

MSD in fragile and conflict-affected situations:

Lessons for implementers working at the intersection of humanitarian and development responses to the Covid pandemic

Policy note for discussion

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

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

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

1. Introduction and context

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

As the useful **OECD 'States of Fragility' tool** illustrates, fragility has economic, environmental, political and societal dimensions as well as insecurity caused by conflict. Fragility frequently leads to humanitarian crises which elicit short-term responses. These are set against a backdrop of on-going development assistance and / or peace-building initiatives. A major issue in FCAS programming is managing the **nexus of contrasting mandates** that arise.

Humanitarians and MSD practitioners tend to see fragility through different lenses. The first focus on addressing essential needs, while MSD practitioners look at why essential and livelihood needs are not being met and seek to address the root causes. This leads to different types of programming, but the approaches do not need to be mutually exclusive. MSD approaches provide a mechanism for understanding both immediate shocks as well as the underlying issues that prevent countries from moving out of fragility. Yet, despite an alignment in the desire to improve conditions for the disadvantaged, there are often problems in transitioning from one type of aid to another: in working across 'the nexus'.

Key Definitions

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

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

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

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

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

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

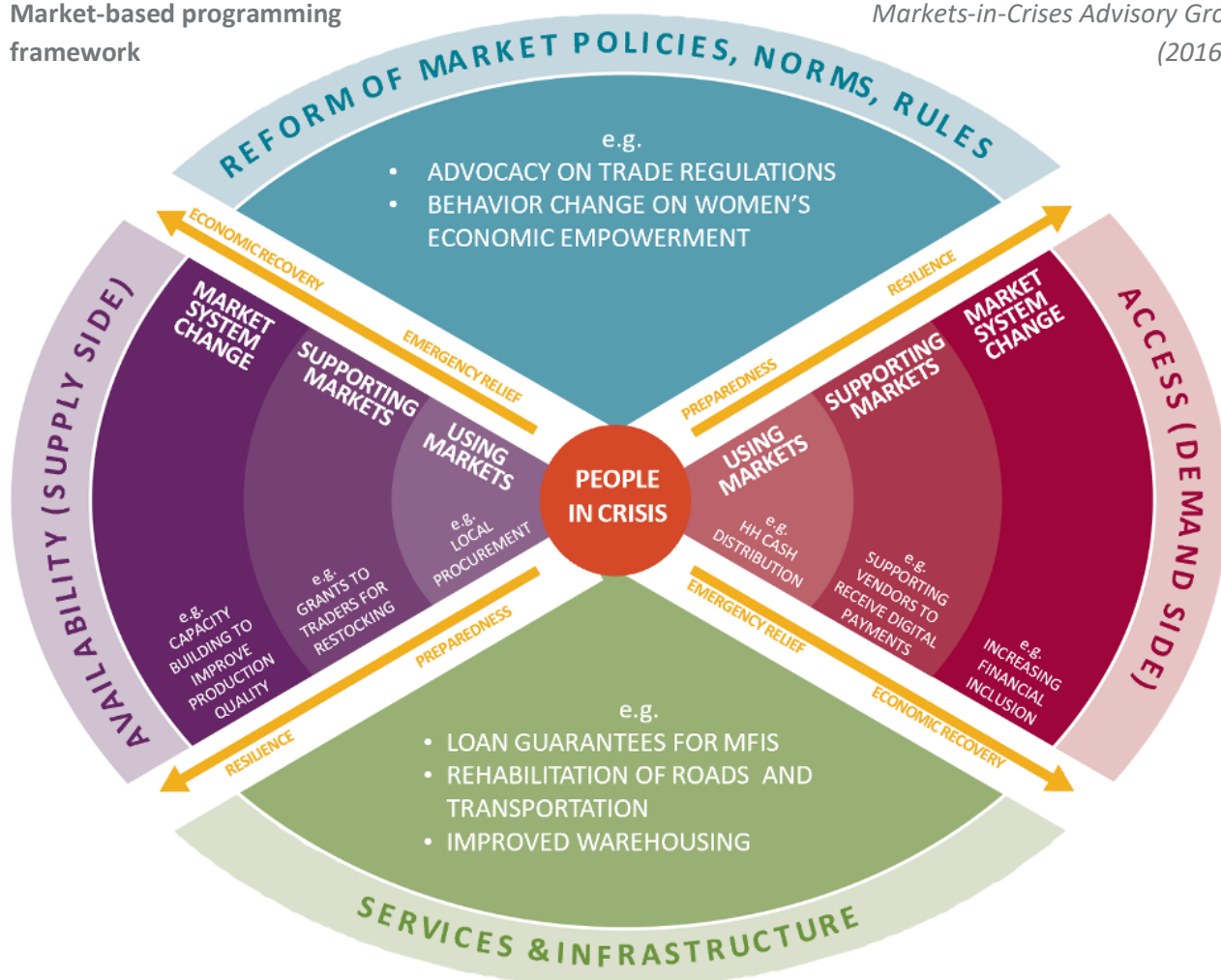
COVID response provides an example of how medium or long-term systemic approaches are critical to recovery, and the value of co-ordinating these with short-term responses to address immediate needs. The pandemic represents an unanticipated shock that has hit fragile countries, layering an additional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

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

In this sense, the MSD approach aligns well with OECD-DAC’s ambition to promote more coherent action in FCAS. It recognises that “market actors” include poor women and men engaging with market systems as labourers, producers, entrepreneurs, and consumers. By accepting that markets exist during crises (even if they are ‘thin’) and are important to the lives and livelihoods of people in FCAS, we can move beyond overly simplistic views of ‘urgent needs’ and begin to understand people’s lives within their social and economic contexts, situating their urgent needs within a wider context of resilience.

In fragile contexts, market interventions can range from actions that deliver immediate relief, to actions that proactively strengthen local market systems and key industries. In addition to asking: “How can we use local markets to deliver humanitarian aid?” we can ask “How are communities using markets to meet their needs, and how can we help markets restore their ability to do that?”

This has the potential to bring together humanitarian and MSD approaches, but there are issues to be addressed on both sides. This policy note provides recommendations to both types of implementers for making that shift; while a policy note for donors provides a parallel set of recommendations.



2. Framing Questions

2.1 How do the humanitarian and MSD approaches differ?

Humanitarian market-based programming	Market systems development
Focus on "What do people need?" Heavy emphasis on programming that is 'life-saving' and therefore fast-moving	Focus on "What is the problem you are trying to solve?" Recognition that there may be winners and losers, and understanding this allows you to make different/better choices
Very quickly rolls out pre-defined solutions, output-led	Builds contextualised programmes from bottom-up, based on local capacity (slower)
Tendency to focus on problems 'within the bubble' of the crisis (more isolated)	Tendency to look at the wider problems, even beyond the organisation's 'circle of influence'
Generally based on replicating successful past experience	Tests theories, pilots multiple potential solutions

Learning largely happens in “After Action” reports and briefings	Learning happens iteratively during the programme implementation
Operational flexibility is reportedly decreasing	Operational flexibility is reportedly increasing
Short-term funding lines limit monitoring, programme adaptation and deep analysis of results	Funding timelines usually allow for deeper monitoring and results analysis, but can lead to ‘analysis paralysis’
Design approach assumes “Get-in/get-out” (but crises are now 17 years on average); straight-forward, direct-delivery solutions	Design approaches focused on systemic issues that can become very complex. Often problems are multi-faceted and hard to resolve.
Under pressure to produce quick, measurable results	Slow moving, often difficult to measure results
Limited funds for broad and sustained engagement with market actors	Human resources for engagement with market actors is part of programme design

2.2 What frameworks are available to help understand markets in fragile contexts?

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

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

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

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

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

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

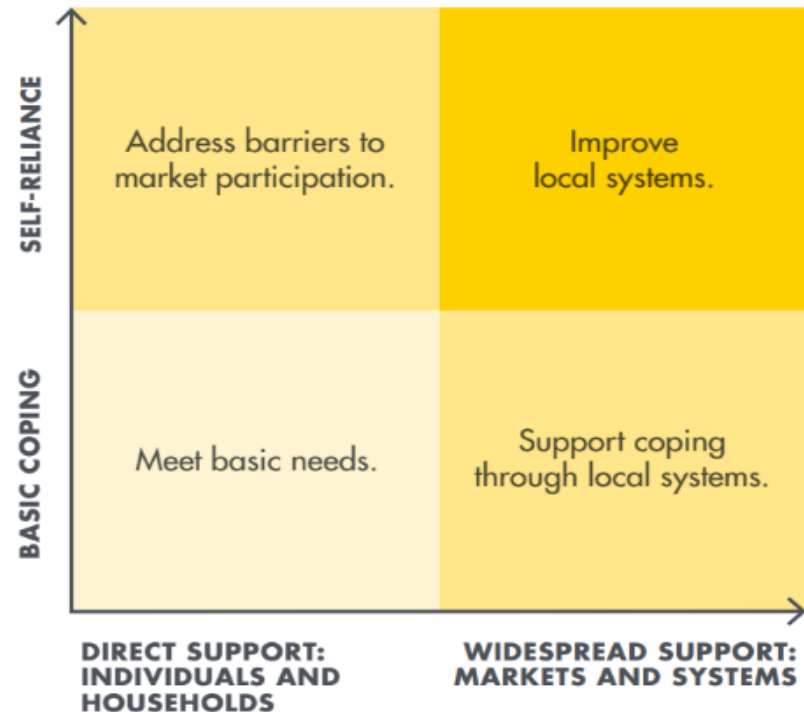
Finally the **Minimum Economic Recovery Standards (MERS)** also

provide guidance on using markets to address humanitarian and economic recovery needs.

As a **Sphere** companion, the MERS are rooted in humanitarian tradition, but with a strong market systems leaning. They provide another opportunity for humanitarian and development actors to build common ground. If donors required implementers to incorporate elements of these tools and standards into their monitoring and evaluation, it is likely that programming in fragile contexts would become more market-aware and have improved outcomes.

IMPROVING CRISIS RESPONSE THROUGH MARKET SYSTEMS

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



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

Immediately after a crisis, MSD work generally has the same focus as humanitarian activities—to meet urgent needs. If this is so, then why are there so many challenges in bridging the nexus and how do we update our approaches as we commence COVID recovery efforts? Five issues are consistently identified in the literature as barriers to using MSD approaches in fragile contexts:

- **Unfamiliarity with systemic approaches, leading to an implicit preference for direct delivery** – Cash and voucher programming is recognised as an important step towards market-aware programming. However, the systemic approaches used in MSD are often unfamiliar to humanitarian staff, and sometimes seen as **a challenge to traditional humanitarian targeting practices**. Humanitarian staff may not consider indirect approaches, preferring to stick to trusted solutions and proven models. This tends to mean that results indicators do not address underlying issues of fragility. **Building in requirements and**

indicators that acknowledge the longer-term impacts of humanitarian aid should support a conversation around the appropriate mix of humanitarian and MSD approaches in early recovery. Organisations that have both humanitarian and development teams seem to be more successful at navigating the space between approaches. Others might seek to partner in ways that can expand their understanding.

- **Lack of awareness of the capacity of local actors** – MSD engages local capacity and networks to improve the functioning of key sectors. In moments of crisis, local private sector networks can sometimes reach farther and faster than aid agencies. Yet, humanitarian staff with less market or economic experience may be uncomfortable partnering with the local private sector. MSD actors may also hold the belief that local actors are not capable of spurring wider change. Yet, as we have seen in COVID-19 responses, local businesses can adapt quickly to the populations' needs because they work through local networks and obtain access in ways that aid agencies sometimes cannot. Specific coordination between humanitarian and MSD actors on this point can help overcome the lack of familiarity or comfort.

The MADE programme in the Niger Delta operated in an area of continuous instability and insecurity, where 50% of the population still live in extreme poverty unchanged in a decade. Yet, this MSD programme still managed a high standard of transformational change by finding partners with a higher risk tolerance and the use of innovative business models that bundled knowledge, products, and equipment into packages that farmers could afford. This created a space for learning—for partners, and for MADE.

PIND, 2020

- **Risk aversion / Do no harm**– Donor staff and local authorities can also be opposed to indirect interventions in fragile contexts, particularly if they do not immediately see how the intervention benefits those most in need. Implementing market systems analyses early and updating them often can help address this lack of awareness, as can market-aware disaster risk reduction programming. What is clear is that aid can reduce supply (traders limit supply for fear of not being able to sell it) creating a chicken-and-egg situation, in which the slowdown of trade justifies continued aid distributions. This points to the need for greater coordination if harm is really to be avoided.

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

Mercy Corps, 2019

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

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

ODI, 2017

2.4 Building flexibility and adaptation into MSD programmes in fragile contexts

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

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

- **Increase the flexibility of funding**
Institutional structures often do not make it easy to increase the flexibility and innovation of funding mechanisms. But forethought in the design of programmes (timelines, the level of detail required in proposals, contingency funds, monitoring and reporting requirements) and building a strong collaborative relationship between donor and implementer staff can help

programmes **understand where and when change might be allowed**. A high level of trust is one of the greatest determiners of whether a programme is able to adapt, regardless of the fragility of the setting. **Develop anticipatory strategies** or a menu of options to put in place systems and resources that allow teams to switch tactics relatively swiftly.

- **Ensure strong data is available for decision-making**

Build nimble but robust and consistent monitoring systems and develop the practice of regularly reviewing available data (both qualitative and quantitative) to determine if changes are needed. This includes data relevant to MSD (e.g. trader surveys, access to finance) alongside traditional humanitarian data (e.g. changes in food prices). It is very easy for teams to continue doing 'more of the same', particularly if targets are being met. This can mask the opportunity for improvement and adjustments that are more commonly necessary in fragile contexts. When good data is available – share it widely.

- **Decentralise decision-making**

Much of the literature of adaptation notes the need to hire staff with 'the right attitude' even more than the right skills. This should be combined with regular opportunities to **formally and informally strengthen critical thinking skills** for staff on the ground. When combined with courageous leadership that supports staff to experiment, programmes are likely to be more innovative and greater impact.

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

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

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

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

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

"Investment in women reliably reaches families and communities. And it's not just about the women entrepreneurs who own those investee companies. Women entrepreneurs are also more likely to hire women and the positive effects on communities are multiplied." **Palladium, 2020**

3. Ten recommendations for MSD programming in fragility

☐ **Be market-aware and Do No Harm. No activity is market neutral.**

These are also minimum standards within the MERS (part of Sphere)—ensure that monitoring, evaluation and learning systems are able to demonstrate how programmes are market aware.

Humanitarian Actors: Recognise that markets are used by all humanitarian technical sectors and that market assessments should be a part of emergency needs assessments. Work with MSD actors to get market data and avoid creating situations where aid undermines future resilience.

Development Actors: Recognise that market-based interventions can impact social power dynamics and damage fragile relationships between groups. In market assessments, identify power dynamics that may change with market intervention.

☐ **Encourage collaboration by coordinating internally.** Many organisations that do both humanitarian and development activities, take advantage of this and **coordinate between teams** to ensure that humanitarian assistance and development work do not undermine one another.

Humanitarian Actors: In early planning phases, meet with development actors to identify where collaboration opportunities may exist, and whether there are private sector networks that may be useful to the emergency response.

Development Actors: Meet with humanitarian actors prior to any specific crisis to build relationships and identify shared goals. Also ask your donors to facilitate meetings to raise awareness of potential for collaboration should a crisis hit.

☐ **Look for opportunities to make funding less siloed.** Identify opportunities for aligning humanitarian and development investments, or at minimum harmonisation aid objectives. For example, can cash transfers be aligned with MSD interventions to address high food prices?

Humanitarian Actors: When defining indicators, select one or two that contribute data to longer-term objectives. The MERS provides key indicators as guidance.

Development Actors: When designing programmes, look at the systems used by beneficiaries of humanitarian aid and identify opportunities to address their market needs.

☐ **Engage in active learning and identify where flexibility is possible.**

In discussions with donors, clarify which areas are fixed and which may be adapted with approval or without approval. This can help **align humanitarian and market systems approaches** as the context evolves. Build in periodic opportunities for diverse teams to reflect on outcomes.

Humanitarian Actors: Be aware the medium- and longer-term feedback loops of development actors. Ensure that preparedness and 'after action' reports consider medium- and longer-term feedback that may help link humanitarian and MSD efforts.

Development Actors: Be ready (have plans and links with humanitarian actors) to respond very quickly to shocks that are likely given the context. Identify areas where flexibility may be needed.

☐ **Ensure strong, disaggregated data is available for decision-making.**

Market assessments should be done immediately after a crisis, as part of emergency needs assessments and updated often. Build **nimble but robust and consistent monitoring systems**.

Humanitarian Actors: Track indicators that feed into resilience activities or future market systems strengthening activities, particularly if working on cash programming. Coordinate with MSD actors on market systems relevant to beneficiaries and feed any available market information back into appropriate clusters

Development Actors: Support humanitarian actors to implement and update market assessments. This will improve the design of humanitarian actions and mitigate activities that undermine MSD.

☐ **Improve the context for fragile countries by supporting critical market systems.**

How recovery happens matters. Understand which systems are critical and employ the strategic use of aid, including investing in infrastructure or government systems as part of crisis response and nexus work.

Humanitarian Actors: Humanitarian programmes should be **'market aware' at a minimum**, and include **'market strengthening'** where possible, even if they are not specifically developing markets. Collaborate with organisations doing complementary work.

Development Actors: Collaborate with and support humanitarian actors seeking to strengthen and support markets.

☐ **Support local private sector.**

Recognise that local private sector networks can often reach farther and faster than aid agencies and should be given consideration as **implementing partners**. Understand how target groups are using and accessing markets to cover their needs and help restore their ability to do that.

Humanitarian Actors: Show a preference for cash and vouchers over in-kind assistance and simplify voucher processes to make it easier for small suppliers to participate in programmes.

Development Actors: Help humanitarian agencies to identify relevant private sector networks to support aid delivery. Ensure small businesses, especially those owned by women, have access to credit and additional support to build their capacity to manage credit.

- ☐ **Invest in women.** Be explicit about women's economic empowerment objectives in both humanitarian and MSD programming and ensure their voices are heard during design and monitoring.

Humanitarian Actors: When targeting, be careful to recognise women's agency and not just their vulnerabilities; recognise their role as meaningful economic actors in their household and communities

Development Actors: As women have been harder hit by COVID economically, look for ways to start MSD programming as early as possible and consider specific supporting functions, such as childcare, that are crucial to women's economic inclusion. Because of the time it takes to get businesses going or recover, these activities should be done alongside aid programmes.

- ☐ **Procurement should not distort the market and should support recovery where possible.**

Avoid structuring large procurements so that only large firms can apply. Be flexible on requirements and/or support smaller actors to participate in procurement.

Humanitarian Actors: Work with MSD actors to understand the markets for the commodity you want to procure (e.g. shelter materials, solar lanterns). Use the cluster to make preferred (market-aware) approaches clear to all humanitarian actors.

Development Actors: Understand where the largest humanitarian aid inputs are being provided and support humanitarian actors (for example through the cluster system) to understand market systems and work appropriately with private sector actors. Consider building the capacity of smaller market actors so that they are able to participate in humanitarian procurement opportunities

- ☐ **Be realistic when working in FCAS.** Market systems development in fragile contexts is likely to be more complex, therefore more expensive and take longer. But incremental change does matter... even small actions can make a big difference in the humanitarian space.

Humanitarian Actors: Remember that beneficiaries do not separate their lives into 'humanitarian' and 'development' parts, and we should identify ways to make appropriate support for immediate and medium-term needs easier to access

Development Actors: In fragile contexts, market actors are likely to have lower capacity and less connectivity with other markets. MSD actors will need to be more flexible and assume a higher level of capacity building and grant support than would be normal in other contexts.