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BEYOND CASH

Making markets work in crisis

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Background: why markets are important

In protracted crises, people depend on markets. Markets comprise complex systems of people, networks, and institutions that people rely on to cope in the short term and to recover both during and after crisis. Despite facing their own setbacks, local businesses are also among the quickest to adapt to meet vulnerable populations' needs in difficult contexts,¹ as they are able to work through local networks and obtain access in ways that aid agencies sometimes cannot.² Markets can be, therefore, more important to people's wellbeing than external aid.³

The problem: barriers to market-based approaches

Despite the importance of these market systems, the aid community has historically focused on direct provision of commodities and services to meet the needs of crisis-affected people. This approach has often undermined communities' ability to cope without aid and hampered the longer term transition out of crisis. Recently, however, humanitarian actors have gained a better understanding of the role markets play. In particular, cash-based assistance is increasingly being used to support basic needs without undercutting local businesses and markets. Nevertheless, significant barriers to market-based approaches remain:

Aid actors still struggle to use cash transfers over in-kind aid in many appropriate contexts.

- › The aid sector is not well-designed to use cash, with operational structures making it difficult to switch between in-kind aid and cash.
- › Political sensitivity over the potential misuse of cash transfers constrains their use, despite solid evidence that they are overwhelmingly used to meet priority basic needs.⁴ The resulting validation and reporting requirements can create a disincentive to use cash.⁵

It is necessary to support markets more broadly by going beyond cash.

- › Cash provides resources to individuals but does not directly support market systems that people rely on to support themselves, and that reach beyond the recipients of direct assistance.
- › Many existing recovery and livelihood programs undermine markets, often using in-kind distributions to replace lost assets (like livestock) and distribute inputs (such as seeds and tools) without regard for how market actors and local institutions might better provide them.
- › Programs are often not prepared for a strategic transition to working with market actors and finding market solutions when the opportunity arises in the future.

A new vision for market-based aid

We propose a new vision for market-based crisis response. It represents the next step, beyond cash, towards assistance that meets the immediate needs of affected people, while at the same time enabling them to take increasing control of their own coping and recovery through local systems and resources.

1. Meet basic needs while protecting future productivity.

Wherever necessary, aid actors should provide direct, market-sensitive support to crisis-affected people to help them cope in the short term. The use of cash should continue, but be tailored to need. For example, in some contexts smaller, more frequent transfers are more likely to be spent on food and small purchases, and less frequent, lump sum transfers are more likely to be invested in economic opportunities.⁶ Any use of vouchers, or local procurement, should be guided by an in-depth understanding of market networks and power, so that the choice of vendors helps to sustain, rather than undermine, populations' access to goods and services during and after crisis.

2. Address immediate barriers to individual participation in the local economy.

In moments of acute need humanitarians should continue to provide gap-filling services so households can continue their economic activities. This often requires direct support through knowledge and skills-building, provision of short-run aid, or livelihoods interventions. This type of direct support should be time bound to specific moments when need is greatest, driven by demand and market gaps, designed to engage local actors, and to transition quickly to systems-level support for businesses and market institutions.

3. Support coping through local market systems.

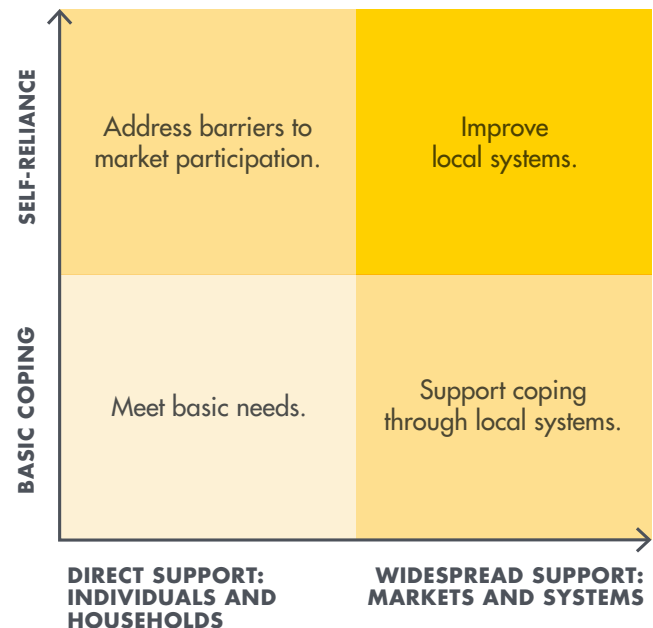
Aid actors should provide support to market systems that can help people cope in the short term. This involves supporting businesses and local institutions to improve their ability to provide critical goods, services, and credit. By leveraging the resources of market systems, aid actors can help sustain market activity and increase the reach of assistance.

4. Improve market systems over time.

Aid actors should provide support to market systems that can help people recover during and after crisis. Humanitarian actors need to account for immediate marketplace activity, but also look beyond it—to 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.

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.



How to deliver this vision

While Components 1 and 2 represent a refinement of existing direct support approaches, Components 3 and 4 signify a greater challenge to aid actors—to support the market systems on which people rely. Delivering this vision requires a fundamental shift in how aid actors operate—moving away from short-term, project-driven action towards longer-term, flexible, adaptive engagement.

This means embracing the principles of adaptive management, which enable programs to respond to shifts in needs, engage with markets when they show the capacity to recover, test and learn from new approaches, and respond to new information.⁷

Donor institutions and governments should:

- › Increase the timeframes for program funding in crisis contexts beyond six-month and one-year cycles.⁸
- › Increase the flexibility of funding by streamlining compliance and reporting, facilitate moving between in-kind aid and cash transfer programming, and increase agencies' ability to partner with local businesses and informal institutions.⁹ This should include:
 - Reducing the requirement for agencies to seek prior approval for modality changes and new partnerships.
 - Allowing increased line item budgetary flexibility.
- › Release program funds in protracted crises from both humanitarian and development funding pools, to help break down silos.
- › Improve collaboration between humanitarian and development teams within donors, to make it easier to design, fund, and learn from market-driven programming.
- › Support host-government policies and practices that enable crisis-affected populations to drive their own coping and recovery strategies, such as the right to work.
- › Fund better market analysis and learning, the testing of activities that support market systems, and studies to understand program impacts beyond direct recipients and after programs have ended. Encourage broad sharing of the resulting learning.

Implementing agencies should:

- › Build capacity and expertise in implementing effective market-driven responses to protracted crises, and increase 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. 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.
- › Ensure internal policies and structures on compliance, procurement and operations support field teams to be nimble in switching modalities and building program partnerships, including with businesses and informal institutions.
- › 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.

Endnotes

- * To access the paper associate with this brief go to: https://www.mercycorps.org/sites/default/files/CashMarketsMercyCorpsApril2018_0.pdf.
- 1 See, for example, Levine (2017), which notes: "There was never a question of whether or not trade was continuing, only a question of how, and how affordable markets were for the people affected by the crisis." <https://www.odi.org/sites/odi.org.uk/files/resource-documents/11722.pdf>
- 2 Mercy Corps et al (2017) *Northeast Nigeria Joint Livelihood and Market Recovery Assessment*, <https://www.mercycorps.org/sites/default/files/Northeast%20Nigeria%20Joint%20LMRA%202017.pdf>
- 3 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).
- 4 Bailey, S. and Harvey, P. (2015) *State of evidence on humanitarian cash transfers: Background Note for the High Level Panel on Humanitarian Cash Transfers*, <https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/9591.pdf>
- 5 IRC, CRS and Mercy Corps (2018) *Taking Market Analysis Beyond Theory: Practices that facilitate the use of market information in humanitarian programming*, http://www.emma-toolkit.org/sites/default/files/bundle/Good%20Practices%20Research%20Brief_EN_0.pdf
- 6 Farrington, J. and Slater, R. (2009) *Lump Sum Cash Transfers in Developmental and Post-Emergency Contexts: How well have they performed?* <https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/5745.pdf>
- 7 Mercy Corps (2015) *Managing Complexity: Adaptive Management at Mercy Corps*, <https://www.mercycorps.org.uk/research-resources/managing-complexity-adaptive-management-mercy-corps>
- 8 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.
- 9 Mercy Corps and IRC (2016) *ADAPT Case Study: Ensuring Contextual Awareness and Flexible Partnership in South and Central Syria*, https://www.mercycorps.org/sites/default/files/Mercy_Corps_ADAPT_Syria_case_study.7.21.16.pdf

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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.



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