter than timeframes for crisis and recovery, invest in cross-program learning and shared, longer-term objectives so interventions can build on context knowledge, partnerships, and lessons from program experience and have a greater impact over time.
- › Overcome the institutional inertia of workplans, team formations, and administrative structures set up early in a crisis response in order to adapt strategies and modalities to changing contexts. As crises and needs shift, aid agencies must also adapt their organizations.

Opportunities for further research and learning

There is a need for further evidence to support evolving practice in market-driven crisis response. Key areas for research and learning include: better documentation of how markets and businesses adapt in challenging environments; learning on the role of market-driven programming in sustaining and strengthening social capital; and research on outcomes and the system effects of aid, including a focus beyond direct beneficiaries and program timeframes.

34 The CONCUR program in Nigeria's middle belt improved economic cooperation and relationships among the farmers and pastoralist communities in conflict so that over four years 70 percent reported improved economic productivity and ability to pursue a livelihood. For details, see: https://www.mercycorps.org/sites/default/files/Conflict%20Resilience%20Research%20Brief_FINAL%20%281%29.pdf. For recommendations on how to identify and link vulnerable groups to credit, see https://www.mercycorps.org/sites/default/files/Learning%20Brief_Can_MSD_Build_Resilience_Mercy_Corps.pdf and https://www.mercycorps.org/sites/default/files/MercyCorps_EconomicRecoveryAssessment_SierraLeone_2015.pdf.

Appendix

Social and financial capital

In any crisis context, **the ability to earn income** or access money is a significant indicator of productive coping and recovery. Whether through jobs, self-employment, or remittances, individuals and households seek reliable income to meet basic needs and invest in their future well-being. Two elements of local systems are key to enabling this: social capital and financial capital.

Social capital—the relationships and trust between individuals—helps crisis-affected households share knowledge, find income opportunities, borrow money, and obtain resources. Similarly, local businesses in crises rely on their networks to gather market information; exchange goods, services, and financing; and anticipate shifts in the operating environment. In recent research across five post-conflict contexts, social capital proved to be a necessary foundation for recovery.³⁵

However, a lack of social connections can exacerbate the disadvantages faced by certain groups, and the wrong kind of social connections can also deepen existing power dynamics, potentially undermining local trust and helpful social capital. For example, in South Sudan, elites were able to dominate trade from Uganda by limiting currency access at the official, preferred exchange rates. Businesses without access to these rates were more vulnerable to inflation when trading on unofficial exchange markets, and thus could not compete with the elite traders.³⁶

Social and Political Risks of Market Disruption

When markets suffer as a result of insecurity, it can create problems that may further inflame conflict and threaten security for vulnerable groups. Here are a few ways this can occur:

- › Elite capture can exacerbate inequalities between groups, which may reinforce pre-existing grievances or create new grievances that will perpetuate conflict in the future. For example, as access to land in Eastern DRC was increasingly used as a reward for political loyalty in the post-colonial period, ethnic identities hardened and competition for land increased, leading to the eruption of violent disputes between ethnic communities over access to land.³⁷
- › Uneven power relationships in markets can foster the development of a war economy in which certain actors benefit financially from the perpetuation of instability and engage in activities that make instability likely. For example, jade mining in northern Myanmar generates income for elites affiliated with the former military dictatorship and is a primary driver of armed conflict between the government and the Kachin Independence Army.³⁸
- › A history of violence can destroy the trust and personal relationships that undergird cross-group economic relationships, interactions, and associations and which function as a protective factor in preventing intergroup conflict.³⁹

35 <https://securelivelihoods.org/> and https://securelivelihoods.org/wp-content/uploads/Livelihoods-conflict-and-recovery_Findings-from-the-Secure-Livelihoods-Research-Consortium-1.pdf

36 <https://www.odi.org/sites/odi.org.uk/files/resource-documents/11722.pdf>

37 Vlassenroot, Koen and Chris Huggins. 2005/2006. Land, migration, and conflict in Eastern DRC. In "From the ground up: land rights, conflict and peace in Sub-Saharan Africa," pages 115-194. Pretoria: Institute for Security Studies.

38 Global Witness. October 2015. Jade: Myanmar's "Big State Secret." <https://www.globalwitness.org/en/campaigns/oil-gas-and-mining/myanmarjade/>

39 Varshney, Ashutosh. 2002. *Ethnic Conflict and Civic Life: Hindus and Muslims in India*. Yale University Press.

Financial capital (funds) is central to market systems in all contexts and is especially important for households and businesses facing crises. Households struggle to pay ongoing expenses, smooth unpredictable income streams, and invest in opportunities. They turn to various sources of funds, including remittances from friends and family, buy-on-credit schemes at local shops, loans, or the sale of assets. Beyond the household level, the financial sector provides critical support for the effective and efficient functioning of other market sectors, from agriculture to health to transportation.

Financial capital flows through a variety of **financial services**, such as savings, storage of funds, credit, remittances, leasing, insurance, and other risk mitigation products. These services can be provided by a wide range of actors: banks (commercial and public), microfinance institutions, credit unions, savings and credit cooperatives, mobile network operators, leasing companies, insurance providers, post offices, savings groups, and between market actors. Financial services can reduce transaction costs by making the exchange of goods and services more efficient, safer, cheaper, faster, and viable across greater distances. Financial services can mitigate household risks, smooth consumption, support business repair and growth, and enable the development of new enterprises.

Social capital often provides the foundation for financial activity during active conflict, especially remittance payments and informal credit. Informal sources of finance from family, friends, and close business ties may be cheaper, lower risk, and easier to access for vulnerable groups, in stable times and especially when crises force formal lending institutions to curtail activities.

Financial systems: Mobile money in crises⁴⁰

Mobile money is a critical part of the financial system in many countries. It relies on supporting functions such as IT infrastructure, governance, and social norms to work. In some contexts, it has filled gaps caused by conflict. For example, in Somalia, mobile money has spread (reaching 37% user rate, compared to an average 12% across Sub-Saharan Africa) in a context where chronic social/political instability and lack of physical infrastructure restrict the movement of cash across borders. Here the market for mobile money has thrived because mobile operators and clients operate on strong trust-based norms rather than regulations and legal agreements. There have also been strong investments in mobile money infrastructure by the private sector and diaspora populations.

During acute crises, such as the 2011 political instability in Cote d'Ivoire, an existing mobile money system ensured payments continued even when people's movement was restricted by insecurity.

In contrast, weak supporting systems in some countries have prevented mobile money from taking hold and thriving. The Democratic Republic of Congo has active mobile operators, but weak physical infrastructure, limited government influence outside the capital, and a lack of private investors in mobile money have prevented it from reaching the scale necessary to be an attractive alternative to cash. In South Sudan and the Central African Republic, two of the poorest and most volatile countries in the world, the presence of active markets and mobile operators is not enough to overcome the lack of public infrastructure, agents, sources of liquidity, and regulatory environment.

⁴⁰ Adapted from <https://www.mercycorps.org/press-room/releases/mercy-corps-financial-inclusion-offers-promise-fighting-inequality-and-promoting>

CONTACT

ALISON HEMBERGER

Senior Advisor | Markets and Learning
ahemberger@mercycorps.org

SASHA MUENCH

Senior Director | Markets Economic Recovery and Growth
smuench@mercycorps.org

About Mercy Corps

Mercy Corps is a leading global organization powered by the belief that a better world is possible. In disaster, in hardship, in more than 40 countries around the world, we partner to put bold solutions into action — helping people triumph over adversity and build stronger communities from within. Now, and for the future.



45 SW Ankeny Street
Portland, Oregon 97204
888.842.0842

mercycorps.org