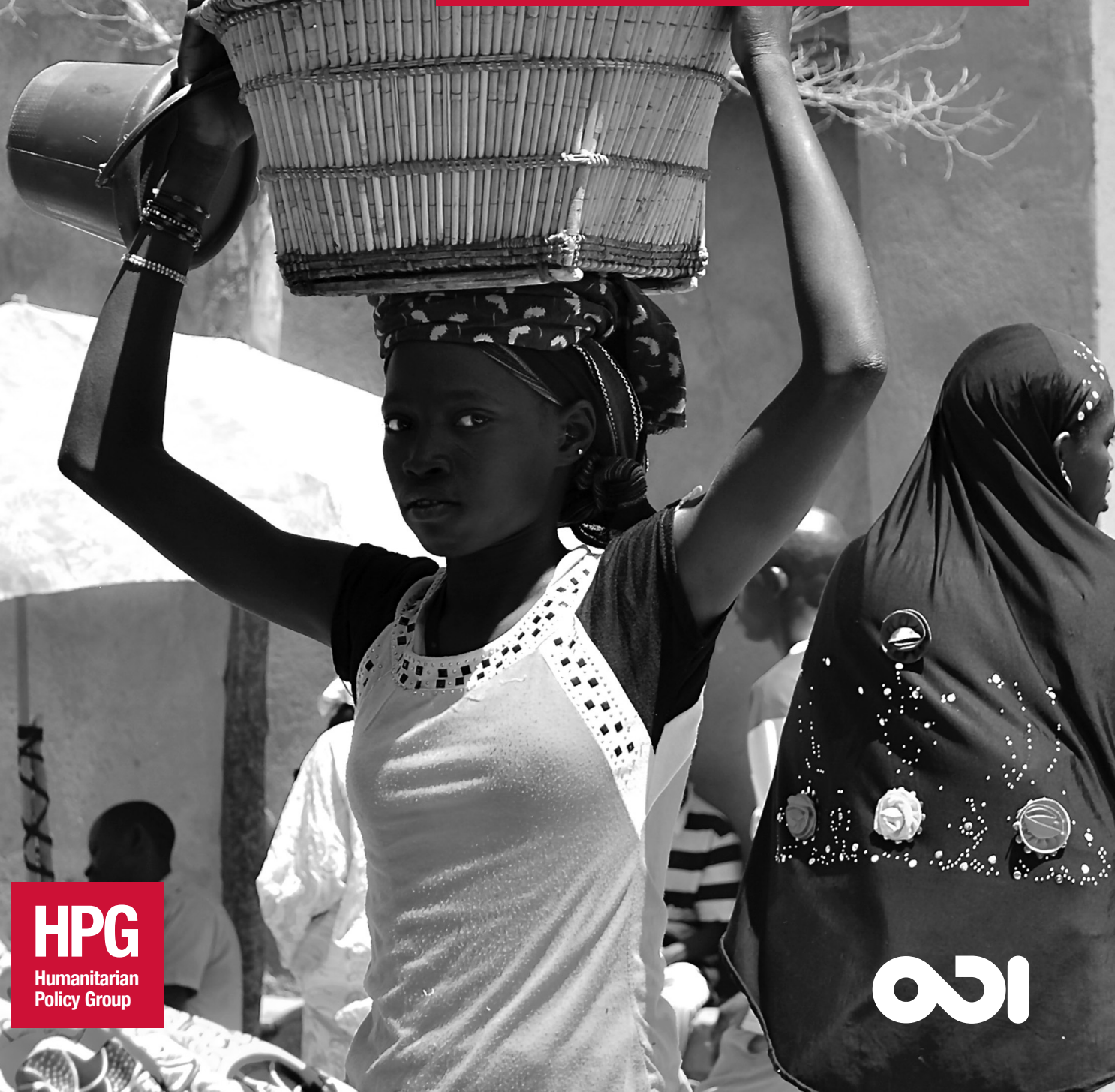


HPG Report

# Markets in crises: the implications for humanitarian action

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**HPG**  
Humanitarian  
Policy Group



## About the author

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# 1 Introduction

## 1.1 Background and rationale

The humanitarian sector has shown a rapidly increasing interest in the private sector in recent years. The aid world borrows many of its orthodoxies from other sectors (e.g. politics, the business world), usually several years later, and the dominance globally of a neo-liberal consensus has cemented a quasi-ideological belief in the benefits of handing over more and more resources and decision-making to the invisible hand of market forces, driven by competition. This has generated growing interest in two quite distinct ideas: that the aid sector should learn more from private enterprises (i.e. efficiency, innovation, etc.); and that aid could be better (i.e. more efficiently) delivered either directly by, or in ‘partnership’ with, private companies.

This interest in the private sector more broadly has coincided with a growing concern for the role of markets during, and in the aftermath of, crises. Drawing on the famous analysis of famine by Amartya Sen (1981), and the consensus that food security had to be understood as the ability of people to access food,<sup>1</sup> rather than as the aggregate production or availability of food, radical changes in thinking about food security and hunger led humanitarian agencies to think seriously about how people vulnerable to, or affected by, crises find their food (and, by extension, meet their other basic needs). The idea began to take hold that hungry people could be supported by helping them to buy their own food by giving them money, rather than feeding them with in-kind food aid.<sup>2</sup> Cash (or voucher) programming is dependent on functioning markets, leading in turn to a new sub-sector, markets analysis for cash programming, driven either by, or

in reaction to, a concern that cash programming will distort markets, push up inflation or lead to the supply of sub-standard goods.

These two broad movements are quite distinct: they use different terminology and discourse, talking respectively of the ‘private sector’ and ‘markets’, depending on the parentage of the ideas; they are interested in different places, geographically and within the aid world, looking respectively at action at the supply side of aid, at international and (predominantly) capital city level, and at the small, often rural, retail markets used by crisis-affected populations; and they may even disagree ideologically about why markets matter. However, they have one thing in common: humanitarian actors on both sides are thinking about markets mainly because of their instrumental use to *aid*, rather than as institutions critical to crisis-affected populations in and of themselves.

This is an important omission. In almost all societies today, including those in crisis, markets are a key determinant of household livelihoods and resilience. Market outcomes are a significant determinant of livelihood outcomes, and so understanding how crises affect markets and market relations is critical to understanding livelihoods and both humanitarian and development outcomes. This requires empirical study of markets as important institutions in themselves: in places vulnerable to crises, the terms and opportunities that different people face in markets are rarely determined simply by the rules of free market economics. Such places are, not coincidentally, those where markets tend to be ‘thin and dodgy’,<sup>3</sup> often with few market actors, and where market power is closely linked in a symbiotic relationship with political or military power and patronage.

Unfortunately, there is insufficient literature on the details of what actually happens in markets during and after crises. The humanitarian sector is only recently

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1 In 1974, the UN World Food Conference defined food security as ‘the availability at all times of adequate world food supplies of basic foodstuffs’. By 1983, the Food and Agriculture Organisation (FAO) had changed the concept into one meaning ‘that all people at all times have both physical and economic access to the basic food that they need’. Although it has been further refined, the consensus around the definition remains in place today.

2 See, for instance, Ahmed and Shams (1994) and Basu (1996). The use of cash as a vehicle for assistance is of course much older, but this represents the beginning of its existence in the modern aid world.

3 A thin market is one with few market players and relatively few transactions. Thin markets are typified by volatility and often reduced competition. Dodgy markets are self-explanatory.

'[In Darfur], much more appears to have been written about the impact of climate change on agriculture than the impact of a decade of conflict on agriculture...'

(Buchanan-Smith et al., 2013).

starting to study markets; both economists and the development sector more generally have shied away from studying situations which, almost by definition, do not follow generalisable rules, and from where it can be almost impossible to collect reliable data in large quantities. Instead, almost the only studies of depth available have been undertaken by country-level specialists, but have then remained in a country-specific body of literature.<sup>4</sup> Although of huge value, they are individual pieces of research, have not become part of a coherent body of knowledge about markets in crises more generally, and, as a result, are largely unread by the humanitarian sector.

One of the difficulties in building a body of knowledge is that there has been little discussion about what needs to be studied and understood. It was easy to agree that the viability of cash transfers should be determined by the price, quality and availability in local markets of specific goods; but the mere existence of a market does not in itself signify how far people's resilience has been maintained. The market terms which they face may change, whether because of changes in the market locally or because of changes in more distant parts of the market chain. Understanding how crises affect livelihoods through their effect on markets, or understanding how markets affect people's resilience to crises, necessitates a different kind of study. A resilience perspective has to go beyond questions of business continuity and the resilience of markets themselves, and look also at the non-economic relations that shape market outcomes. It is less clear, though, what exactly such studies need to look for, or the methodologies by which they can best achieve this.

To explore these questions, the Humanitarian Policy Group (HPG) developed an exploratory research programme on markets in crises asking how humanitarian policies and interventions can be best

<sup>4</sup> See, for example, the work of Buchanan-Smith (e.g. 2012, 2013) in Darfur; or Lister, Pain, Paterson and the work generally of AREU in Afghanistan.

used to maximise the potential of markets to support the household resilience of people living in situations of crisis. Specifically, it set out to explore:

- How markets and businesses adapt during crises, and what determines their ability to function through crises.
- How relations of power and institutional factors affect the way people are treated by and engage in markets during and immediately following crises.
- How humanitarian aid affects markets in crises, and the impact this has on different households.

It seemed likely that apart from any direct impacts on trade, crises (and aid) will have some impact on many of the institutions that shape the market activity<sup>5</sup> on which the people who were affected by those crises rely; and likely, too, that the changes to those institutions will in turn reshape economic activity, with potentially significant implications for those people.

All market activity is created, shaped and governed by a myriad of institutions, a concept captured most

## Box 1: Institutions

Building on previous work by HPG, this paper takes an institutional look at markets. Institutions are defined as:

*Institutions are the humanly devised constraints that structure political economic and social interaction. They consist of both informal constraints (sanctions, taboos, customs, traditions and codes of conduct) and formal rules (constitutions, laws, property rights). Throughout history, institutions have been devised by human beings to create order and reduce uncertainty in exchange. Together with the standard constraints of economics they define the choice set and therefore determine transaction and production costs and hence the profitability and feasibility of engaging in economic activity (North, 1991).*

<sup>5</sup> For a rapid introduction to the different kinds of institutions that affect economic activity and how they matter, see Wiggins and Davis, 2006.

completely and clearly in relation to markets by the quotation in Box 1.

For this reason, the studies attempted to go beyond a purely economic study of markets – how prices or the availability of goods change – and understand how the *institutions* around markets change. This proved challenging, since institutions do not lend themselves to study through short field visits to unfamiliar situations. However, there was a clear need to see how much could be learned about market institutions within a timeframe similar to that available to humanitarian actors.

The research project included three case studies. Initially, it was decided to study two different kinds of crises, one context of what is often called a ‘natural’ disaster,<sup>6</sup> and a conflict. Two market chains were studied in each case, bamboo and food items after the floods in Sindh, Pakistan, in 2010; and staple grain (millet) and livestock in the conflict and its aftermath in northern Mali from 2012. Subsequently, HPG was asked to work with an operational aid agency to provide methodological guidance for a real-time assessment in South Sudan, leading to a third case study on food markets in the acute conflict in South Sudan in 2014.<sup>7</sup> Following an extensive review of current knowledge of markets in crises, HPG worked with local researchers to examine together how markets change in times of crisis, including as a result of the provision

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6 The term ‘natural disaster’ is highly problematic because it suggests that the crisis is caused by the natural event (flood, drought), rather than underlying structural vulnerability.

7 The Mali case study was researched in partnership with Christian Aid, the South Sudan study with Oxfam GB and the Pakistan study with the Sukkur Institute of Business Administration.

of humanitarian aid. Preliminary findings were discussed in roundtable discussions with market experts and humanitarian actors in Mali, Pakistan and the UK.<sup>8</sup> A set of HPG Working Papers reported on the main findings (Zyck et al., 2015; Barbelet and Diallo Goita, 2015; Mosel and Henderson, 2015).

This concluding paper draws out the main lessons of this research programme for aid actors. The studies showed that there were often unintended and far-reaching consequences from the way in which aid was delivered, because the potential impact on markets of how aid was organised had not been adequately considered. These lessons provide powerful arguments that the aid sector needs to make radical changes in how it incorporates market awareness into its planning, and how it thinks about the private sector and its role in crises. They also give reason to believe that even more revolutionary change is needed in how humanitarians organise themselves to support food security and livelihoods in crises.

The next chapter looks at some of the ways in which crises affected markets. Chapter 3 shows why these details matter by looking at the impact which humanitarian aid had on market activity. Chapter 4 draws out the implications of this evidence for improving the impact of aid, by showing how aid could be delivered in ways that support, rather than undermine, the health of the markets on which people affected by crises depend. The final chapter looks at the broader implications for the aid system as a whole, and examines the proposition that taking markets in crises seriously means the end of the humanitarian livelihoods sector as we know it.

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8 See Mosel and Zyck, 2014; Barbelet et al., 2014 and Kone et al., 2014.





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# 2 What happens to markets in crises?

Some of the effects of crises on markets that we found in this work were to be expected: shops and warehouses lost stocks in a flood or from looting; roads for transporting goods became impassable after earthquakes or because of fighting. (See also the summaries of the case studies in the annex for the broader impacts of crises.) These obvious problems might explain an expectation that, in time, markets return to normal, and that the most important thing for humanitarians to know is whether or not this recovery has happened yet, in order (for example) to know whether or not to hand out cash or to give aid in-kind. In fact, the case studies showed that recovery to the status quo ante was not always such a simple process, and that, in the crises studied, these more obvious impacts of crises on markets were not the most serious ones.

## 2.1 Market activity

One of the important stories of the case studies is that, despite these problems, and whatever the crisis, the five market chains studied all continued to function. 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. The profit motive is strong. Prices for goods rose because of direct impacts such as lost stock, and because, when trade routes became impassable, longer and more expensive routes had to be used. (In Pakistan, the normal 400km route from Quetta to Sukkur for transporting vegetables became a 1,200km journey (Zyck et al., 2015).) Prices also went up because of increased risks, which affected both the movement of goods and financial flows; in northern Mali, for instance, banks closed with the conflict, and transporting money in cash was very expensive because of the high risks attached (Barbelet and Diallo Goita, 2015). Such price rises – sometimes perceived as a sign of market failure or weakness by humanitarian agencies – were in fact powerful signals for stimulating new trade. Although the volume of

trade may not return to previous levels, new routes and new suppliers did respond in all the market chains studied. To some extent, trade and market activity following a shock was self-healing (i.e. price signals drive changes in supply and demand to bring about a new equilibrium).

Although market activity may have some self-healing capacity, this comes with two big caveats for humanitarians. First, economic activity did not always recover so quickly because, while markets could often cope with the direct impacts of the crisis, there were far deeper effects which had wider and longer-lasting consequences. Second, even where trade returned, which might give the impression of recovery, there could be structural changes in how trade was carried on which had potentially significant consequences, both for the people affected by crises, and even for society and the economy as a whole. (Some examples of this are discussed below, including the capture of trade in food and construction materials by a new agent class in Pakistan and Mali; the re-routing of national trade flows of grain to the north of Mali; and the capture of import market share by friends of the regime in South Sudan. See the country studies for further details.) Both caveats are of direct relevance for humanitarian activity, as the following section explains.

## 2.2 Market recovery

Market recovery was delayed by a lack of demand along the chain. This had two causes: consumer demand was depressed; and a breakdown in the trading system itself caused demand failure within the market chain.

### 2.2.1 Breakdown in demand

The processes by which crises caused demand for many goods to fall were often straightforward and predictable. Where people lost income, assets or even simply confidence in the future, they were likely to reduce expenditure. However, this study

included markets for essential goods (staple foods in three countries, bamboo for basic shelter) which were less affected by such a voluntary reduction in consumption.<sup>9</sup> Where a large proportion of the population fled, such as from Gao in Mali or from Juba in South Sudan (where an estimated half of the population fled), there was a significant impact on demand. Demand was also affected when aid given in-kind satisfied most remaining needs. Food in particular was affected by in-kind aid replacing purchasing, because the maximum quantity of staple foods consumed is largely fixed.<sup>10</sup> Market supply could not return to previous levels in the presence of large food distributions, a situation that the author has several times heard diagnosed as a market *supply* problem, and thus paradoxically as a justification for continuing in-kind aid. The impact of aid on markets, and the implications for aid of how markets behave in crises, are discussed further below (see Section 3).

### 2.2.2 Breakdown in the chain: the role of trust and credit

Most of the markets studied relied heavily on credit. In all three countries, most businesses could not obtain loans from banks: working capital was instead financed from within the market chain, with each trader buying goods on some degree of credit. Repaying this credit was a necessary condition for the next purchase. These arrangements were partly a product of necessity, since the banking system was poorly developed, especially in rural areas, and smaller traders with no obvious collateral could not easily obtain loans. The arrangements were also an economic necessity. The cost of credit is, in principle, a combination of the risk of default, the administrative costs of determining that risk and the costs of administering the loan.<sup>11</sup>

These transaction costs are very high for financial institutions, which is why rural micro-finance institutions typically charge annual interest rates of at least 60% on loans without collateral. Wholesale traders can often bear these costs more cheaply themselves when they are trading with people or businesses whom they have known and trusted

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11 In other words, the person or institution offering a loan charges for two things. They have to charge for their time and administrative costs, which include the time to establish the creditworthiness of any potential borrower; and an additional profit margin to cover the risk that a loan will not be repaid. The greater this risk, the greater the profit margin a lender needs in order to make it worthwhile lending the money.

over a long period:<sup>12</sup> they thus reduce the risk of default and save the costs of establishing risk, and of administering the loan, since this becomes an integral part of their regular business transactions. This problem of maintaining trust in trading over distances is called ‘the agency problem’ (see e.g. North, 1991). The role of kinship or other social relations in solving this problem, as seen in Mali and South Sudan, has been common throughout history (see e.g. Greif, 1989, on eleventh century trade in the Mediterranean).

When the crises hit, traders who had lost stock could not repay the credit from their previous stock purchases, and so could not replenish stock. Their inability to repay or make further purchases meant that their suppliers in turn could not repay their credit, and they too lost their market – with reverberations throughout the market chain. In Mali and Pakistan, the main market impact of the crises was a breakdown in this chain of credit and trust. This affected traders far beyond the area directly hit by the crisis. For example, Mopti was the main trading hub for grain going to northern Mali. Although conflict did not reach Mopti, traders in the north were unable to repay their suppliers there, who then had no capital to replenish their stocks. Many went out of business.

A similar breakdown in the credit chain occurred in Sindh. Lost stocks of bamboo could not be replaced by traders who could not repay their loans, and who were therefore offered no further credit or, at best, much more difficult terms. Internalising risk within the chain has advantages, as discussed above, but it also made the whole chain vulnerable to a single shock because there was less flexibility for traders who had tied trade, credit and a personal relationship together.

Although looting in South Sudan also meant that many traders were unable to repay credit to their suppliers, the impact on the chain as a whole was quite different, because so much of the trade was conducted by foreigners (Ethiopians, Darfuris, Somalis, Eritreans). Although many South Sudanese traders did indeed go out of business, the foreign traders were largely able to continue. The close links between them (within each ethnic group) meant that they functioned more as extended family, and their

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12 This depends on the structure of the market. In Mali, for example, food traders had regular customers, rather than searching each time for the best price from a new client; the livestock market was quite different, and worked on cash.

## Box 2: Markets and resilience part 1: what constrains market flexibility?

Traders in Mali who lost their customers in Gao could not easily replace them with new clients elsewhere, and many ceased trading. In part, the tying together of trade, credit and trust is driven by economic logic (see above). But are there other dimensions to this trading culture? Traders themselves could not give hard economic reasons why they did not find clients elsewhere. Without undertaking a specific study, it is difficult to say whether a settled pattern of trading behaviour has been caused by a lack of external competition in the market, or by a culture where economic roles are embedded in social relations – or whether alternative opportunities really were so constrained. Could traders have been helped to be more flexible and innovative? This dimension of adaptive capacity in an economy has not been much studied.

businesses were akin to different branches of the same enterprise. Although some had to relocate, a trader who lost capital was able to restart with capital provided by another member of the wider family.

The dependence of trade on a relationship of trust and credit also affected end consumers, especially those who were poor and who relied on buying essentials on credit. Life became extremely difficult for people displaced by floods in Sindh because they were unable to get credit from traders in their new areas of residence, because they did not know them. It was sometimes equally difficult on their return, when the local shop had failed to reopen after the crisis (for reasons discussed above) because of the lack of trust from a new trader, perhaps in a neighbouring village.

Trade was not brought to a standstill by capital losses from the shocks (the flood and the conflict), but by the breakdown in trust caused by the non-repayment of loans. This prevented what working capital was left in the chain from being made available. The breakdown in trust was not personal: what was lost principally was the confidence that the situation would permit clients to make future repayments. The distinction is important, as it meant that this lack of trust would exist for as long as the trading situation was perceived to be uncertain – but no longer. The significance of this for humanitarian activity is taken up below.

## Box 3: Markets and resilience part 2: livestock markets

The livestock market in Mali was often directly targeted by looting in a way that food markets were not, and some cattle markets ceased to operate altogether because of the dangers. However, in other ways, livestock trade proved (surprisingly) to be more resilient to conflict than the grain trade because of differences in how the market is structured.

Conflict caused huge perturbation for the millet trade through its effect on the flow of credit (see above). In the livestock trade, individual animals had to be seen physically before purchase. Trade was therefore organised around specific days at large markets. Transactions were about matching the specific needs of a buyer with what sellers had for sale, and so were not based on a trading history between individuals, as in other market sectors. Transactions were also one-off purchases and so had to be in cash. Trust was instead provided through long-standing brokers who mediate between buyers and sellers, and who are known and trusted by both parties. Even though the livestock trade was physically targeted for looting in the conflict, the loss of some animals did not paralyse financial flows and thus disturb the whole chain. Equally, because sellers were never tied by a relationship with a specific buyer, it was much easier for trade to adapt and find new routes, new market places and new buyers.

## 2.3 Winners and losers

The health of a supply chain cannot be assessed merely by measuring the quantity of supply in a given market; supply chains have to be understood. We have already discussed how, in Gao in Mali, traders would bring staple grains to market only in limited quantities when demand was suppressed by in-kind aid, illustrating that the absence of strong supply in a market does not necessarily indicate any inherent weakness in the supply chain. It was also true that the existence, or return, of market activity did not necessarily indicate a healthy, sustainable business environment that was delivering beneficial outcomes for all. There were several reasons why changes in the ways in which trade was conducted could mean that some lost out,

or that there were potentially negative implications on a much wider scale. Some of these causes were related primarily to business or economic factors, while others had their roots in power and politics.

Some traders went out of business in all three countries, and they were sometimes replaced by new traders. Although a few individuals, and their employees, may have suffered, this could be balanced by those who gained. In some cases, the consequences were quite marked, as when a parallel trade in food to northern Mali bypassed the previous trading hub, with significant consequences for the local economy that may prove to be long term. Other consequences are less obvious, but affected huge numbers of people. Many village-level traders in Pakistan went out of business after the floods, and found it impossible to restart trade. Retailers in other villages often took over their trade. However, customers who had relied on credit – i.e. most of the poor – then faced great difficulty in meeting daily needs because retailers who did not know them were wary of giving credit to strangers. It took about a year for trust to be re-established. This is essentially the same mechanism that paralysed wholesale trade in Pakistan and Mali, and it too had the effect of reducing trade at the consumer end of the chain.

In some cases, market consequences were felt only by a particular group of people. The conflicts in South Sudan and Mali, like many conflicts, had an ethnic dimension. This played out in markets too. Nuer men in South Sudan, easily identified by traditional scarring on their foreheads, were afraid to go out to markets and instead sent women or boys (who were not yet marked). Tuareg were wary of going to markets in areas where the national army had retaken control, because they were associated with Islamist and separatist forces. In both case studies involving conflict, foreign traders were sometimes prevented from trading, either directly (e.g. Burkinabe in northern Mali) or because they left out of fear (e.g. most foreign traders in South Sudan).<sup>13</sup>

In other cases, the longer-term winners and losers are harder to identify, because of the ways in which actors from far ends of the market chains are tied together through relationships that involve both trust and finance. For example, in Mali traders often pre-finance production by giving loans to farmers. These

<sup>13</sup> Market assessments that focus narrowly on prices and availability may not always pick up such dynamics.

arrangements offer farmers a guaranteed market – but lock them in to a single buyer. Whether or not the terms of this financing should be considered supportive or exploitative, farmers could face significant consequences if the traders with whom they had long done business ceased to operate, and if their place was taken by new actors with no interest in, or knowledge of, the pre-financing of agricultural production. Such consequences, positive or negative, could be unforeseen impacts of humanitarian aid, where this affected the identity of the traders who could continue operating in a market.

## 2.4 Markets, politics and power

All the case studies showed that markets in crisis-prone economies are not simply arenas of economic exchange, following the rules of an invisible hand: the hand of power is clearly seen, because power was both acquired and used through markets. Since overall power relations changed in many ways as a result of the different kinds of crisis, so too did power in markets. As a result of the crises, advantages were gained by some by the exercise of military, political and economic power – though the distinctions between the different kinds of power were often blurred.

Two very different examples of war economies could be seen in the conflicts in South Sudan and in Gao in northern Mali. In both places, food was widely available for purchase in the market, and on a functional definition markets could be said to be working. In both places, people with political or military power were using that power to restrict certain flows of goods and favour those from which they could profit. However, the mechanisms by which they were doing this were quite different.

*'War is the continuation of business by other means'*

Bertolt Brecht (not specifically referring to the business of war in South Sudan)

In South Sudan, almost all staple food in Juba is imported, mainly from Uganda.<sup>14</sup> The movement of

<sup>14</sup> See Annex. Domestic production makes up around 10–15% of food in Juba's markets. Around 85% of imported sorghum comes from Uganda (Mosel and Henderson, 2015).

sorghum continued during the conflict, but the impact of the war was hidden in the financial transactions behind the trade. The country's financial crisis brought a shortage of foreign currency, which was a major constraint to importing goods from Uganda and Kenya. This allowed those with power to create for themselves a more favourable, restricted market for foreign currency. Only limited amounts of foreign exchange were available at these favourable 'official' rates, enjoyed only by elites close to power. Their competitors, normal businesspeople, had to rely on much less favourable rates on the open ('black') market (Mosel and Henderson, 2015). The standard market assessment tools of the humanitarian sector, which monitored the volume of trade, did not make a distinction between what in moral terms might be described as war economy profiteering that undermined genuine businesses. However, this distinction is arguably the most important determinant of whether or not to give aid in ways which supported a struggling private sector, or whether to refrain from feeding a war economy (e.g. using cash with no other conditions or complementary interventions), which would potentially bring longer-term indirect negative consequences.

In Mali the Movement for Unity and Jihad in West Africa (MUJAO), which became the de facto authority in Gao, used its military power more overtly. It had long-standing ties to Algeria which included interests in trade. Some foodstuffs and goods from the south of Mali, which would compete with this trade, were simply banned. A huge increase in the flow of wheat-based products from Algeria (e.g. pasta) undercut nationally grown sorghum in the markets, which contributed to the inability of grain market chains to fully recover, and many businesses based in the regional supply hub, Mopti, ceased operating.

## 2.5 Market governance

Aid agencies have rarely studied market governance in crises, and, though some attention has been given specifically to war economies, market experts have not systematically studied the impact of crises in general on market institutions. HPG's three country studies showed that the governance and moral economy<sup>15</sup> of markets are far from straightforward, and require a more in-depth sociological or anthropological understanding. In both conflicts there were some attacks on traders, but though these raised the costs of moving goods, looting was always limited and trade never stopped completely. Even in war there

## Summary

- The direct impact of a crisis (lost stock, insecurity, etc.) did not stop markets from functioning. As long as demand existed, markets continued to function: prices rose to ensure some supply continued.
- Markets' ability to function was hit most by the breakdown in credit, which ran with a domino effect the length of the market chain.
- Crises also changed the power structures and incentives behind market governance. There were winners and losers, because as trade recovered, it was not always in the same hands or along the same supply chains as before.
- The same conflict affected different market sectors in different ways. Differences in the institutional structures of the markets (the role of credit/cash, relationships between buyer and seller, etc.) were the key to shaping the impact of the crisis.

was a moral economy, and those wishing to be seen as credible authorities ensured that their rules and norms were generally followed, preventing a descent into chaos. The mechanisms by which limits were placed on people with arms in a situation of a general breakdown of law and order were unclear and beyond the scope of the HPG studies. In Mali, armed groups restricted, but did not ban, up-river trade, and as long as the rules were followed business activity was reasonably safe. The quality of market governance of a de facto power was not always related to its political legitimacy, although it was usually the latter which determined the attitude towards, and relationship of, aid agencies to their market behaviour. The MUJAO in Mali imposed strict governance on market activity in Gao, Mali, controlling prices and 'speculation', but this was rules-based and trade continued. This contrasted with the market governance of the legal authorities in South Sudan. Aid actors, though, tended to focus on the perceived legitimacy of the institution in power (an official government versus a non-state armed group), rather than on the quality of their market governance in determining that market

<sup>15</sup> The preference for in-kind aid was based on a perception that local staple food production was insufficient, rather than considerations of market governance and the war economy.

interventions were impossible or inappropriate in Gao – whereas cash interventions to support purchase in markets were not ruled out in South Sudan.<sup>16</sup>

In Pakistan, very strong rules were put in place by market traders' committees. These committees were dominated by the larger and more powerful traders, and yet traders of all sizes reported that some of the rules which they set were helping to prevent very small

traders from going out of business. It is far from clear why larger businesses protected smaller competitors in this way, since the almost feudal economy of Sindh is so much a creation of unequal power relations that this is presumably a matter of their choice. There is perhaps a degree of synergy between them if they play slightly different roles in the market, but until the logic of this relationship is clear the potential consequences for humanitarian activity cannot be known for certain.

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# 3 Markets and humanitarian aid

Humanitarian agencies intervened massively in three of the market chains studied: in bamboo for shelter in Pakistan and in sorghum in Mali and South Sudan. In South Sudan, in-kind aid largely destroyed what was left of any trade in sorghum. This case was somewhat different to that of Pakistan and Mali, because most in-kind aid was purchased externally, and because the scale of conflict was such that trade was not in the same position to continue or recover. Despite the huge differences between the bamboo trade in Pakistan and sorghum trade in Mali, the impacts of the purchase and distribution of humanitarian aid were strikingly similar. As discussed above, people's consumption of many basic goods is inherently limited, so there is a potential for in-kind distributions to reduce market demand. This was clearly seen in both countries. This may be considered a limited and short-term problem, and a necessary side-effect of delivering emergency relief that people could not otherwise afford. However, the scale of the negative impact of in-kind aid was magnified because of how trade was conducted, and how the crisis had disturbed it. The resumption of trade was most disrupted by lack of demand and a breakdown in credit relationships. The slowdown or absence of market activity could easily lead to a conclusion that the poor functioning of markets justified the distribution of goods in-kind. However, interviews with traders in both countries revealed how the influx of aid was a significant factor in maintaining low demand from the retail end of the chain, in further reducing confidence along the chain, and in delaying market recovery.

Relief aid also had market impacts from its purchase. In both Mali and Pakistan, relief aid was generally purchased in-country, and transported to areas of distribution by private companies with profound and potentially long-term consequences for market systems. The flow of goods from purchase to distribution did not match the previous market flows of those goods, either geographically (in particular in Mali) or in the identity and nature of the businesses involved (in both countries). Goods were purchased using the standard competitive procurement systems of aid agencies, which are intended to ensure accountability and value for money. This system did not result in purchases

from the businesses that had been the main suppliers before the crisis, because those traders did not bid for aid contracts. Instead, aid business was captured by a new kind of trader: people from the capital cities, with access to very large amounts of money, well connected, able to speak the language of the aid agencies (English, French), and comfortable dealing with both the people and the systems of international agencies.

In Sindh, aid agencies purchased bamboo from agents capable of taking on large contracts which they could finance themselves. These agents then bought bamboo from normal traders, according to the traders, at around half the price that they were being paid. In other words, around half of the aid budget for those contracts benefited agents, rather than helping flood-affected people. The actual business role of the agents was limited to handling paperwork and providing financing for suppliers. Aid organisations paid the contracts after around two months. Since the businesses only received around half the contract value, the aid purchasing modalities effectively forced the real suppliers to take a two-month loan to pre-finance the contract at an interest rate of 100%. This meant that aid donors – who paid for the contracts, but who had enough capital to pre-finance aid purchases themselves – were paying for working capital at an annual percentage rate of around 6,000%.<sup>17</sup> It is hard to see how this procurement modality resulted in good value for money for the humanitarian sector.

This concentration of supply in a new agent class could not be explained by economics or simple market competition. Indeed, the way in which aid interacted with markets made it much more expensive. In a well-functioning market, one would expect a crisis to drive up prices due to scarcity of supply or increased demand (e.g. for mass reconstruction), and, as noted above, these price rises may be welcome if they stimulate increased supply. In Pakistan in particular,

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<sup>17</sup> To calculate the APR, 100% interest for two months is converted into an annual equivalent. In a year there would be six loan periods of two months, with the loan doubling each time:  $2 \times 2 \times 2 \times 2 \times 2 \times 2 = 64$  times or 6,400%.

prices for aid were pushed far higher than those set by market forces because of the way in which aid was procured. Agents sub-contracted the supply of bamboo to the normal suppliers for about half the price paid by aid agencies (i.e. at prices only a little higher than those prevailing before the crisis).

Because the normal supply chain was bypassed, aid contracts tended to reinforce the effects of the crisis. They damaged confidence in the market chain and reduced the commercial flow of goods, delaying their recovery still further instead of injecting capital and confidence where it was lacking. In many cases, previous businesses were subcontracted by the agents, but this did not have the positive impact that a market stimulus should have had. Instead, the market became dominated by a few powerful individuals with significant ability to fix conditions and choose their suppliers. Because this situation did not give smaller traders any confidence about future contracts, business confidence along the chain was not revived. These impacts were considerable and potentially long-term. In Mali, some traders in Mopti completely closed down their businesses and moved to the capital. In Sindh, five years after the 2010 floods, the broad effect of traders downgrading in size persisted. Large traders had become medium sized, middling ones had become small and many small businesses had not reopened.

Why, though, did open tenders, designed to ensure that aid resources achieved maximum value for money, end up in the hands of this new agent class? The established traders in those sectors offered a very similar set of explanations in the two countries for why they themselves felt unable to tender for contracts directly. These included:

- The volume of each single contract was beyond the capacity of most existing traders to fulfil.
- Payment terms made it impossible for most traders to fulfil contracts and remain in business. Aid agencies typically offered no payment upfront, and would promise to pay only a month or more after delivery. (As already discussed above, normal trade was partially on credit, and settled usually within two weeks.)
- Traders would need credit from their suppliers to honour the contracts. Although a secure contract with an international agency could have enabled them to gain the trust of their suppliers, the process of tendering did not include any mechanisms for enabling this.

- Most wholesale traders dealt with familiar clients and did not understand or feel comfortable with written contracts. They did not have the time or resources to learn how to understand them or prepare them. They often lacked the confidence to engage in a foreign business culture.
- In some cases, especially in Mopti in Mali, traders based outside the capital city did not have information about tenders or the communication access to engage with the tendering process.

Aid agencies offered contracts on terms and conditions which were in line with their own working culture and the compliance requirements of that culture. Businesses which had previously been active in the market were effectively shut out by the way in which contracts were organised: in capital cities, for large volumes only, with complicated paperwork and high

## Summary

- The ways in which humanitarian aid was delivered had huge – and often negative – impacts on markets.
- Most aid was given in-kind. Both the purchase and distribution affected markets.
- In-kind aid replaced demand for goods in the market. As well as the direct impact on trade volumes, this also undermined the confidence within the market chain necessary for trust in credit to be restored. This constrained the recovery of market chains.
- Humanitarian agencies did not consider the impact of the aggregate volumes of aid on markets in the planning and design of their interventions.
- The ways in which aid agencies purchased in-kind aid was unsuitable for the ways in which markets worked on those countries, especially the size of contracts, terms of payment and supporting access to credit for working capital.
- As a result, prices were pushed higher by the profiteering of a new elite agent class, who were able to monopolise aid contracts because of their connections and their ability to pre-finance large contracts.
- Suppliers became sub-contracted parties: this also undermined the confidence necessary to re-stimulate trust in credit along the chain.



administrative demands, and with payment terms that most businesses found impossible to meet. Even before the crisis hit businesses, trade had relied to a significant extent on credit and fast turnover: contracts that demanded that a business entirely pre-finance a large order with payment only weeks later were simply unrealistic. The only businesses which could effectively bid for aid contracts were those that could work with the rules and culture of business in the Western world,

rather than in the crisis-affected worlds of Sindh or northern Mali. Humanitarian trade was unsurprisingly captured by a very small group of people drawn into these new business areas solely because of the opportunities created by relief operations. This 'agent' class did not need connections to the sector: agents often won the contracts, but then simply sub-contracted the actual work of supplying and moving goods to other businesses.



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# 4 Improving aid by understanding markets

HPG's research project set out to examine what could be learned if an essentially humanitarian perspective used a different way of understanding markets in crises. Even though HPG's research only led to a partial understanding of the five case-study market chains, it suggests some conclusions about the potential advantages for humanitarian agencies of a better understanding of markets. The following section looks at this potential contribution for different elements of the process of designing and implementing emergency aid interventions.

## 4.1 Identifying needs

In our three studies, the impacts of a crisis on people's lives depended in part on how markets were affected. In some cases, markets adapted, to dampen the disturbance; in others, the direct shock was magnified by market perturbations, and spread over a wider geographic area. There was no constant timeframe for the duration of these effects. This suggests that a problem analysis will be incomplete without a consideration of what has happened, and what is likely to happen, to markets. An immediate snapshot assessment of market prices and availability may give only a transitory picture, which may cause needs for emergency relief (and for support for recovery) to be missed – or to be assumed wrongly to exist. A better understanding of markets could also help identify geographical areas needing assistance, since, as discussed above, these are not always confined to areas directly affected by a shock (see Box 4).

## 4.2 Identifying potential responses

Market assessments have proved useful in deciding whether or not a cash or in-kind programme is most appropriate, but the potential of market understanding to contribute to the strategy and planning of assistance has yet to be realised. Livelihood studies the world

### Box 4: The Nepal earthquake response

The earthquake in Nepal in 2015 was one of the first occasions where emergency agencies included market specialists among the international staff sent out in the very first missions. One agency found that a basic understanding of food markets and trade flows allowed them to identify areas of need in places that were not directly affected by the earthquake. They were also able to find ways of responding in areas that had been destroyed, including helping to get markets functioning again: the market could then deliver far more food and other basic goods than relief operations could.

The agency was able to get a basic overview of markets and how they had been affected by the earthquake in a matter of days by working, not only with emergency experts but also with Nepalese market experts. This use of 'livelihoods experts' not only improved the appropriateness of the agency's emergency response, but also ensured greater coverage, was more cost-effective and helped achieve better connectedness.<sup>18</sup> It also resulted in a *faster* response: being smart and thinking about how livelihoods work did not have to come at the cost of speed.

*Example discussed at the 2015 Interaction forum in Washington, in the session 'Making Markets Work for People in Crisis': [www.interaction.org/forum-2015-workshops](http://www.interaction.org/forum-2015-workshops)*

Taken from Levine and Kay, 2015

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<sup>18</sup> 'Connectedness' is one of the criteria by which emergency aid is often evaluated, derived from the OECD-DAC criteria for evaluating development aid. 'Connectedness refers to the need to ensure that activities of a short-term emergency nature are carried out in a context that takes longer-term and interconnected problems into account' (ALNAP, 2006).

over have shown beyond doubt that, almost everywhere, markets are the main determinant of most people's livelihoods.<sup>19</sup> It follows, then, that helping to change how markets are functioning may be the most effective way of helping people improve their livelihoods in both the short term and in recovery. In HPG's three studies, it was found that people's lives could have been improved by discrete interventions which helped repair market breakdowns caused by loss of demand, loss of liquidity, imperfect information and, in particular, loss of trust within the market system. This research project did not cover all that would be necessary for designing an intervention in the case study situations, but examples of the kinds of interventions that might respond to these needs could include working with financial institutions to supply credit to traders, greater injections of cash to stimulate demand (i.e. rather than aid in-kind), identifying and supporting an institution capable of providing market information, and supporting a chamber of commerce to bring traders together to discuss mutual confidence-building measures. These kinds of interventions are not yet a standard response in either emergency or recovery situations.

### 4.3 Improving how aid is delivered

In two of the case studies, humanitarian aid was itself a source of disturbance to the market, and in the third there was great potential for it to have negative impacts. In Pakistan and Mali, the problem was mainly connected to the distribution of in-kind aid, which compounded the existing fall-off in demand, and by purchasing systems for acquiring that aid. In South Sudan, as discussed above, there were dangers that aid could fuel a war economy, contributing to profiteering by elites who were able to use their position to gain access to foreign exchange at preferential rates.

### 4.4 Working with the private sector

There is a huge appetite within the humanitarian sector for working with the private sector.<sup>20</sup> These

<sup>19</sup> Household economy studies almost always show, for example, that the vast majority of people – and all of the poor – depend on markets for more than half their food, and that cash income is more valuable than their subsistence production.

### Box 5: How understanding markets can help aid decision-making

The Afghanistan Research and Evaluation Unit (AREU) has conducted a great deal of detailed research, and its work on markets is summarised in a couple of short (and easy-to-read) papers. Contrary to assumptions that markets had collapsed in a post-Taliban economy, this work showed that they had been thriving, though business activity had been transformed by changing opportunities and new power relations, resulting in benefits flowing only to a few. AREU's research showed how the construction industry was controlled by an oligopoly with strong political connections. The lucrative carpets sector had been taken over by a small number of big businessmen with access to capital and international connections, and these changed trading patterns brought new consumers, different products, different production systems and much less income for the actual carpet makers – and a virtual end to small independent producers. The studies show how business activity had been reshaped by interests formed through close relationships between big business, political and military leaders. These interests were being advanced through the use of tax exemptions, privileged access to credit and access to lucrative contracts. Simply promoting economic growth where economic functioning is so distorted by conflict and post-conflict power relations risks fuelling inequality and further feed entrenched interests, rather than resulting in less poverty.

Humanitarian agencies may never have the time or skills to undertake these kinds of market analyses, but they should be able to acquire the skills to base programming decisions on analysis already being done.

Sources: Lister and Pain (2004) and Paterson (2006). See [www.areu.org.af](http://www.areu.org.af).

studies suggest that this should be approached with far more vigour and at the same time with far more

<sup>20</sup> A number of recent reports have examined how closer cooperation can be built between humanitarian agencies and the private sector. See for example Bailey, 2014; UN-OCHA/ WEF, 2015; Weber, 2012; and Zyck and Kent, 2014.

## Box 6: How wise is conventional wisdom?

The studies revealed one important truth about markets: the generalisations that are often made about markets and the private sector by aid actors will sometimes turn out to be untrue. The following are a few examples of how oft-repeated truths may need to be looked at with more care and nuance.

*The private sector provides goods and services more cheaply, because its survival in a competitive market relies on improving cost-efficiency.* But in some cases, the cost of aid was doubled by profiteering from contracts that had been tendered and won openly and fairly. Private businesses are profit-maximising, but some were able to dominate a market by means other than improved efficiency (e.g. unequal access to foreign exchange, monopoly of the ability to operate according to international norms).

*The private sector is an integral part of a local economy that will remain long after aid agencies have gone home.* The enduring existence of a sector does not mean that individual businesses are

thinking long term. In all three countries we found examples of businesses that were opportunistic after a crisis, looking to make a quick profit and then move on.

*The private sector is innovative and adaptable.* But why did Malian grain traders find it so hard to find new clients when their old customers went out of business? Why were they so silent, through their local chambers of commerce, in advancing their business interests?

*Unusual rises in the market price of food signal shortages and trouble; prices returning to normal indicates a return to normality.* Many traders in South Sudan liquidated their stocks and closed their businesses in response to outbreaks of conflict. For a short time, the fall in supply caused by the conflict was cancelled out by the rapid sale of stock, maintaining prices as normal – for a short time. The fact that prices remained normal for a short time was actually due to an additional problem (traders exiting the market).

caution than appears to be common. HPG's studies all showed in particular that the private sector is not, as it is commonly presented, an 'actor',<sup>21</sup> but rather an arena of competition for advancing private interests. Market-oriented business activity was carried out by a huge diversity of businesspeople, often with little or nothing in common. The continuation of business activity was certainly necessary for people's economic wellbeing, but business activity in itself was neither always helpful nor always harmful. The studies showed that aid agencies' engagement with private businesses to purchase supplies and transport cannot be understood or analysed if the private sector is considered generically or as a single actor. What was important was understanding the identity of the businesses which won or lost from those contracts. Engaging with the private sector may help the recovery of necessary trade and economic activity, or it may feed corruption and a war economy. A more critical approach to thinking about who the market players are would facilitate thinking about the most constructive way to support economic activity, which

may lead, for example, to a decision to help local chambers of commerce have their voices heard in the distant capitals where decisions on aid and recovery are made. Starting generically from a desire to 'work with the private sector' will not lead to such an analysis.

## 4.5 Preparedness and disaster risk reduction

Better understanding of the many different ways in which crises and aid change markets enables agencies to take action before a crisis to help strengthen the resilience of market systems to crises. This is a developing area of interest for humanitarian agencies, as the recent development of a tool for assessing markets *before* an expected crisis shows.<sup>22</sup> Since the global financial crisis of 2008 and growing understanding of the likely impacts of climate change, there has been increased interest in the business world

21 For example, Zyck and Kent, 2015; Meily, 2015; Pearson, 2014 (and many more).

22 The Pre-Crisis Market Mapping and Analysis tool, PCMA. See [www.alnap.org/resource/20461](http://www.alnap.org/resource/20461).

in the resilience of companies to crisis, or what is called 'business continuity'. For the development agenda, the issue is not just about specific companies surviving crises, but also about protecting markets against crises ('market DRR'). In an area such as Sindh, where floods are regular and frequent (2008, 2010, 2012 and 2015), it would make sense not only to help businesses protect themselves, their stock and their supply options, but also to help the players within a market chain think about how, for instance, they could work as a whole to

find an emergency source of credit, how they could be better prepared as a chain to respond to crises and how small businesses could prepare better so as to be able to take advantage of aid contracts. Crises are just coming on to the agenda of market development or 'making markets work for the poor', and the analysis which has been undertaken in this field (e.g. Springfield Centre, 2008 and 2015) should, in principle, be relatively straightforward to adapt in making markets work for people prone to crisis.

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# 5 Towards a new approach

Research on markets in crises offers insights into changes that could be made in humanitarian action in two very different dimensions: first, in more immediate, practical ways in crisis response; and second, in transforming the way in which the humanitarian bureaucracy and architecture relates to the wider world of development policy and support. This section looks at these two dimensions in turn.

## 5.1 Direct changes

### 5.1.1 Make market awareness integral in decision-making

Market awareness should be integral in humanitarian aid decision-making, in all sectors and regardless of the modalities of intervention being considered. Trying to understand the impacts of a crisis without understanding how a market has been and will be affected is not to see the whole picture. Most current practice is to think about market assessments only when an agency is considering cash-based programming. Many such assessments are conducted using tools for non-markets experts, and they are then read and acted on by aid agency staff with limited expertise in markets. There are cases where an urgent intervention is justified even if it has negative impacts on markets, but these cases are rare, and after the first few days of a sudden-onset crisis there is no justification for this to be done blindly.

### 5.1.2 Make conflict analysis an integral part of market analysis

The three-way interaction between conflict, markets and humanitarian action means that there is a risk of making things worse if interventions are planned without understanding the conflict and its relationship to markets. Markets can also be an area where mutual interest brings cooperation and inter-dependency.<sup>23</sup> Since most relief interventions have some impact on markets, a combined conflict and market analysis ought to be standard procedure. This means that all conflict analysis should include a consideration

of markets, and, where there is conflict, all market analyses should include a consideration of conflict.

### 5.1.3 Use cash aid more

The HPG studies did not specifically look at how cash grants affected markets, because the impact on markets of cash at household level does not need to be disaggregated by the source of the cash. HPG's study of market activity and of in-kind aid offers some clear insights into the different kinds of impact that the two aid modalities can have on markets. Cash-based responses work through markets. Depending on the scale of money distributed relative to the local economy, a cash injection can change market dynamics. By increasing demand for goods, cash may contribute to price rises, but these price signals are likely to stimulate increased supply and business activity, and when demand is broad-based, rather than concentrated in a few huge agency contracts, it is less easily captured by non-competitive forces. Although cash transfers will not always be appropriate and they are never a panacea, almost all of the negative impacts of aid identified during the research would have been avoided with the use of cash.<sup>24</sup> The analysis of market difficulties showed that markets would largely have been able to meet demand for the commodities studied (food and construction materials) in response to a cash distribution, helping to rebuild economic activity.

Cash still represents a very small percentage of overall humanitarian assistance,<sup>25</sup> and the tendency to see in-kind aid as the default remains strongly

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<sup>24</sup> Specifically, well-targeted cash injections could have re-stimulated demand, increasing trust along the market chain that stocks would be sold, unlocking the flow of credit; could have prevented the capture of the aid market by a few elite agents, because demand would have been met by many traders operating according to their normal rules, and thus could have prevented the doubling of prices paid by aid agencies; could have reduced the sudden change in supply routes of commodities, leading to the collapse of trading hubs such as Mopti. Preventing the exploitation of the war economy would have required a more subtle approach, e.g. one where vouchers were only redeemed in foreign exchange to the importers.

<sup>25</sup> Cash and vouchers together account for just 6% of emergency aid spending, according to High Level Panel on Humanitarian Cash Transfers (2015).

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<sup>23</sup> This is discussed extensively in the classic text on conflict analysis, 'Do No Harm' (Anderson, 1999).

engrained.<sup>26</sup> Market studies are demanded before cash programming is used, but there is still insufficient recognition that in-kind aid has impacts on the market, and market studies are not demanded before in-kind aid can be used. There is no rational explanation for this double standard.

Many agencies favour voucher-based programming, rather than transferring money, as this is seen as supporting demand but conditionally restricting its use. However, the impacts on markets of vouchers will be very different from those of cash, and these need to be understood. For example, voucher programmes usually have a very limited number of partner retailers, and may exclude many traders in similar ways to those described for large-scale purchase contracts.<sup>27</sup> However, they may help avoid some of the issues raised by war economies.

## 5.2 A whole-of-aid approach?

The difficulties traders experienced in dealing with aid agencies have been described above. None of these difficulties *needed* to exist. The bureaucratic and compliance/accountability demands on aid agencies result in an obvious preference for fewer contracts with larger values and high paperwork requirements. It should be recognised that this preference may act as a barrier to many businesses, and discourage participation by all except the very largest businesses or an agent class. If aid agencies wish to support the recovery of business activity, the size of their contracts has to take into account the operating capacity of local businesses, their warehousing capacity, their ability to find capital and the scale of the risk they can take on board. Traders' inability to pre-finance contracts, exacerbated by the disturbance to the chain of credit, has been discussed. This obstacle is most unfortunate, since it seems clear that it could often be resolved through constructive discussion, leading to contractual terms that would meet the needs of both parties.

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26 This situation is slowly changing in several sectors. The UK Shelter Forum held a discussion on cash and markets for shelter response in November 2015. The Global WASH cluster included a learning event on markets in its 2015 annual meeting.

27 Bauer et al. (2014) and Husain et al. (2014) found that the benefits to the local economy of vouchers in Lebanon and Jordan respectively were skewed to the larger retailers who were able to participate in the scheme.

Perverse system incentives are constraining such a development. There are certain costs for aid agencies in analysing how markets work and how to offer more equal opportunities and greater competition, and there are bureaucratic costs in tendering out smaller contract values. However, these costs do not necessarily make aid more expensive. Agencies were prepared to pay up to double the previous market price in Pakistan to secure the goods they needed to run their projects. However, purchasing at inflated prices appears in budgets and accounts as higher costs of materials, and not as administrative costs. The relationship between donors and implementing agencies often results in attempts to maximise expenditure on materials, regarded simplistically as money spent on beneficiaries, and to reduce administrative costs, which are regarded as money spent on the aid agency itself. The aim of reducing administrative costs as a percentage of an overall budget is often laudable, but it can lead to perverse behaviour.

Accountability for an aid response lies at the project level, and is often reduced to the cost-efficiency of each project in achieving outputs. This can limit the responsibility of logistics and purchasing staff to ensuring that a delivery of in-kind aid reaches its intended beneficiaries at the lowest price (subject to quality, delivery time, etc.). However, the impact of an overall aid response on people affected by crisis may be much greater if agencies were able to use logistics and purchasing activities to help market recovery, representing much greater cost-effectiveness.<sup>28</sup> The aid sector is increasingly talking about a need for a greater focus on impact or outcomes, rather than only on activities and outputs, and the example of markets illustrates that this is not simply a question of bureaucracy (e.g. the choice of monitoring indicators in a logframe). If taken seriously, an agency's purchasing and logistics are no longer an auxiliary service to *support* programming. Instead, they become part of programming, dedicated to achieving the same objectives. Agencies need the skills of procurement and logistics experts to answer different questions: not simply how to get the best value for the aid agency, but how to get the best value for people affected by crises.

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28 Roughly speaking, cost-efficiency relates to the cost of an output (what was done); cost-effectiveness is about how much benefit is brought to people's lives for a given cost (i.e. the cost of impact or outcomes).



### 5.2.1 Interventions directed at supporting markets

Where a specific market difficulty has been identified, people in crisis may be best supported by including support for markets. This will rarely be simple, especially since markets adapt quickly. In some cases, though, the use of very limited resources would help, for instance brokering (but not providing) new sources of credit or other financial services for the value chain, supporting better information within a market system, facilitating a chamber of commerce to make its voice heard or providing other confidence-building measures. Within the logistics cluster, a view is emerging that the sector should take on a role beyond procurement by supporting supply chains,<sup>29</sup> a good example of the transformative change in thinking that has been brought about by cash transfer programming.

### 5.2.2 Changing the bureaucracy

A 'whole-of-aid' approach would not imply that all projects have to support markets, but would expect that they are all 'market aware'. A considered judgement could be expected from each one on the value of any additional costs involved in working differently to bring an additional contribution to stimulating market recovery. The current bureaucracy of projects makes this difficult. Projects are designed and managed to deliver predefined targets. Even when they cause wider negative impacts, they can be judged as effective, because 'effectiveness' is defined only by reference to the narrow objectives which a project sets for itself.<sup>30</sup>

Although it is likely that humanitarian aid will continue to be given through discrete projects, change is still possible within that framework. Sectoral objectives can be achieved through interventions that are based on multi-sectoral understanding and market awareness. However, the incentive to change will only come when those designing and managing interventions are held responsible for their contribution to changes in the lives of people affected by crises.

### 5.2.3 Bringing the right skills to bear

Getting to grips with markets poses a challenge to

<sup>29</sup> See [www.logcluster.org/cashandmarkets](http://www.logcluster.org/cashandmarkets).

<sup>30</sup> The industry standards for evaluation are the OECD DAC criteria. One of the seven parameters for evaluation is effectiveness, defined as 'The extent to which the development intervention's objectives were achieved' (DAC/OECD, 2002). The original formulation (DAC/OECD, 1991) did not define the criteria, but the narrow focus on the pre-determined intentions of the aid actor has since become entrenched (e.g. ALNAP, 2006; Chianca, 2008).

## Box 6: What are humanitarian professionals reading?

The 'markets in crises' website has a resource library of relevant literature. In 2013, a literature search was undertaken to add to the library a much wider literature on markets in crisis-affected places, going beyond reports produced by humanitarian agencies themselves. Two years later, what have over 1,000 members actually downloaded?

- Number of documents in library: 695
- Total downloads from library: 2,500
- Total downloads of literature other than humanitarian agency market reports or tools: under 100
- Number of downloads of papers not written by aid agencies: 15
- Number of papers other than agency reports downloaded more than twice: 4

These statistics suggest that the first problem to be solved is not that humanitarian agencies lack market skills: many still lack an appreciation of what different kinds of knowledge and expertise could offer them.

the humanitarian aid sector, which has very few economists and market experts among its staff. Many organisations are trying to train as many people as they can to be competent to run emergency market assessments, and they are supporting non-experts by developing tools to guide them. A full understanding of how to engage with markets may require many different skill sets: economics, conflict analysis, sociology, livelihoods expertise and others. Trying to fill the skills gap by training humanitarian professionals may not be the most appropriate strategy. Agencies recognise a need to recruit and deploy technical experts in medicine, public health and water engineering on emergency programmes, but do not apply the same reasoning to economics and markets, relying instead mainly on trying to skill-up humanitarians with no background in these areas. The next section of this paper argues that a radical paradigm shift is needed to tackle the skills gap properly. However, in the short and medium term humanitarian agencies can acquire much of the knowledge and expertise they need through the normal methods of recruitment, consultancies, partnerships and reading.



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# 6 Markets in crises and the humanitarian paradigm

The increasing engagement of humanitarian agencies with market analysis is an extremely positive development. Horizons of interest are gradually expanding, and it is to be hoped that the trend will continue of agencies looking for a deeper understanding of markets beyond using emergency market assessments more narrowly, only to identify the appropriateness of cash transfers. A variety of tools has been developed in the past few years to help humanitarian professionals get to grips with the complexities of markets, and their number continues to grow. They began with relatively simple tools looking at the availability and prices in markets of the goods of interest to humanitarians and focusing on markets close to the intended beneficiaries of relief operations. This was a natural starting point, because the tools were a response to a practical challenge: enabling a food security team, operating under great pressure in the midst of a crisis, to make a technical decision on whether or not cash was an appropriate aid modality by finding out if markets could respond well enough to an increase in demand so that the necessary goods would be available without excessive inflation. Humanitarian food security experts are not, and could not be expected to be, market analysts: the tools were created to be their guide on what to look for and how to interpret what they found.

Agencies are developing more – and more sophisticated – tools to help operational staff who cannot be expected to have all the skills needed themselves. Several tools for studying markets have been developed in the past decade, by a number of NGOs, the International Federation of the Red Cross (IFRC), the World Food Programme (WFP) and academia.<sup>31</sup> Some look at specific contexts (e.g. market analysis for urban humanitarian response), and others cater to particular sectors (for instance labour market analysis in humanitarian contexts, or market analysis for the WASH and shelter sectors). Earlier

versions of the industry-standard Emergency Market Mapping and Analysis tool (EMMA) are being refined to include more sophisticated political economy analysis, and the tool has been adapted to look at market chains more broadly, not just at how they function in crisis (the pre-crisis EMMA, or PCMMA).

Agencies are increasingly recognising that situations of crisis are complex, and are beginning to appreciate that this can no longer be ignored, and that the challenge this poses for emergency response should not be underestimated. The future availability and prices of goods in markets depend upon market chains that may extend far from the places where humanitarians wish to operate, including neighbouring countries. The availability of goods depends on the availability of financial services and transport and on seasonal variations. Predicting the future behaviour of so many market actors is difficult, even for markets experts, because crises tend to occur most often in countries where markets are less stable and rule-bound than the developed markets from where theories of market functioning have been derived, and where there is the least, and least reliable, data.<sup>32</sup>

To understand markets properly requires a good understanding of recent history and trends; of the different market institutions and how they function – in theory and practice; and of the different actors involved, and their motives, objectives and constraints.<sup>33</sup> Since the market system or chain usually extends far beyond an area hit by a crisis,

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31 A full range of tools can be found in the library of the markets in crisis group at <https://dgroups.org/dfid/mic/library> and in the CaLP resource library at [www.cashlearning.org/resources/library](http://www.cashlearning.org/resources/library).

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32 A good example of this is the grain market in South Sudan. A market analyst would have to understand a market where it is impossible to obtain accurate or reliable information on the different exchange rates obtainable by different traders. They would also have to find ways of understanding a market which is driven not only by the economics of importing and trading goods, but also, for some, by the profits to be made by lucrative currency exchange made possible by trade.

33 For an example of the kinds of understanding that come from combining a deep familiarity with the country, a longer-term research timeline and a broader livelihood perspective, see Buchanan-Smith et al. (2012 and 2013).

relief agencies would have to combine a huge range of skills (economics, livelihoods, conflict, politics, sociology) and apply them over a geographic area where they would not have a presence. Even if they had the skills, the political, sociological, broader economic and historical perspectives cannot easily be mastered within the timeframes of a humanitarian response. However, without this the rapid assessments of emergency aid agencies will only ever help them to know the outward symptoms of what is happening, rather than understanding what is driving and causing those symptoms, and thus what they really mean.

On the one hand the challenge appears intractable. The need to understand markets and the benefits of doing so have been recognised: what this entails has been established, and yet it seems unreasonable to expect emergency options ever to have the skills, resources, local contextual familiarity, time and geographical reach to make this a reality. The way forward, though, is not to try to respond to the enormity of the challenge, but to redefine it: to see it, not as an intractable challenge but as the symptom of a much deeper problem, an engrained paradigm of emergency aid that needs to be transcended.

The various tools for analysing markets in crises were designed to enable non-specialists to find their way through unfamiliar terrain. Tools and checklists are of use in situations where a task (or decision-making process) can be broken down into a relatively small number of discrete and manageable steps. Tools can play a valuable role in guiding decision-making when the information needs can be defined and captured by a number of predetermined exercises, and predetermined ways exist for reaching conclusions from the data. Decisions in humanitarian response, as in development initiatives, rarely fall into this category. A market assessment tool can, for example, be important in reminding users of the need to talk to both male and female traders – but is it reasonable to expect a guide to produce a sophisticated gender analysis if the user is not already skilled in both gender and market analysis? The paradox, then, is that the development of market assessment tools has been critically important in helping to open the eyes of humanitarians to a need for work with a degree of complexity that the tools themselves can never deliver. It is not so much that the tools risk collapsing under their own weight, but more that they are driving the construction of an edifice that they cannot, and should not be expected to, support.

The problem, though, only exists if we fail to question why it is taken for granted in the humanitarian sector that decisions requiring sophisticated understanding of markets should be taken by people with no economic skills. In no other sector would this behaviour be considered normal: hospitals do not employ non-specialists and expect them to perform surgery using a practitioners' guide. Emergency or humanitarian response has tended to be seen as *sui generis*, a world apart, where, for example, dealing with a crisis arising from conflict in South Sudan has everything in common with the experience of coping with floods in Sindh, but nothing to do with years of experience of value chain development in South Sudan itself. Pointing out some of the absurdities of the humanitarian–development divide is hardly new or specific to markets, but the problem of markets in crises does offer an opportunity to move beyond the divide in a new way.

By accepting that markets exist in crises and in the lives of people affected by crises, humanitarians have moved beyond a perspective that looked at people's needs and have accepted that they need to understand people's lives within their social and economic contexts. This has a significance beyond one simply of a widening technical vision. By doing so, humanitarians accept that they need to look at the same world that other development experts are looking at. Their focus on people's urgent needs in crises is now situated within the context of the world as a whole.

This represents a profound paradigm shift for humanitarians, and one which vested interests may well prevent. In a sense it ought to bring to an end the organisation and study of emergency response as a distinct field. This should not threaten humanitarians: it does not detract from the importance of emergency intervention, but emergencies would no longer be a single domain, divided into technical clusters. Instead, emergency sectors become sub-sets of other disciplines. Market understanding for emergency response is only possible if the context (crisis) is the subset of the technical expertise (markets), rather than the technical expertise being the subset of the context, a generic humanitarian expertise. This removes the presumption that humanitarians themselves have to lead on generating knowledge and understanding of markets in crises. When this happens, the 'intractable challenge' (above) need not be intractable at all. It becomes the task of humanitarians to find those with local expertise in the economics and politics of markets in places where crisis has struck, to ensure these experts

apply their knowledge to the impacts of crisis and have the necessary expertise themselves to know how to use their understanding to ensure that aid is as effective as it should be. In other words, why would a humanitarian agency hire a tool-development specialist when it could hire a market economist?

This new paradigm would also see the various other technical sectors dealing with material needs (food

security, shelter, health, WASH, etc.) become the emergency sub-sets of larger fields: clusters may remain for the coordination of activities, but at a strategic level we would also be thinking about (for example) public health in extreme situations, town planning in earthquake-prone areas and after earthquakes and land rights in conflict. The problems of crises are no longer the territory of humanitarians, but become part of the work of everyone.



# Annex: Country case studies

## Pakistan (from Zyck et al., 2015)

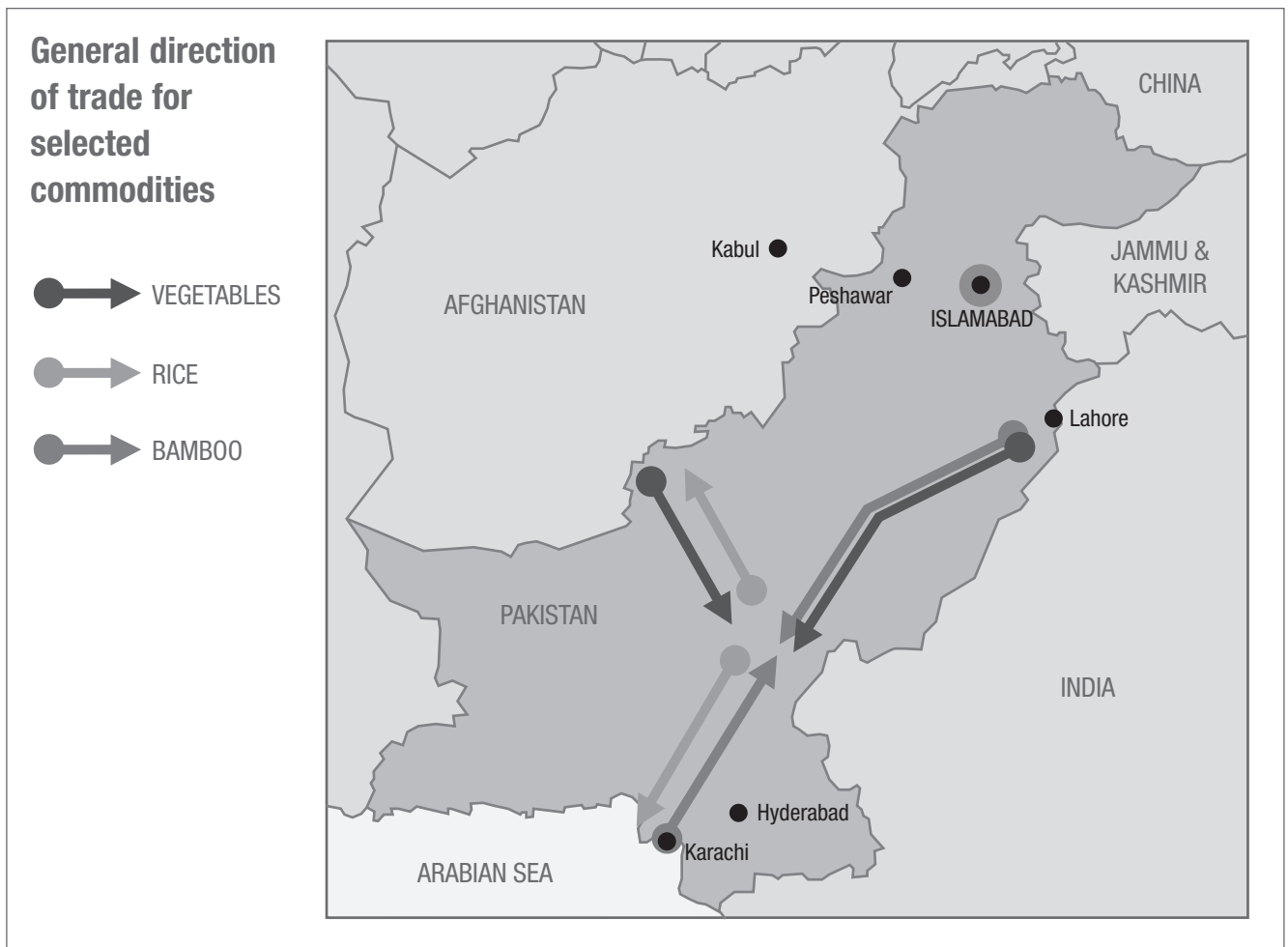
Floods in Pakistan in 2010 inundated a wide swath of territory, affecting 18 million people and killing approximately 2,000. The disaster also affected businesses, from some of the largest factories and most fertile agricultural land in the country to small village shops. Many businesses closed, either temporarily or permanently, and people in affected areas could not rely on local markets to meet their family's basic needs or obtain a livelihood.

The study focused on markets across three districts in the province of Sindh, the third-largest province in Pakistan. Most producers are very poor tenant farmers, with only 16% of the population of Sindh enjoying acceptable levels of food consumption

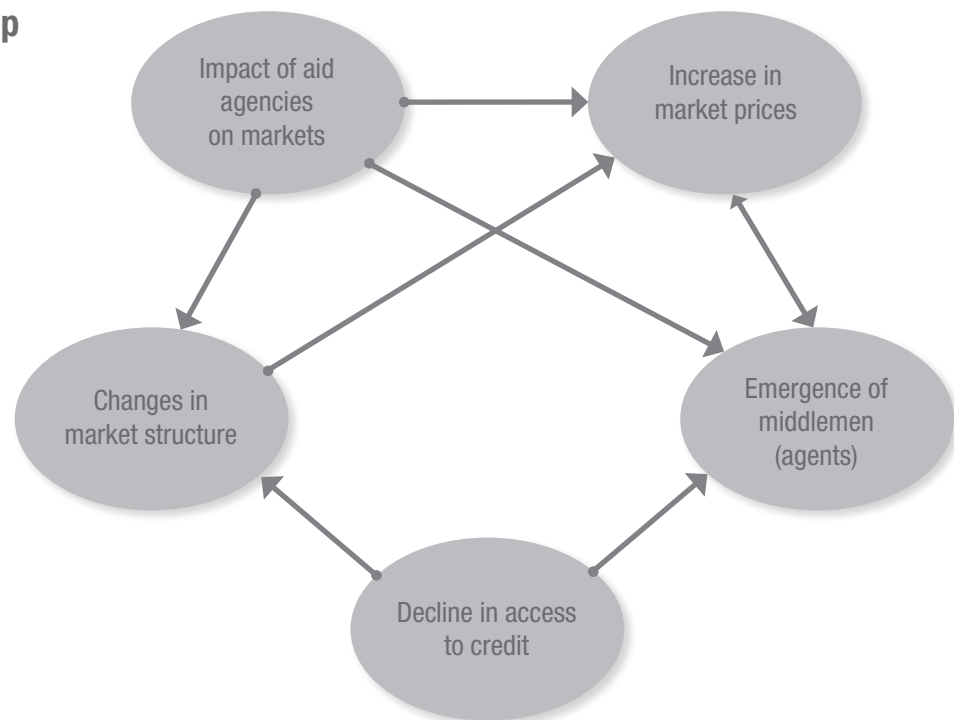
before the 2010 floods. The three districts of Sindh studied were affected in different ways by the floods: commercial hub Sukkur was minimally affected, neighbouring Shikarpur was moderately affected and Jacobabad district was severely impacted.

Three main commodities were selected for inclusion in the study.

- Rice and wheat are staple food items grown in northern Sindh, and comprise about half of the average diet.
- Potatoes and other vegetables are considered luxury items among poorer households.
- Bamboo is a main construction material. It is not widely grown in northern Sindh, but is brought in from neighbouring Punjab province. Dealers tend



## The inter-relationship between the flood crisis, markets and the humanitarian response



to be larger than those selling foodstuffs and rely on well-established relationships with suppliers in Punjab. These suppliers can also supplement local production through international imports. Bamboo was bought heavily by aid agencies to construct shelters as part of the response.

Sukkur's location at the junction of four provinces makes it a hub for produce travelling across Pakistan. Large wholesale dealers in Sukkur buy from well-established contacts across the country, dealing mostly on credit to pay the seller back in around a month's time. Once produce reaches Sukkur, large wholesalers sell it on to similarly sized traders in other provinces and to smaller sellers in the surrounding areas such as Shikarpur and Jacobabad, with generally less storage space than their counterparts in larger conurbations. Market committees controlled by the largest and most established traders fix prices in the larger, primary marketplaces, to prevent competition from driving down prices.

The 2010 floods destroyed tens of thousands of homes in northern Sindh and devastated household food stocks. This created an increase in demand for food in markets, as well as for basic construction materials such as bamboo. Increased demand caused

some rise in prices, but the supply routes of some goods (especially vegetables) were cut off by the floods, necessitating much longer routes and increased transport costs, causing some prices to rise by 300–500% at the height of the crisis.

As the most intense period of flooding passed and major roads became passable again market activity began to resume. However, because of the breakdown of previous credit arrangements, credit was reduced and given on stricter terms (e.g. faster repayment requirements) all the way down the chain. Many small businesses went out of business altogether, and in many cases households bought less. Middlemen, known as 'agents', expanded their role. Large businesses with more capital were able to obtain new supplies and transport, and some benefited from international contracts for food and construction materials. Meanwhile, smaller businesses, particularly those selling basic foodstuffs, found it more difficult to restock – particularly outside urban centres like Sukkur – and faced lower demand because requirements for these items were partly being met by aid agencies. These trends combined to create a number of highly profitable very large firms, while pushing smaller firms further down the hierarchy into micro-enterprises or out of business altogether.



## Mali (from Barbelet and Diallo Goita, 2015)

The conflict in Mali began in January 2012, when Tuareg rebels attacked Malian army posts in the north of the country, followed by a coup in the capital Bamako which ousted the president the following March. In 2012 OCHA estimated that 2.24 million people had been directly affected, including 366,000 displaced. The conflict coincided with a food crisis brought on by poor agricultural seasons in 2010 and 2011, causing grain production to decline by 20%. At the time of the study, in 2014, an estimated 1.9 million people were severely food insecure.

Field research for the study focused on trade in Mopti and Gao. Much of Gao was occupied by armed groups in 2012. The research focused on two main commodities in the regions affected by conflict, millet and cattle.

Millet is one of the main cereal crops produced in Mali. Mopti Region is particularly important for the trade because it lies between zones of surplus in the

south and deficit in the arid north. Traders sell both higher-quality millet from Séno in the south-east of Mopti Region, and cheaper millet from Ségou Region.

Traders range from large sellers, trading primarily between the regions and towards large urban centres like Timbuktu in quantities of between 20 and 100 tonnes of cereal a month; and smaller traders, primarily women, who sell their produce locally in very small quantities to consumers in peri-urban and rural marketplaces. Large traders in Mopti and Ségou also finance both the production and marketing of millet through the supply of credit.

Although the conflict did not directly impinge on the main supply areas, it affected trade in a variety of ways. Insecurity on trade routes forced some traders into bankruptcy or to leave the area, and direct economic losses forced others to scale back their business. Ethnic ties and other pre-existing relationships between some traders and armed groups allowed markets to continue to run, albeit with new, more exclusionary rules and practices.

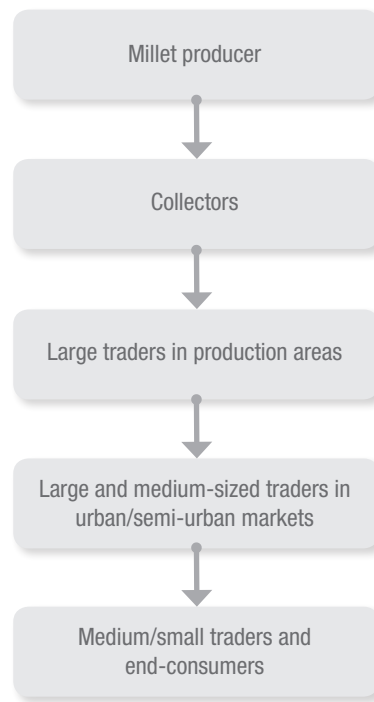


Government counter-insurgency measures also damaged trade through curfews, restricting access, long waits for compulsory identity papers and harassment of female traders. Although security stabilised in 2014, displaced traders lacked the funds to restart their trading activities once they returned to Gao, and most were struggling to repay debts and re-establish trust with suppliers. Insecurity made suppliers outside of Gao Region more reluctant to supply millet on credit, particularly impacting larger traders involved in longer credit chains.

The most noticeable impact of the crisis on the millet trade was a reduction in the quantity traded in Mopti and Gao regions. Physical access was only a marginal factor in this slowdown: more significant was the displacement and loss of purchasing power of traders and end-consumers. Displacement from Gao and in-kind food aid also suppressed demand. Although Mopti was the trading hub, aid agencies did not procure there, and many traders in Mopti resented what they saw as a takeover of their business by aid agencies.

The beef cattle market runs all year round, with a peak season in January and February, when animals return to market towns from grazing during the rainy season. Most cattle sold in Gao and Mopti is for

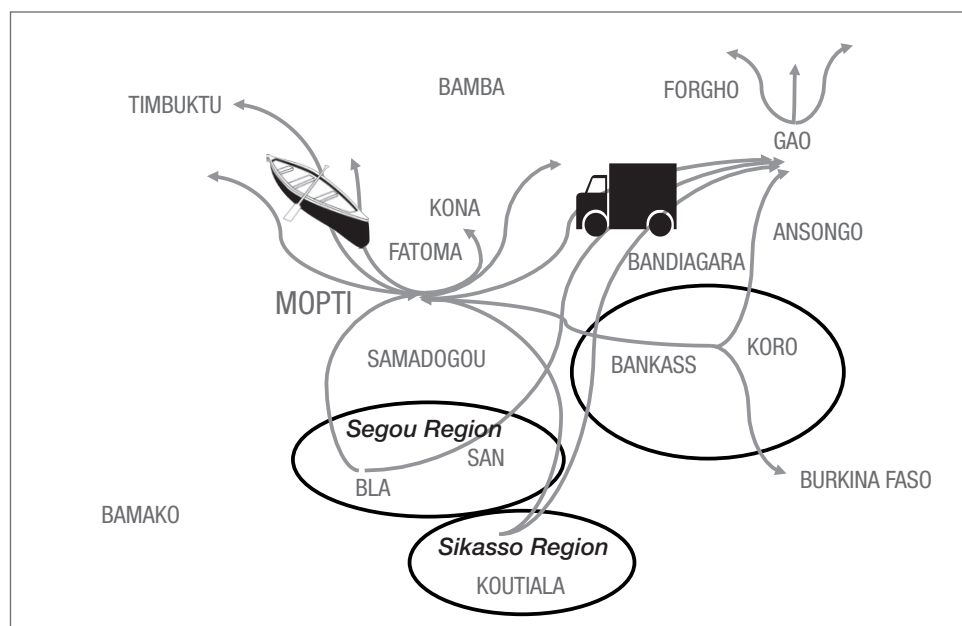
### A simplified commodity chain for millet



export to neighbouring countries, with a small amount for local consumption.

### Millet trade flow<sup>7</sup>

-  Millet production zones
-  Millet trade flow in peacetime



<sup>7</sup> These trade flows were identified through interviews during this research, and are linked to the study areas. Other flows, for instance between Mauritania and Kayes, are not included in this figure.

**Table 1: Actors in the cattle market**

| Actor                                     | Market                                  | Function  |
|---|---|---|
| Cattle breeders                           | Collection markets                      | Commercialisation of cattle   |
| Collectors                                | Collection markets<br>Secondary markets | Facilitate movement of cattle from small farmers to secondary markets   |
| Cattle traders/owners/breeders            | Secondary markets<br>Terminal markets   | Investment in own herd and selling of cattle  |
| Wholesale butchers ( <i>chevillards</i> ) | Terminal markets                        | Buy cattle to butcher and sell meat to end-consumers<br>Link small meat traders, slaughterhouses and cattle traders |
| Exporters/foreign traders                 | Terminal markets                        | Buy large quantities and keep prices high, making the market more vibrant   |
| Intermediaries                            | Terminal markets                        | Manage transactions on behalf of farmers and guarantee the quality of the transaction                               |
| Cattle market cooperatives                | Terminal markets                        | Manage the physical market and collect entry and exit taxes   |
| Herders                                   | Terminal markets                        | Look after the cattle around the market   |

Transactions are on a cash-only basis, and sellers entrust their cattle to intermediaries who negotiate the sale and return the proceeds to the owner. The intermediary is responsible for all aspects of the transaction on behalf of the cattle owner and the buyer, including ensuring that the cattle are healthy and negotiating the price. Cooperatives govern the physical management of the markets and levy entry and exit taxes on cattle.

The consequences of insecurity for the cattle market were in some ways more severe than for the millet trade, with many markets closing due to theft of either cattle or the large amounts of cash needed for the market. Travel restrictions and the presence of armed groups also reduced access to fodder, reducing the quality of animals traded and raising the prices of inputs, as well as dissuading foreign traders and lowering the prices of cattle.

Some traders adapted to these changes, continuing transactions over mobile phones or using secondary dirt roads, or using intermediaries to continue to buy smaller animals to be fattened and resold. Some cattle owners sent their herds directly to foreign markets, where prices were higher than on the local market, though returns were not high enough to cover the higher transport costs involved. Some sent herds south, away from the conflict, leading to tensions with arable farmers.

Some aid agencies intervened in the cattle market, e.g. buying livestock from owners at above the market price, and distributing the meat to needy households. Until security is re-established, prices are unlikely to return to normal levels.

## South Sudan (from Mosel and Henderson, 2015)

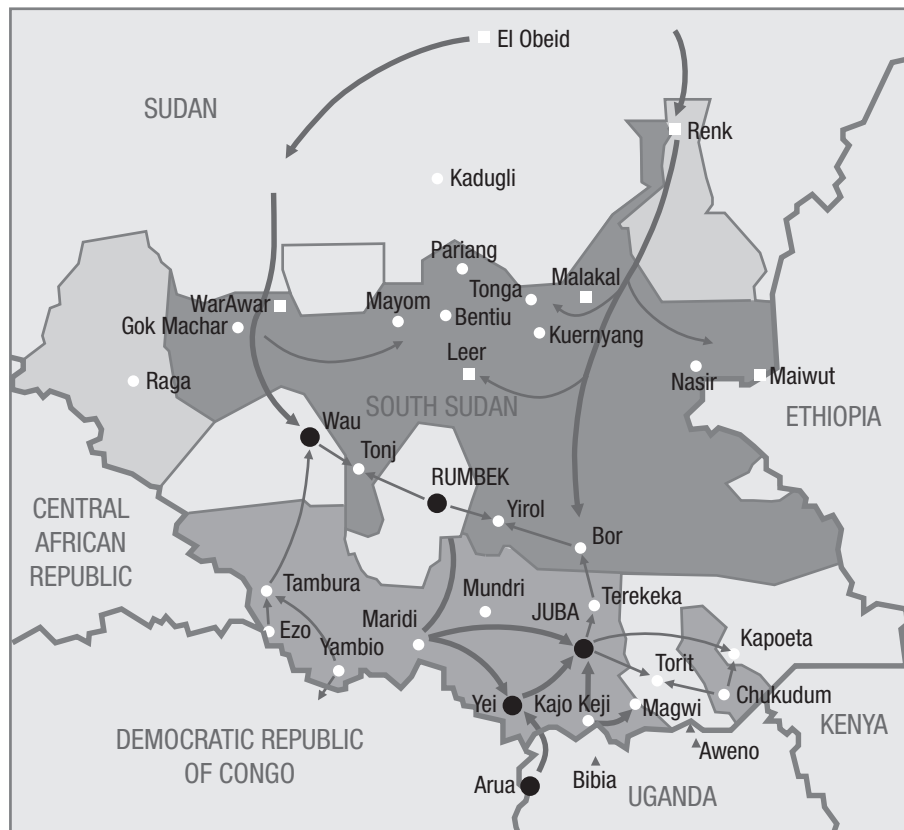
Two years after achieving independence from Sudan, divisions within the ruling Sudan People's Liberation Movement and ethnic tensions prompted renewed conflict in South Sudan in December 2013. By 2015, over 10,000 people had been killed and 1.5 million internally displaced, and the food situation was desperate.

The capital, Juba, is the country's primary import hub and the key feeder market for other areas of South Sudan. The study focused on the town's four main markets, though it also looked at a number of smaller neighbourhood markets. (Since the research was conducted the economic situation in South Sudan has deteriorated drastically, with dramatically higher consumer prices, fuel shortages and increased water scarcity.)

Markets are the main source of staple foods for up to 70% of households, and over 40% of South Sudanese households spend more than 65% of their income on food. There are four key markets in Juba: Konyo Konyo, Customs, Jebel and Souq Lybia. Konyo Konyo is the largest, and the main hub for imports from neighbouring countries and the rest of South Sudan. The other markets tend to source from there, and it has the widest range of goods, though not always at the cheapest prices. All of these markets are characterised by impermanence, lack of regulation and low levels of investment due to insecurity. Domestic production comprises only 10%–15% of the total supply in Juba's markets, primarily consisting of local

## Typical sorghum flows in South Sudan

- Large flow
- Small flow
- Minor deficit
- Major deficit
- Major production/surplus
- No data
- Assembly, retail and wholesale
- ▲ Assembly
- Retail
- Wholesale



Source: World Bank (2012).

fruits and vegetables from across the states of Greater Equatoria. Many traders, even smaller ones, regularly import goods directly. Uganda is the main source of staple foods, particularly since the closure of trade across the border with Sudan in 2011.

At the outbreak of the conflict, many markets outside Juba were destroyed. In Juba, Konyo Konyo and Jebel markets were closed for around two weeks during the initial fighting, with stores looted. Internal trade flows across the country were reduced, and insecurity drove consumers to smaller markets, raising prices. International flows were also reduced, with cross-border imports of grain down by over half between 2013 and 2014. With production areas and transit routes disrupted both nationally and internationally, northern states such as Unity and Upper Nile saw a reorientation of trade towards Juba. As the main form of transport for packaged goods across much of the north is by cargo plane, prices rose sharply.

Demand in Juba declined drastically due to the displacement from the town of as much as 50% of the population. Those that remained lacked purchasing power. The army had previously been a regular buyer of staple foods, but it established its own companies

to import in bulk directly. These factors combined to cause a decrease in sales for retailers of 50%–70%. Whilst previously goods were often bought on credit, because of the economic situation almost all transactions were in cash in 2014.

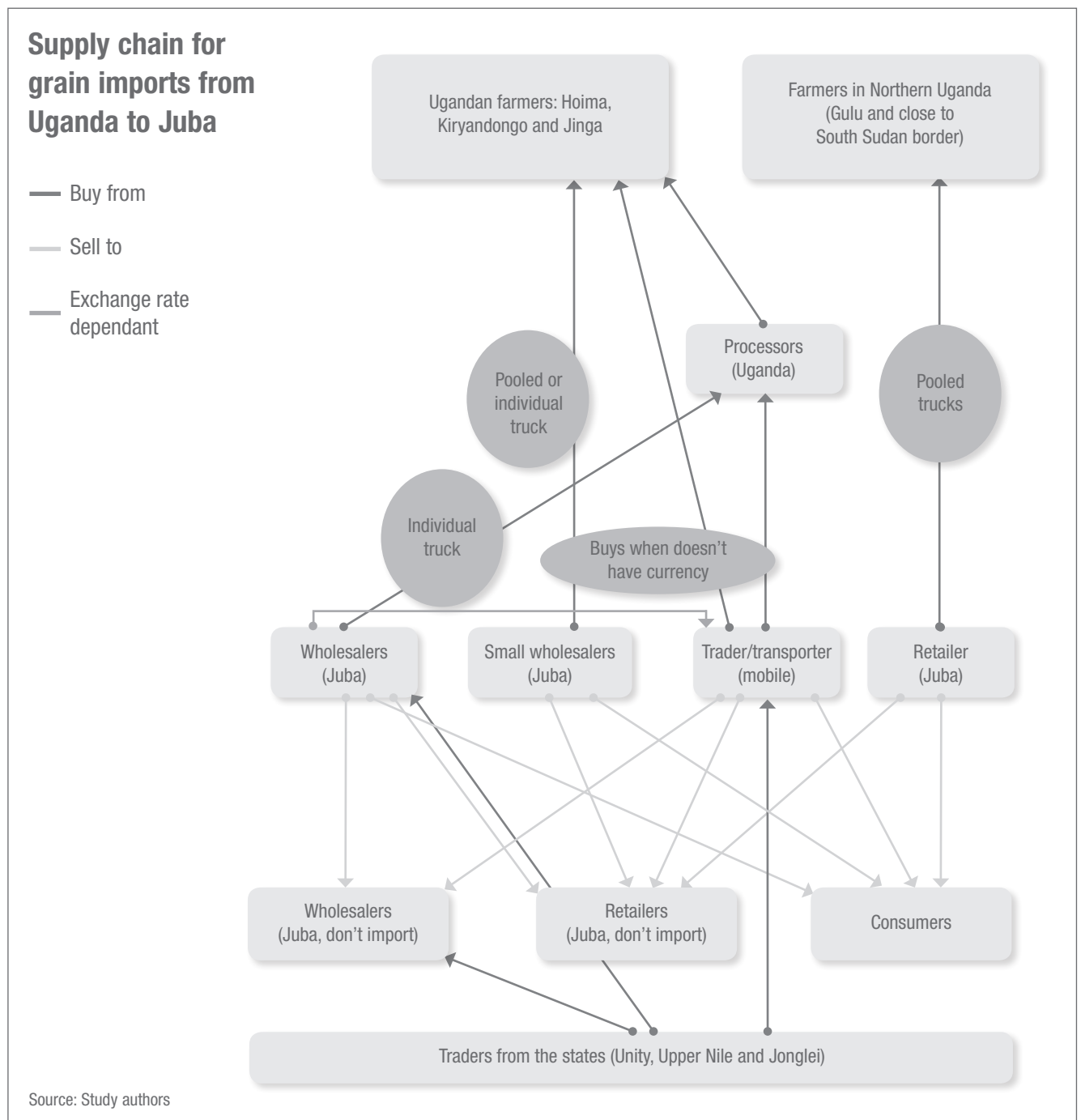
The South Sudanese currency is not generally traded across East Africa, so access to foreign currency is crucial for trade in imported food. The crisis fuelled a huge increase in the dollar–South Sudanese pound exchange rate on the black market, and also had a significant impact on traders' ability to access dollars at the preferential governmental rate. Traders could no longer import regularly quantities, but had to wait until their stock was sold before restocking. Larger traders took advantage of market volatility because they had greater access to safe storage capacity, and could close in periods of insecurity, selling their stock when the market rate was more favourable. Using informal networks of money transfer through friends and families, many foreign traders – comprising roughly 85% of traders in the country – could continue their businesses, although many left due to insecurity.

Prices in Juba fluctuated widely from the start of the crisis, spiking during the first weeks of the conflict, as

imports stopped and insecurity rose, followed by a fall in prices in January 2014 for perishable items, as traders tried to sell off their goods quickly before leaving. Prices for sorghum and maize stabilised in Juba, while continuing to climb in markets in conflict areas, in particular during the summer lean season. (Prices rose substantially in the period after the field research.)

Throughout the conflict most humanitarian aid was in-kind, with the areas of largest food production

tending to receive less food aid. While food aid was crucial, markets continued to function to varying degrees across the country, including in conflict areas. The impact of food aid distributions was less pronounced in Juba than elsewhere, but the effect on the sorghum market was significant, with a trade in aid sorghum at very low prices. Cash and voucher interventions were small-scale and limited, and few humanitarian actors procured food aid locally through local traders' supply chains.





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Cover photo: A trader brings shallots from a nearby village to Bandiagara, Mali, on market day.  
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