

 **MSD in fragile and conflict-affected situations:**
Lessons for donors working at the intersection of
humanitarian and development responses to the Covid pandemic

Policy note for discussion

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This policy note is the outcome of a literature review and collaborative reflection on markets across a wide range of fragile contexts, both humanitarian and development, taking in the perspective of a broad range of actors. Two consultative groups were formed--one for donors and another for implementers--to reflect on the findings of the literature review and draw out the most critical points to be included in the note.

The findings of each group were shared with the other and further discussed. The process brought to the front the most relevant issues faced by donors and implementers today, and these discussions have continued to gain momentum during the writing process, as wider conversations around fragile contexts and COVID recovery are playing out.

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Market systems development in fragile and conflict-affected situations: lessons for donors

1. Introduction and Context

1.1 What is MSD in fragile and conflict-affected situations?

Some **1.8 billion people live in fragile and conflict-affected situations (FCAS), exposed to risks that are beyond the capacity of the state, systems, or communities to manage or mitigate.** Today these vulnerable populations comprise three-quarters of all the people still living in extreme poverty in the world.

As the useful **OECD 'States of Fragility' tool** illustrates, fragility has economic, environmental, political and societal dimensions as well as insecurity caused by conflict. Every FCAS situation is unique, but one common feature is the recurrence and persistence of humanitarian crises. Frequently these crises elicit short-term humanitarian responses set against a backdrop of on-going development assistance and / or peace-building initiatives. A major programming issue in FCAS is managing the **nexus of contrasting mandates** that thus arise.

The MSD approach offers a powerful set of tools and practices for achieving greater coherence around livelihoods and economic recovery in this context. It provides a means for understanding both immediate shocks and the underlying issues that obstruct countries and communities from moving out of fragility. It can play a critical role in the restoration of functioning markets, which supports recovery and peace, and has the potential to reduce the need for ongoing humanitarian support.

The reality of most humanitarian crises is that they increasingly require expensive and drawn-out responses. This is illustrated by the **10 - 15 years** that the average refugee now spends in a camp. There are calls for the humanitarian and development communities to change their **ways of working** so that underlying systemic issues are not ignored when addressing the immediate impacts of shocks. By moving beyond a simplistic view of “needs” and understanding people’s lives within their social and economic contexts, we can situate their urgent needs within a wider context of resilience, and so blend short and long-term responses to a crisis.

Key Definitions

Fragility: the combination of exposure to risk and insufficient coping capacities of the state, system and/or communities to manage, absorb or mitigate those risks.

Humanitarian Crises: Events, or series of events, that threaten the health, safety or well-being of a community or large group of people.

Market-based Programming: a broad framework for understanding initiatives that work through or support local markets in humanitarian crises. The framework covers all types of engagement with market actors, ranging from actions that deliver immediate relief to those that strengthen and catalyse local market systems (including using MSD).

Market Systems Development (MSD): a coherent medium-term approach to understanding and intervening in markets so that they work better for people living in poverty. MSD works for lasting change by addressing the root causes of market exclusion and weak performance in the economic systems upon which poor women and men rely.

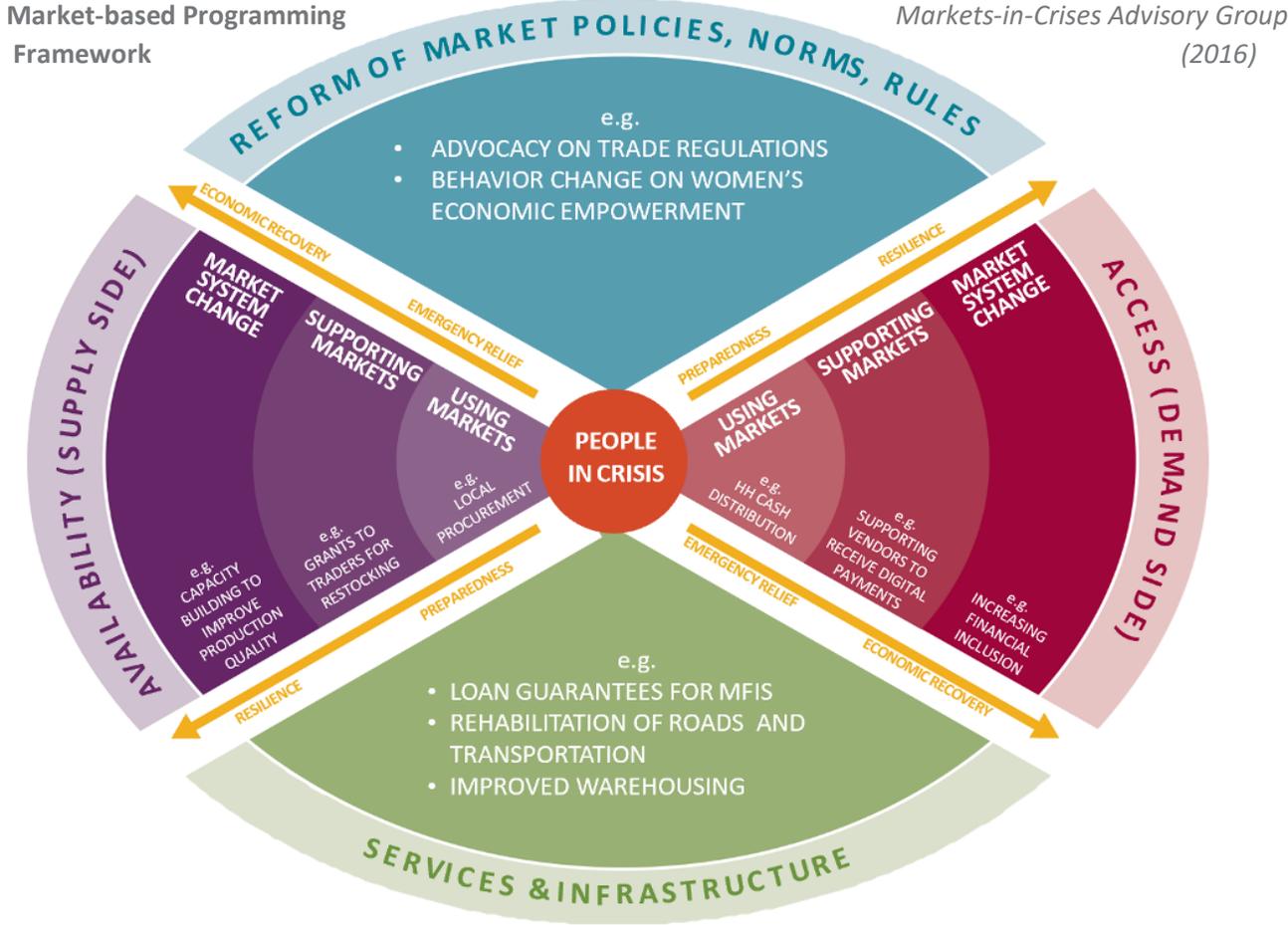
The Nexus Principle: the drive for collaboration, coherence and complementarity across the respective mandates of humanitarian, development and peace-building actors. It recognises the interlinkages and promotes simultaneous engagement and shared responsibility to reduce the likelihood and impact of recurrent and protracted crises.

The response to COVID-19 provides an example of co-ordinating short-term responses to address immediate needs with medium and long-term systemic approaches. The pandemic represents an unanticipated shock that has hit fragile countries, layering an additional crisis on populations simultaneously facing many other crises. Unsurprisingly, it has created record-breaking needs. In the earliest days of the COVID response, short-term humanitarian funding was used to address immediate needs, particularly related to preventing the spread of the virus. Some MSD programmes pivoted to supporting businesses to maintain operations during the pandemic, but the overall response was largely focused on the health crisis.

With vaccines now identified and a year of lockdown data available, it is much more feasible to predict the recovery trajectory of the next few years—funding could now move away from the short-term towards the longer-term. Some funding will still be needed for vaccine roll-out, but a larger proportion could begin to address the impact of the COVID pandemic on wider systems—specifically economic recovery and getting educational systems back on track.

In this sense, the MSD approach aligns well with OECD-DAC’s recommendation to promote more coherent action in FCAS. It recognises that “market actors” include poor women and men engaging with market systems as labourers, producers, entrepreneurs, and consumers. In fragile contexts, market interventions can range from actions that deliver immediate relief, to actions that proactively strengthen local market systems and key industries. In addition to asking: “How can we use local markets to deliver humanitarian aid?” we can ask “How are communities using markets to meet their needs, and how can we help markets restore their ability to do that?”

1.2 Common Frameworks



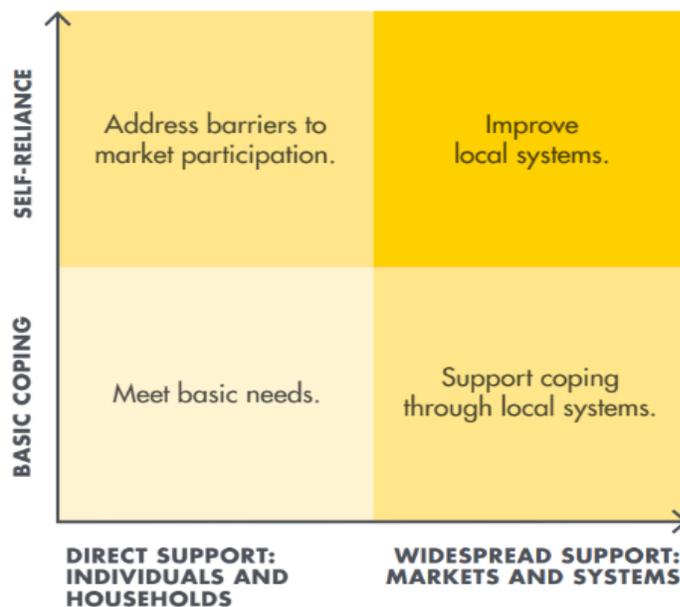
Case studies show that the market challenges in fragile countries are not generally *caused by* the crisis, simply exacerbated by them—most markets in FCAS exist *despite* the fragility. Therefore it is rarely a question of *whether* market activity will continue; it is simply a question of how markets function and how to make them more efficient and inclusive. The same shock will affect different market sectors in different ways. There are several frameworks that can support the use of the MSD approach in fragile contexts.

The **Market-based programming framework developed by the Markets in Crises community** illustrates the relationship and connections between MSD and the range of market-based responses in fragile and humanitarian settings. It provides a useful starting point for understanding how humanitarian engagement can be market-based.

The framework puts people in crisis at the centre, to mitigate concerns that working with ‘market actors’ shifts the focus away from poor and disenfranchised people. Like the well-established **M4P/MSD ‘doughnut’** and the **EMMA Toolkit** (Emergency Market Mapping and Analysis) this framework puts Policies, Norms and Rules at the top of the graphic and Services and Infrastructure at the bottom, with supply and demand issues addressed through the middle. Crucially, the middle section also differentiates levels of market engagement by aid actors and notes the need for preparedness and resilience activities.

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.



A second helpful framework for understanding direct vs indirect support in fragile contexts is **Mercy Corps’ matrix**.

This illustrates how direct and systems-level approaches contribute to meeting immediate needs as well as building self-reliance over the longer term.

While **some researchers** have noted that there are “fundamental differences between the traditions of humanitarian and development agencies and departments within the same organisations” this simple matrix provides a starting point for discussion on these differing roles and the potential for smoother transition between them.

Finally, the **Minimum Economic Recovery Standards (MERS)** also provide guidance on using markets to address humanitarian and economic recovery needs. As a **Sphere** companion, the MERS are rooted in humanitarian tradition, but with a strong market systems leaning. They provide another opportunity for humanitarian and development actors to build common ground. If donors required implementers to incorporate elements of these tools and standards into their monitoring and evaluation, it is likely that programming in fragile contexts would become more market-aware and have improved outcomes.

2. Framing Questions

This policy note does not aim to define the specific combination of humanitarian and MSD approaches that could be used in FCAS, as this will vary considerably based on the context. Instead, it identifies barriers and provides recommendations so that donors can take the lead in providing appropriate assistance to support the right combination of humanitarian and MSD approaches. Overarching all of this is the expectation of meeting the minimum standards of 'do no harm' and being 'market aware'.

2.1 What are the barriers to using the MSD approach in fragile contexts?

Immediately after the onset of a crisis, MSD and humanitarian actors share the same end goal—to meet urgent needs and support recovery. However, their approaches typically engage with quite different stakeholders, partners and tactics in order to achieve these goals.

So, what are the barriers to using market approaches in fragile contexts?

Five issues consistently come up in the literature:

- **Unfamiliarity with systemic approaches, leading to an implicit preference for direct delivery** – Cash and voucher programming is recognised as an important step towards market-aware programming. However, the systemic approaches used in MSD are often unfamiliar to humanitarian staff, and sometimes seen as **a challenge to traditional humanitarian targeting practices**. Humanitarian staff may not consider indirect approaches, preferring to stick to trusted solutions and proven models. This tends to mean that results indicators do not address underlying issues of fragility. **Building in requirements and indicators** that acknowledge the longer-term impacts of humanitarian aid should support a conversation around the appropriate mix of humanitarian and MSD approaches in early recovery.
- **Lack of awareness of the capacity of local actors** – MSD engages local capacity and networks to improve the functioning of key sectors. In moments of crisis, local private sector networks can sometimes **reach farther and faster** than aid agencies. Yet, humanitarian staff with less market or economic experience may be **uncomfortable partnering with the local private sector**. MSD actors may also hold the belief that local actors are not capable of spurring wider change. Yet, as we have seen in COVID-19 responses, local businesses can adapt quickly to the populations' needs because they work through local networks and obtain access in ways that aid agencies sometimes cannot. **Specific coordination between humanitarian and MSD actors** on this point can help overcome the lack of familiarity or comfort.

The MADE programme in the Niger Delta operated an area of continuous instability and insecurity, where those living in extreme poverty -50% of the population -remained as they were a decade ago. Yet, this MSD programme still managed a higher standard of transformational change by finding risk-tolerant partners and using innovative business models that bundled knowledge, products, and equipment into packages that farmers could afford. This created a space for learning—for partners, and for MADE. **PIND, 2020**

- **Risk aversion** – Donor staff and local authorities can also be opposed to indirect interventions in fragile contexts, particularly if they do not immediately see how the intervention benefits those most in need. Implementing market systems analyses early and updating them often can help address this lack of awareness, as can market-aware disaster risk reduction programming. What is clear is that **aid can reduce supply** (traders limit supply for fear of not being able to sell it) creating a chicken-and-egg situation, in which the slowdown of trade justifies continued aid distributions. This points to the need for greater coordination if harm is really to be avoided.

In West Nile, Uganda an MSD team found direct distributions were distorting incentives: During harvest season, farmers with locally-grown sorghum faced competition from households selling their sorghum aid rations at cheap prices. Distribution of in-kind seeds and tools also undercut markets for agriculture inputs. The few sellers of inputs existing in and around the refugee settlements in West Nile complained that these free distributions prevented them from expanding into the settlements
Mercy Corps, 2019

- **Lack of preparation** – Few crises happen without any warning; by the nature of being FCAS we should be acutely aware of the potential for specific shocks. Preparation activities, particularly around known risks, can help pave the way for better coordination between humanitarian and MSD actors because discussion can take place without the pressure that a crisis brings. Preparation activities (for households, businesses, and markets) can **save money** and create buy-in for using better approaches in the future. Having the right people in place at the right time can also address the frequently-cited issue of “there isn’t time”. **Encourage discussions between donors and between humanitarian and MSD actors** about the options for programming—how do certain kinds of aid undermine recovery or spark local solutions to problems?
- **Operational culture** – It is clear from the literature that a significant number of **barriers to MSD in fragile contexts are institutional** rather than contextual; back-office functions are not always aligned with field needs. Yet, adapting to rapid changes requires the effective use of *existing* flexibility within funding, procurement, contracting and programme management. Logistics and purchasing decisions should be geared toward helping local economies recover wherever possible, and not structured so that only large firms can apply.

In Pakistan, aid agencies purchased bamboo from agents capable of taking on large contracts and managing donor procurement requirements. These agents bought from normal traders at nearly a 100% markup, though the role they played was limited to paperwork and pre-financing of suppliers. This meant that aid donors (who had enough capital pre-finance purchases themselves) were effectively paying for working capital at an APR of about 6000%. Lesson: the way in which aid agencies interacted with the markets made it more expensive.
ODI, 2017

2.2 Building flexibility and adaptation into MSD programmes in fragile contexts

Advocates of the MSD approaches also grapple with the need for increased flexibility and adaptation, which is even more relevant in fragile contexts. The decision to use an adaptive strategy generally begins with the acknowledgement that it is not clear how best to achieve success in a given context. Adaptive management, whether used by humanitarian or development donors, therefore starts with a mindset shift.

Across the literature, three clear themes emerge that contribute to programme flexibility and adaptation:

- **Increase the flexibility of funding**
Institutional structures often do not make it easy to increase the flexibility and innovation of funding mechanisms. But forethought in the design of programmes (timelines, the level of detail required in proposals, contingency funds, monitoring and reporting requirements) and building a strong collaborative relationship between donor and implementer staff can help programmes **understand where and when change might be allowed**. A high level of trust is one of the greatest determiners of whether a programme is able to adapt, regardless of the fragility of the setting. **Develop anticipatory strategies** or a menu of options to put in place systems and resources that allow teams to switch tactics relatively swiftly.

- **Ensure strong data is available for decision-making**
Build nimble but robust and consistent monitoring systems and develop the practice of regularly reviewing available data (both qualitative and quantitative) to determine if changes are needed. This includes data relevant to MSD (e.g. trader surveys, access to finance) alongside traditional humanitarian data (e.g. changes in food prices). It is very easy for teams to continue doing ‘more of the same’, particularly if targets are being met. This can mask the opportunity for improvement and adjustments that are more commonly necessary in fragile contexts. When good data is available – share it widely.
- **Decentralise decision-making**
Much of the literature of adaptation notes the need to hire staff with ‘the right attitude’ even more than the right skills. This should be combined with regular opportunities to formally and informally strengthen critical thinking skills for staff on the ground. When combined with courageous leadership that supports staff to experiment, programmes are likely to be more innovative and have greater impact.

2.3 Are there specific opportunities for MSD to support economic recovery, especially for women, after COVID-19?

COVID-19 has amplified the key causes of fragility such as weak governance, economic inequality and deficits of public trust. MSD is more relevant than ever because it provides a framework for rebuilding jobs and increasing incomes, and in particular strengthening food security by supporting food systems. There is a real opportunity to work on combined approaches, bringing together relevant humanitarian and MSD structures to work within the nexus. Previous work in fragile contexts has also taught us that innovation is essential for an effective recovery, and that is likely to inform the response to COVID recovery as well.

Women are expected to be particularly affected by the economic fallout from COVID-19, in part because they are often employed in insecure jobs in vulnerable industries (such as hospitality, administration, and manufacturing). McKinsey has reported that women’s jobs are nearly twice as vulnerable to the COVID-19 crisis as men’s jobs: women make up 39 percent of global employment but account for 54 percent of overall job losses in 2020. By promoting employment and providing support for SMEs, especially those owned by women and the disadvantaged, MSD can help rebuild key sectors for FCAS such as agriculture.

Studies have shown that markets’ ability to function is hit hardest by a breakdown in credit, and this has a domino effect throughout the market system, hitting women and the poor the hardest. Remittances also play an important role in household income and business investments in fragile states. Identifying opportunities to strengthen the cash flow of households and businesses may help jump-start recovery, but short-term approaches must be paired with financial inclusion work to ensure that the recovery is sustained.

MSD activities should explicitly define WEE objectives and investments, seeking to maximize women’s access to market opportunities and their agency within those opportunities. Increased agency means greater decision-making authority, as well as addressing how responsibilities around childcare and unpaid care work interact with their economic opportunities, to ensure that economic recovery is realistic and does not add to women’s burden. In addition, women must be better incorporated into decision-making regarding the design, implementation and evaluation of crisis responses. Social norms need to be addressed, especially those that limit building resilience.

“Investment in women reliably reaches families and communities. And it’s not just about the women entrepreneurs who own those investee companies. Women entrepreneurs are also more likely to hire women and the positive effects on communities are multiplied.”

Palladium, 2020

3. Ten recommendations for MSD programming in fragile contexts

- Be market-aware and Do No Harm.**

No activity is market neutral, and markets are used by all technical sectors. Insist on **market assessments immediately after a crisis**, as part of emergency needs assessments, or utilise those available from MSD partners and make plans for regular follow-up as markets will change as the crisis evolves. This is also a minimum standard within the MERS—donors should ask implementers to demonstrate that they are market aware as part of monitoring, evaluation and learning (MEL) plans.
- Encourage collaboration by coordinating internally.**

In some fragile contexts, the same government or donor agency is funding both humanitarian and development activities, but not coordinating between their teams. Greater internal coordination and clarity on the priorities of various funding streams can help ensure that humanitarian and development implementers' **work across the nexus** does not undermine one another.
- Look for opportunities to make funding less siloed.**

Create incentives for implementers to think long-term (i.e. different indicators, alignment with MERS) and develop **theories of change** that link short and long term objectives. Many donor systems are structured in ways that make it very difficult to link funding for humanitarian and development funding, but **identify opportunities** for parallel investments, transitional aid, or the **harmonisation of aid objectives** across donors.
- Support active learning and provide flexibility where possible.**

Design funding agreements with **flexibility** where appropriate and clarify which areas are fixed and which may be adapted with approval or without approval. This helps with **aligning humanitarian and market systems approaches**. Identify ways to apply systemic MSD thinking to the most likely crisis responses.
- Ensure strong data is available for decision-making.**

Insist on market assessments immediately after a crisis as part of needs assessments, update them often, and use the data when making decisions. Build **nimble but robust and consistent monitoring systems**. Encourage humanitarian actors to track indicators that will feed into resilience activities or future market systems strengthening activities, particularly if they are working on cash programming.
- Improve the context for fragile countries by supporting critical market systems.**

Humanitarian programmes should be **'market aware' at a minimum**, and include **'market strengthening'** where possible, even if they are not specifically developing markets. Invest in infrastructure as part of risk reduction, crisis response and nexus work. Employ the strategic use of aid to support local markets (including infrastructure). *How* recovery happens matters.
- Support local private sector.**

Recognise that local private sector networks can sometimes reach farther and faster than aid agencies and should be given consideration as **implementing partners**. Show a preference for cash and vouchers over direct delivery (for example the provision of seeds) and simplify voucher processes to make it easier for small suppliers to participate. Ensure small businesses, especially those owned by women, have access to credit and additional support to build their capacity to manage their finances.

- Invest in women.**
Be explicit about women's economic empowerment objectives in both humanitarian and MSD programming and ensure their voices are heard **during design and monitoring**. Target loans and other SME investments towards women who have been hit by the economic effects of the pandemic.
- Procurement should minimise market disruption and support recovery where possible.**
Avoid structuring large **procurements** so that only large firms can apply. Be thoughtful about potential impacts and aware of distortions that may be created, ensuring that the trade-offs are understood and acknowledged.
- Be realistic when working in FCAS.**
The anticipated outcomes for target groups are likely to be more expensive and take longer when using MSD approaches in fragile contexts, when compared to other more direct approaches. But incremental change does matter... even **small actions** can make a big difference in the humanitarian space.