

# **Market Development During and Post-Conflict: Emerging Lessons for Pro-Poor Economic Reconstruction**

By:<sup>1</sup>

Tracy Gerstle & Timothy Nourse

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### **Abstract**

This paper documents practitioner experience using market development approaches for poverty alleviation and reconstruction during and post-conflict. Relief initiatives, in their admirable work to meet communities' immediate needs can create unintended vulnerabilities and dependency by distorting private sector markets. Market Development, an approach to pro-poor economic growth, reduces distortions while leveraging the power of markets to transition the poor more rapidly from dependency to independence. While practices are still in early stages, the twelve case studies examined suggest these approaches hold promise in using the private sector to work with greater numbers of small enterprises in establishing sustainable, resilient livelihoods.

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# 1. Introduction

Private sector development is fundamental in assisting poor people to stabilize and to recover from conflict. Whether through its potential for job-creation and increased incomes, or growth in GDP and governments' tax base, private sector growth is integral to reconstruction and poverty alleviation. Public sector and private sector reconstruction reinforce one another. As publicly-funded reconstruction of roads, housing and other physical infrastructure gets underway, private businesses start up to support this work, while the infrastructure enables their operations. The private sector in turn invests in reconstruction by rebuilding businesses and supporting institutions such as banks and suppliers. As in non-conflict contexts, equitable private sector development also holds the promise of poverty alleviation by helping small enterprise (SE) owners and their employees to participate in and benefit from growing markets. However, effective practices for accelerating the development of markets post-crisis and further leveraging the private sector's potential to reduce poverty and increase livelihood security, are still in an early stage.

Here SEs include micro, small and medium enterprises and small-scale farmers.

In many conflicts, development agencies often approach the immediate crisis and post-crisis environment from a relief standpoint. The focus is on meeting basic needs by the fastest means possible—direct delivery of goods and services—and longer-term development programming is considered a second stage activity. This strategy is understandable given populations' critical needs. Nonetheless, if these efforts ignore market dynamics or equitable private sector growth, the impact can be fleeting. This poses the question: How can immediate needs be met, while reducing distortions and leveraging the private sector for lasting impact?

In relief commodity provision, there have been great strides in leveraging the private sector to improve the delivery of food, clothing and shelter. These “market integrated relief” efforts reduce market distortion, while strengthening the local private sector's capacity.<sup>2</sup> However, examples are fewer for developing markets to foster inclusive economic reconstruction and growth via private sector and enterprise development. Recognizing this gap more and more donors and practitioners are developing initiatives or adapting on-going market development programs faced with conflict. This paper focuses on these emerging responses.

### ***What is Market Development?***

Market Development is a sub-field of enterprise and private sector development in which development programs seek to help SEs to participate in and benefit more from the existing and potential markets with which they do business. This includes input and support markets, as well as final markets. Recognizing that SEs do not operate in isolation, but rather are part of larger markets, market development programs seek to implement programs that take market forces and trends into account. This may require programs to work not just at the level of individual SEs or households, but also with larger enterprises, associations or government institutions that engage in and influence markets. The ultimate goal of market development programs is to stimulate sustainable economic growth that reduces poverty – primarily by ensuring that SE owners and their employees take part in the growth and reap high rewards.<sup>3</sup>

<sup>2</sup> For more on the latest practices in “market integrated relief” see: Miehlbradt and McVay, “Implementing Sustainable Private Sector Development: Striving for Tangible Results for the Poor.” 2006. The 2006 Reader: International Labor Organization; Turin, Italy.

<sup>3</sup> SEEP Network.

To learn more, the authors solicited case studies and perspectives from market development practitioners working in 12 conflict different environments. The cases demonstrate the strong potential of market development approaches, particularly when the design is based on a sound understanding of markets in crises and the implications of limited infrastructure and human resources. If incorporated early in crises, these approaches can both smooth the transition to “development” programming and improve the performance of relief programs. The findings are not definitive, since information on each case is relatively limited and the programs were not evaluated. However, the cases suggest that market-led approaches hold the promise to speed up reconstruction and poverty alleviation efforts, while potentially leveraging the private sector to work with a greater number of SE in establishing sustainable and resilient livelihoods.

Prior to delving into the case analysis the paper presents background to market development approaches and the context for SE development in conflict environments in Chapters three and four. These chapters facilitate joint understanding of the frameworks, terminology and strategies among private sector development and relief practitioners. Chapter five identifies the key issues and recommendations practitioners raised in the cases. Chapter six concludes the paper by proposing a framework for adapting market development approaches during and post-conflict and recommendations for future research.

## **2. Research Methodology**

Despite the growing recognition of the importance of markets and the private sector to the poor during conflicts, there remains a limited understanding of and advice on how to leverage this role effectively. Past research resulted in more questions than answers and too few details on promising practices.<sup>4</sup> Now as the body of programs using market-based approaches is increasing there appeared an opportunity to revisit and broaden the research. The authors conducted a desktop study of programs involving market development and crisis, and then solicited geographically diverse case studies from program managers operating in different conflict environments. This practical perspective allowed an examination of the trends and lessons learned across the program cycle from assessment and program design to implementation and program evaluation, and the differences in approaches depending on the nature of the operating environment in terms of the type of conflict and the level of economic development. Organizations documented their programs via a provided case format, as well as submitting supporting documents. As deemed necessary the authors requested supplemental information. Organizations self-screened their programs, per the following criteria, to determine if their programs fit the research parameters:

- Program operates in a country or environment in the midst of or recovering from conflict
- Program’s primary target beneficiaries are the poor and/or SEs
- Program follows a well-defined strategy for sustaining the initiative that does not rely on continued subsidies or implementing agency activities
- Program design and/or implementation includes analysis of supply and demand trends in the market or industry in which program operates

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<sup>4</sup> McVay, Mary. (October, 2005) *BDS in Conflict Environments: Neglected Potential?* Washington, DC: SEEP Network. On-line Synthesis Discussion. Available online at <http://www.seepnetwork.org>

- Program is, if not already, moving away from direct provision to promoting local private sector or other actors providing goods and services on a cost recoverable basis
- Program has a long-term concrete plan for developing the market or industry in which it is working, including supporting services and/or financing as needed

Table 1 lists the twelve case studies reviewed and provides brief descriptions. The program contexts ranged from post-conflict in Bosnia-Herzegovina and Sierra Leone to areas of ongoing outbreaks in the West Bank and Sri Lanka. There were a wide array of program goals including raising incomes and job creation for crisis-affected households to promoting the re-emergence of industries important to SEs.

**Table 1: Cases Reviewed**

Case	Country	Agency	Crisis-Type	Timing	Project Focus	Intervention Level (Client, Institution, Environment)	Role (Direct Service Provider or Service Facilitator)
1. Developing Pro-Poor Agricultural Markets in Northern Darfur	Sudan	Practical Action	Conflict	Conflict and post-conflict	<ul style="list-style-type: none"> <li>Enhance rural producer access to markets through enhanced market literacy, links with buyers, access to technologies, and services.</li> <li>Capacity building via Village Development Centers</li> </ul>	Client, Institution (VDCs)	Facilitator
2. Herbs & Natural Products	Bosnia & Herzegovina	Partners for Development	Post-Conflict	Development Phase	<ul style="list-style-type: none"> <li>Support to larger buyers and suppliers for facility upgrading and training for affected communities</li> </ul>	Institution (Lead firm)	Facilitator
3. Market Assistance Pilot Program	Zimbabwe	Catholic Relief Services	Policy Induced Natural Disaster	Emergency Phase	<ul style="list-style-type: none"> <li>Delivery of food aid to affected communities through market channels</li> </ul>	Institution (Mills and retail outlets)	Facilitator
4. Promoting Linkages for Livelihood Security & Economic Development	Sierra Leone	American Refugee Committee	Post-Conflict	Transition from Relief to Development	<ul style="list-style-type: none"> <li>Support community reintegration into sustainable markets through asset restoration and enhanced business skills, and links with buyers</li> </ul>	Client, Institution (MFIs)	Direct Service Provider, Facilitator
5. Financial Access Program	Indonesia	Mercy Corps	Rapid Onset Disaster	Emergency Phase	<ul style="list-style-type: none"> <li>Provide and support financial services for SEsI, business planning assistance</li> </ul>	Client, Institution (MFIs)	Direct Service Provider, Facilitator
6. Economic Assistance Program for Internally Displaced People (IDPs)	Colombia	CHF International	Conflict	Recurring Conflict	<ul style="list-style-type: none"> <li>Provide IDPs and surrounding communities with marketable skills and business training</li> <li>Provide financial assistance for implementing business plans</li> </ul>	Clients	Direct Service Provider (loans), Facilitator
7. Municipal & Economic Development	Bosnia & Herzegovina	CHF International	Post-Conflict	During Development phase	<ul style="list-style-type: none"> <li>Increase employment, access to credit and housing through enabling environment</li> </ul>	Environment, Institutions (Business)	Direct Service Provider (loans),

Initiative					improvements and better coordination and advocacy with government.	Associations), Client (Credit & Housing Services)	Facilitator
8. Small Enterprise Center	Palestine	GTZ	Conflict	Recurring Conflict	<ul style="list-style-type: none"> <li>Improve the productivity and incomes for SEs via enhanced access to business development services</li> </ul>	Clients, Institutions (BDS providers)	Direct Service Provider
9. Facilitating Radio & Internet Communications	Mali	Geekcorps	Conflict	Development Phase	<ul style="list-style-type: none"> <li>Facilitate through introduction of new, low-cost, appropriate computer, TV, internet technologies and delivery models</li> </ul>	Clients	Facilitator
10. Cardamom Market Development Program	Nepal	SNV	Conflict	Recurring Conflict	<ul style="list-style-type: none"> <li>Provide farmer groups and networks with necessary tools to negotiate with parties involved in conflict on business related issues</li> </ul>	Clients, Institution	Facilitator
11. Privatization of Veterinary Services	South Sudan	VSFB	Conflict	Post-Conflict	<ul style="list-style-type: none"> <li>Privatize relief agency supported system providing veterinary inputs and services to rural livestock herders</li> </ul>	Institution	Direct Service Provider
12. Promotion of Micro, Small & Medium Enterprises Project	Sri Lanka	GTZ	Conflict & Rapid Onset Disaster	Late Stage Transition from Relief	<ul style="list-style-type: none"> <li>Promote SEs in tsunami affected areas</li> <li>Conduct value chain analysis of local industries and provide grants to re-establish key value chain activities and promote SE access to local technical assistance</li> </ul>	Client, Institution (lead firms and suppliers)	Facilitator



### 3. Background to Market Development

#### *What do Market Development Programs Do and How?*

Traditional private sector development and livelihoods programs with a poverty focus target individual SEs, offering one-on-one assistance via training, grants, or loans. This assistance is generally provided directly by the program or groups it funds and limited to the program duration. In contrast, market development programs target the market systems in which SEs operate, so as to target a large number of SEs, while addressing the systemic issues that constrain SEs' growth. This approach allows for the tailoring of programs based on an understanding of market forces and trends, while allowing practitioners to identify opportunities to address the constraints that leverage local resources. This ensures that SEs can continue to adapt and even grow upon the program's conclusion—and most importantly as markets change.<sup>5</sup>

*The majority of the world's poor own and or work in SE. SEs also provide the bulk of new employment.*

In designing and implementing market development programs, there are a couple of key principles that practitioners follow. Since market development programs are designed around an in-depth understanding of a market, most tend to focus on one industry or a group of related industries. This focus does not necessarily limit the number of SEs that can participate in a program, since industries are chosen based on the number of SEs that are currently operating in the industry or the number with the potential to participate. Indeed, if industry selection is done well, it can greatly increase the number of participating SEs. Once an industry is chosen, additional market research may need to be conducted to supplement practitioners and SEs' understanding of the market. Other principles followed include:<sup>6</sup>

- 1) Understand and address the role of current key market actors
  - Generally programs should complement and foster local support for and ownership of program initiatives, rather than in work in competition. It is critical that programs do not crowd out the existing private sector.
  - Where there is a lack of transparency or rent-seeking behavior, e.g. corruption or unequal power relationships between enterprises, programs should examine how to promote more equitable, open relationships.
- 2) Increase sustainability by promoting commercial relationships
  - Avoid direct delivery of services and other inputs by practitioners. Instead, facilitate service delivery by building the capacity of local enterprises and leveraging other local resources.
  - Develop productive, ongoing, and long-term relationships that are based on economic incentives that will remain relevant upon a program's completion.
- 3) Work with many lightly rather than few intensively

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<sup>5</sup> Market Development is not currently considered a coherent development “field” or community of practice. The principles and approaches are applied in a range of fields, including agriculture, private sector, export promotion, competitiveness, small enterprise, livelihood security, and local economic development.

<sup>6</sup> These principles are influenced by the Committee of Donor Agencies for Small Enterprise Development, “Business Development Services for Small Enterprises: Guiding Principles for Donor Intervention.” February, 2001, and the Springfield Centre and USAID’s framework for Value Chains.

- Whenever possible work with multiple enterprises. This approach lessens potential for market distortions including the risks of certain actors gaining too much influence.
- 4) Identify opportunities for leverage and scale
- Programs should identify potential sectors based on program goals and opportunities to reach greater numbers of SE, i.e. sectors critical to economic reconstruction in which SEs may participate.
  - Pilots of new technologies, services, products or trading relationships that by demonstrating value to enterprises, including but not limited to SEs, will encourage investments or changes in business practices that spur broader change in the market.

Additionally, from the program's inception practitioners should have an exit strategy. This ensures that practitioners maintain a focus on promoting solutions that will continue upon the program's conclusion and most importantly will ensure the ongoing resiliency of SEs to grow and to thrive as the market continues to evolve.

### ***What are the Main Market Development Approaches?***

While there are several frameworks and tools promoting Market Development, most pay attention to and seek to influence several dimensions and aspects of markets, including:<sup>7</sup>

- Context: Understanding markets' physical, cultural, security, political and economic context and utilizing this knowledge in program design.
- Market Opportunities: Helping SEs take advantage of specific market opportunities, usually via linkages with a range of business who trade together in order to reach viable markets.
- Market Linkages: Assisting SEs enter and improve relationships with buyers and sellers; strengthening business associations; strengthening relationships in the market that affect SEs
- Support Services: Identifying the skill-building and operational needs of various businesses in the market and ensuring that the private sector supplies them
- The Business Enabling Environment: Learning how international, national and local politics, security, economies and culture affect the market and especially SEs, and how they can be influenced.
- Firm-Level Upgrading: Identifying which businesses in the market need to improve their productivity or performance, and devising strategies for how commercial market linkages and business services can promote this.
- Benefits, Power and Learning:
  - As markets grow, working to ensure increased benefits flow to the poor.
  - Identifying and addressing power relations in markets and improving market access for discriminated-against groups.
  - Enhancing knowledge transfer through sustainable market systems and transparent mutually beneficial business relationships that promote market competitiveness.

#### ***Market Development Frameworks and Communities of Practice***

- General: ILO Reader ([www.bdsknowledge.org](http://www.bdsknowledge.org))
- Value Chain Development ([www.microlinks.org](http://www.microlinks.org); [www.sdc-valuechains.ch](http://www.sdc-valuechains.ch); [www.snhu.edu/746.asp](http://www.snhu.edu/746.asp) )
- Making Markets Work for the Poor ([www.m4p.org](http://www.m4p.org); [www.springfieldcentre.org](http://www.springfieldcentre.org))
- Market Development: SEEP Market Development Working Group ([www.seepnetwork.org/marketdev](http://www.seepnetwork.org/marketdev))

<sup>7</sup> Miehlbradt and McVay 2006; Downing, Jeanne. 2005. A Value Chain Framework for Economic Growth That Reduces Poverty. microLINKS Breakfast Seminar Series sponsored by USAID AMAP and hosted by QED, 28 July.

## **4. Integrating Relief and Market Development Approaches**

### **4.1 *The Three Levels of Conflict's Economic Impact***

Conflicts often result in severe economic impacts. At the micro level, local markets are disrupted while business assets are degraded or lost and operating costs increase. There is also a skills loss as affected populations migrate and access to education declines. These changes and the accompanying trauma reduce household income and resilience to future crises. In turn this reduces effective demand for SEs' goods and services and the potential for recovery and future growth. At the meso level, market networks and producer associations can disappear, while illicit networks are strengthened, decreasing individual businesses' ability to trade. At the macro level, government's ability to enforce laws and provide services can negatively impact the overall environment for business.<sup>8</sup>

The exact impacts of each conflict depend on intensity whether high or low, and the development level of the area affected. Intensity is related to the conflict duration and whether it is localized, national or regional. The development level of the area is determined by several factors including pre-crisis income disparities and poverty rates, diversification of industries and technology, levels of economic growth and the role of government particularly in creating an enabling environment for the private sector.

It is important to note that despite conflict's impact at the micro and meso levels on poor individuals, households and SEs, these groups do not disengage with markets during conflict. While conflicts may weaken overall economic activity, markets and the private sector remain active. Poor households engage with markets and the private sector for trade—even cross fire—as a central coping strategy. In Sudan, trade continued between the North and South during the civil war and quickly intensified with the peace agreement. Studies by the Feinstein International Famine Center and the Berghof Research Center for Constructive Conflict Management support this finding<sup>9</sup> Even those households and businesses directly affected tend to restart their activities quickly or to seek employment, both as a means of generating income and to move beyond the trauma of the event.

### **4.2 *Market Distortion During & Post-Conflict***

Conflicts' economic impacts and the accompanying market distortions can be intensified by significant relief activity in the form of donations and by support for unviable livelihood activities. These interventions, while critical to meeting short-term human needs, distort private sector markets. Eliminating relief delivery distortions is impossible; however, by ignoring market forces many relief programs exacerbate the problem. Reasons for this neglect, include:

- The practical difficulties of identifying legitimate businesses and entrepreneurs and designing programs that utilize them effectively in a chaotic and pressured situation.

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<sup>8</sup> MacDonald, M.H. 2006 "Private Sector Development in Reintegration and Reconstruction Programmes." Eschborn, Germany. GTZ.

<sup>9</sup> *Transforming War Economies: Dilemmas and Strategies*. Edited by Martina Fischer & Beatrix Schmelzle. Berlin: Berghof Research Center for Constructive Conflict Management. 2005. & Young, H., Osman, A. M., Dale, R., Badri, B., & Fuddle, A. J. A. "Darfur: Livelihoods Under Siege." Feinstein International Famine Center. June 2005.

- Relief programs’ inherent nature and their objective to address conflict-affected populations’ immediate needs. This focus on a conflict’s symptoms rather than causes, and the need for expediency, creates an “emergency mindset,” impeding in-depth analysis.
- A lack of understanding of the private sector and distrust of “profiteers” by many relief agency staff, re-enforced by some actors’ exploitative business practices in many relief environments.
- Short-term, inflexible funding cycles, combined with the requirement to impact large numbers of people quickly, favors direct delivery of goods or services over the “indirect” use of local institutions and market channels, which often are weakened by the conflict.

#### **Veterinarians Without Borders, Belgium (VSFB), South Sudan**

During South Sudan’s long-running conflict, VSFB, with USAID funding, supported a veterinary services and medicines supplies system in Tonj, Bahr El Ghazal. Relief agencies designed the system to provide proper, affordable services and medicines to herders, which VSFB subsidized. Qualified animal health workers (AHW), trained and supervise community animal health workers (CAHW) to serve herders for a fee. With the signing of the 2005 peace agreement, VSFB began to privatize the system. Initially, the AHWs resisted privatization – refusing to purchase medicines from a new, quasi-private pharmacy, spreading rumors to CAHWs about privatization, and using their monopoly power in the market to try to convince relief agencies to continue subsidies. The resistance was generated due to a privatization plan that was designed around technical considerations for providing veterinary supplies in a rural area, rather than market realities. A tiered pricing structure created incentives for AHWs to sell directly to herders and circumvent the CAHWs, who also provided herders with technical advice for the price premium they received. Additionally the desire of most AHWs to be employed - rather than work as entrepreneurs - was not taken into account. VSFB is now reorienting the program to be more market based. This case demonstrates the problems of transitioning from relief to development without an appreciation of markets in the initial design or implementation stages.

For more information, contact Simon Kihu Mwangi, VSFB, at [smwangi@vsfb.or.ke](mailto:smwangi@vsfb.or.ke)

When markets are overlooked, targeted populations’ immediate needs are still often met. However, there may be unintended negative consequences, including:<sup>10</sup>

- Short-term impact: Since the improved livelihoods are not based on viable market assumptions, such as availability of inputs, appropriateness of technology, incentives, and sufficient demand, impacts may be temporary or even exploitative of vulnerable SEs as was the risk run by the initial VSFB program.
- Increased vulnerability for unaffected households: Relief donations can affect the prices of commodities produced by poor people, making less-affected SEs dependent on producing or selling commodities more vulnerable. In Ethiopia, in its early stages, food distribution programs imported grains, despite surpluses in other parts of the country. This depressed prices, reducing farmers’ incomes in food surplus areas, and spreading poverty from drought-affected areas to areas performing well.<sup>11</sup>
- Development of “relief” or “dependency” culture: A sole focus on direct implementation, results in agencies building capacity and expectations in post-crisis areas that is hard to redirect towards development at a later date. The American Refugee Committee, acting as the technical lead in an international NGO consortium conducting a value chain program in

<sup>10</sup> Debate on the impacts of relief on markets is spurred in part by discussions on food aid at the World Trade Organization (WTO). See [www.tradeobservatory.org](http://www.tradeobservatory.org); Donovan, C., McGlinchy, M., Staatz, J., & Tschirley, D. (December, 2005) Emergency Needs Assessments and the Impact of Food Aid on Local Markets. Desk Review. Rome, Italy: Michigan State University for UN World Food Programme.

<sup>11</sup> Agridev Consulting “Local and Regional Food Procurement-An Analytical Review (Ethiopian Case Study).” World Food Program. Addis Ababa, June 2005.

rural Sierra Leone, found that staff and community members needed to be “de-programmed” from a relief mentality and systems completely overhauled; if they were to work with them to implement a program building local capacity, and involving limited subsidies.<sup>12</sup>

Practitioners mindful of markets in crisis settings maintain the goal of meeting immediate basic needs, while devising strategies to attempt to avoid or quickly recover from these market distortions’ negative impacts.

### **4.3 Timing of Market Development**

Given agreement on the need to consider and incorporate markets and SEs early-on in humanitarian responses to conflicts, the question then shifts to when and how? Many practitioners and donors believe that the limitations prevalent in conflict situations—weak markets, disrupted supply and distribution networks, devastated infrastructure, insecurity, displaced persons, low local capacity, and the lack of high potential industries—are too great to allow market development program’s early implementation. Accordingly, they wait anywhere from two to five years following conflict, until most or all of these conditions are mitigated and relief programs completed, before considering activities to redevelop the private sector.<sup>13</sup>

However, the solicited cases indicate that while all of these conditions pose challenges, the conditions to initiative market development can be divided between the “essential”, and those that are “preferred,” but not required for success. The *essential* conditions mirror those for the microfinance sector:

- Nascent, functioning markets – evidence of some market activity beyond “black market” trading in relief commodities;
- Reasonable security in at least the capital city and surrounding areas; and
- General population stability in terms of mobility and most basic needs.<sup>14</sup>

*Preferred* conditions comprise:

- Resumption of international or regional trade that opens up higher profit activities;
- Restoration of infrastructure such as road networks and electrical grids;
- Return of a positive business environment through macro level enforcement of laws or policy improvements.

Mitigating all of these challenges creates an ideal situation for market development; however, practitioner experiments show that only the essential conditions are necessary.

For instance GTZ in the Palestinian territories provides evidence, as do all the other 11 cases, that market-led approaches are applicable during and post-conflict.

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<sup>12</sup> Nourse, 2006.

<sup>13</sup> Observation derived from the authors’ experience in Sierra Leone, Liberia, the Balkans, and East Timor.

<sup>14</sup> Doyle, Karen, *Microfinance in the Wake of Conflict* DAI, USAID 1998; Nourse, Timothy, *MF Sector Development in West Africa*. Chemonics. USAID, 2006.

***Developing and Implementing Programs during Conflict –  
The Small Enterprise Center, West Bank, Palestinian Territories***

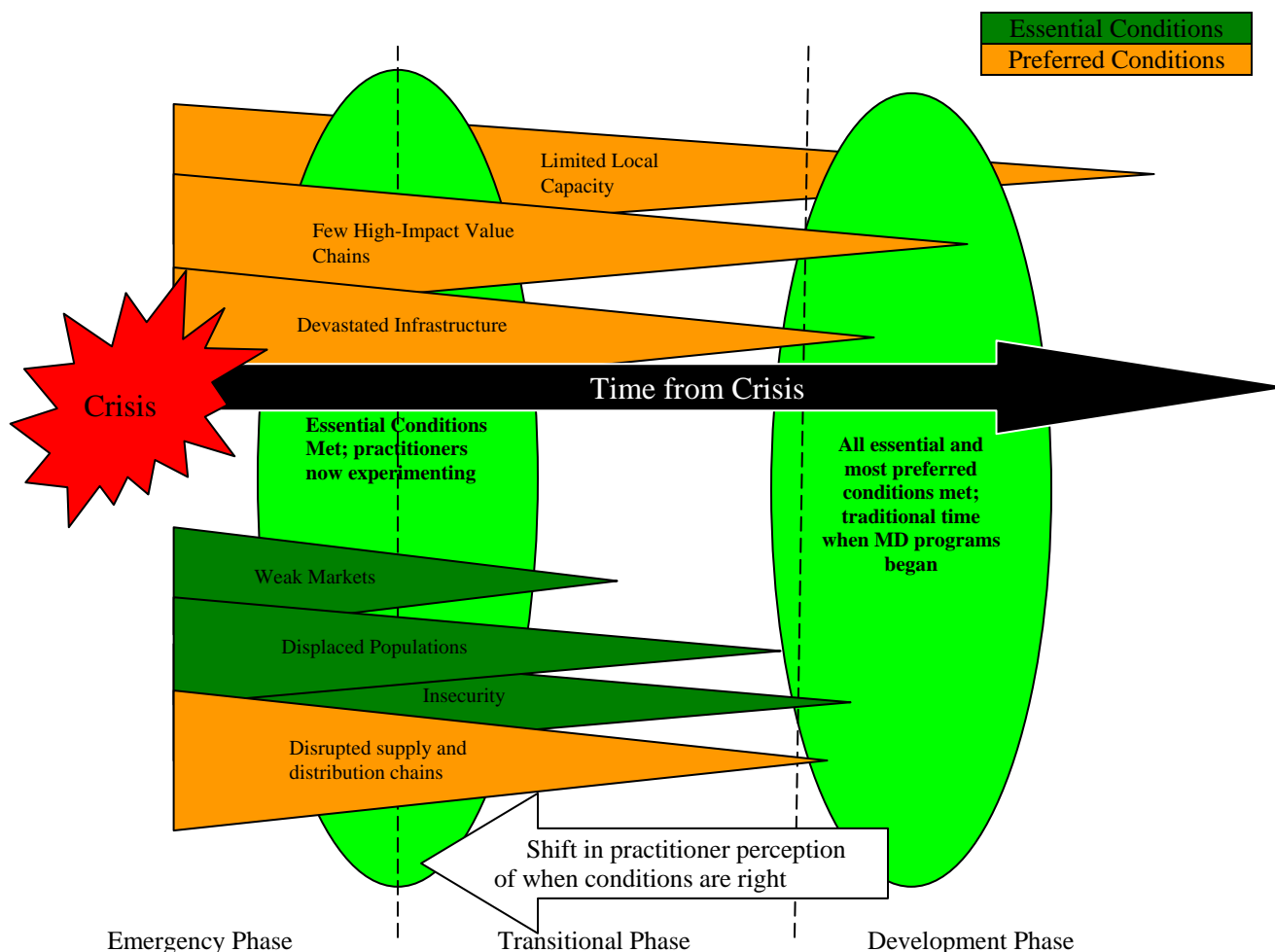
The 2001 reemergence of conflict in the Palestinian territories posed particular challenges to local entrepreneurs. The Israeli government imposed closures and restricted market access, increasing unemployment, while the conflict increased uncertainty and investment declined. To assist Palestinian SEs, the German Agency for Technical Cooperation (GTZ) started the Palestinian Small Enterprise Development Project in 2003. A market assessment indicated that markets and security were sufficient to conduct programming and that SEs lacked information, technology and techniques to react effectively to the conflict's challenges. In response, rather than providing direct assistance to Palestinian SEs, GTZ created the Small Enterprise Center (SEC) to link existing local businesses and technical consulting capacity with enterprises requesting assistance. SEC provided assistance between 10% to 50% of the cost of services to promote transactions. After one year, SEC had brokered transactions for 160 clients, increasing their enterprises' incomes by 24% and their number of employees by 19%. This is significant considering a control group whose employment and income fell by 27% and 24% during the same period. The program's success, especially when many other projects were 100% subsidized, indicates the potential of market development approaches amidst conflict.

*The Small Enterprise Center. n.d. Program description. East Jerusalem, Palestinian Territories: The Small Enterprise Center.*

Importantly, all the cases acknowledge that in the emergency stage relief programming is needed to meet affected households' basic needs. However, the cases also indicate that by implementing complementary market-development programs, it provides for the transition to development.

Figure 2 describes the conditions that challenge market development programs, indicates how they typically evolve in many countries, and the timing for initiating activities. The vertical ovals indicate the time when conditions are right for market-led programs. The timing is shifting from the stable "development" stage when basic needs are met and much of the physical and social infrastructure restored, to near the end of the "emergency" stage, when some populations needs are still unmet and there is limited progress on restoring infrastructure.

**Figure 1: Evolution of Conditions that Affect Timing of MD Programming**



## 5. Challenges and Lessons from Practice

This chapter analyses issues that practitioners raised as critical to their attempts to develop and stabilize markets. It is not an exhaustive list, and more experience and research is called for in order to come to more definitive conclusions on these topics. Yet, there is sufficient experience to date to draw some significant conclusions and recommendations, which are presented in each section.

### 5.1 Funding Timelines And Flows

Both relief and development programs in conflict and post-conflict environments suffer from three connected timing and resource flow issues. The first is short project time-frames. Given the emphasis on meeting basic needs and the rapidity by which the environment changes, funding and program cycles are generally for a year or less. Often these short-term program cycles continue for another two to three, one-year periods beyond the crisis. These short cycles require fast, often inadequate planning, and quick results, overlooking the longer term perspective that is

needed to plan for development. The second, related challenge is the pressure to disburse large sums quickly.<sup>15</sup> In this environment, resource flows may be greater than the local economy, institutions and households can absorb. Third, relief and development spending is often front-loaded. Greater resources are allocated immediately following the crisis, while subsequent initiatives to foster longer-term development are under-funded.

These time and disbursement pressures and patterns influence quality market development programming negatively in several ways. For example:

- Organizations “compete” for beneficiaries and distort economic incentives.<sup>16</sup> In post-tsunami Sri Lanka, one practitioner noted that it is sometimes “more lucrative to be a trainee rather than to run a small business.”<sup>17</sup>
- By-passing local institutions and partners, who may require capacity building or even just improved accounting processes, in order to receive and appropriately implement market development programs and to continue to contribute to the private sector’s recovery upon the program’s completion.
- Focus on short-term results, rather than long-term sustainability and structural change, which is the focus of market development.

To address these challenges, programs are incorporating both short and long terms goals—even when funding cycles are short-term. Incorporating dual objectives enables the strategic formulation of program strategies early on to redevelop the sectors or groups of enterprises targeted. Donors and practitioners can then use the strategy to guide short term funds effectively, so that cumulatively they build towards a long-term strategy whenever possible. This approach promotes rapid progress in alleviating affected individuals’ and businesses’ immediate needs, while providing for smarter allocation of the initial large injections of funds that are donated in many crises.

Some programs are designed to accommodate relief-to-development goals, strategies, and timeframes. Following the earthquakes in Northern Pakistan, the local USAID mission issued a request for applications (RFA) for a three year program to see communities and the local economy through the transition and to potentially help mitigate the conflict which plagues the region. The RFA envisions addressing households’ immediate economic needs in terms of sources of income and other related concerns, while investing resources in rehabilitating key industries in which these households participate or have the potential to participate. This dual focus recognizes that to stabilize livelihoods for poor SEs and their employees, there must be growing industries into which they can link. The RFA solicited consortiums of applicants that brought together relief organizations with organizations specializing in more traditional economic growth programs. This allowed for flexibility in proposing programs that sought to meet immediate needs while incorporating a long term vision. It also reduced administrative constraints and increased the speed of the programming, since by incorporating both relief and

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<sup>15</sup> Muench, Sasha. Financial Access Program (FinAP): Aceh, Indonesia. Mercy Corps for SEEP Case Studies. April 2006.

<sup>16</sup> Ibid. Pacholek, Lisa et. al. Economic Assistance Program for Internally Displaced People: Colombia. CHF International. For SEEP Case Studies. April, 2006.

<sup>17</sup> Ibid. Jamar, 2006



development expertise into the program there are already embedded the needed resources to transition from relief into development, without having to re-bid.

The recommendations to accommodate these resource flow and timing issues is to:

- Allow for more flexibility in program activities, provided activities continue to work towards the overall program goal
- Design programs to incorporate both short and long term goals

This will allow for more ease and speed in implementation, while providing for incorporating a longer term vision and means of reconstruction early on.

## **5.2 Coordinating Relief and Market Development**

During the transition from relief to development, it is common for the two types of programs to overlap. One reason is that conflict-affected populations are diverse. While portions of the population are no longer food insecure, other groups still are, while also lacking shelter or secure livelihoods. Similarly, depending on the conflict's nature some sectors and businesses will take longer to recover. Finally, gathering reliable information on changing conditions is challenging. Due to this uncertainty most programs err on extending relief programming longer than needed, well into when development programs are also operating. As a result, practitioners across multiple post-conflict contexts echoed the same challenge, namely: relief funds undermining development initiatives.<sup>18</sup>

### *Mixed Messages on the Role of Financial Institutions Mercy Corps in Aceh, Indonesia*

Prior to the Indian Ocean tsunami, Aceh had few financial institutions. Following the disaster, there were even fewer, and their capacity limited. As the number of organizations responding to the tsunami rose, more programs are working through these few institutions, at the risk of overwhelming them. In Aceh, a community bank may have 10 staff and an active portfolio of 200 borrowers. Humanitarian organizations are requesting these small institutions undertake multiple, sometimes contradictory activities. Banks are simultaneously piloting new group and individual lending schemes, channeling loan funds from government sources, and disbursing NGOs' beneficiary grants. These numerous activities tax institutions' limited financial management capacity, while causing confusion both for the banks and their clients, since the institutions are simultaneously issuing commercial loans and soft loans as well as grants.

*Ibid Muench.*

Practices are still emerging on how best to coordinate relief and development efforts, while ensuring they are complementary. Many practitioners stressed that greater coordination among and within donors and practitioners is required, both in program implementation and in monitoring markets' and the private sector's recovery. In many conflicts this role is undertaken by multilateral agencies such as the United Nations or by practitioners themselves, who form coordination groups. However, practitioners stressed that these efforts are still not specific enough and are needed earlier in planning responses, particularly before allocating funds and other resources. Three recommendations put forward:

- Donors and practitioners should agree upon task allocation in terms of target regions, programs, and/or beneficiaries.

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<sup>18</sup> Ibid. Jamar, 2006; Muench, 2006; Nourse, 2006; Gerstle, 2006; Morgan, Mary. 2005. Cowpea Subsector Approach. BDS Consultancy Report (May). Monrovia, Liberia: Mercy Corps.

- Larger bilateral donors should require their grantees to coordinate and hold them accountable for designing and implementing programs that are complementary (or at least not disruptive)
- Alternatively, donors and practitioners should create alliances based on practitioners' competencies and the response needs<sup>19</sup>

If these efforts were coordinated—and complemented with monitoring of local economies and households' recovery, so as to ensure consensus on staging—it would lessen programmatic conflicts, while providing the potential to better leverage respective donor and practitioner contributions.

In the absence of strong coordination, market development programs often operate in environments where relief programs provide similar services without charge or for less than cost recovery. Market development initiatives – which promote fees for services - then need to find creative strategies that will be effective in a relief environment.

***Competing with Subsidized Programs***  
***CHF International, Colombia***

In Colombia, CHF worked to enhance the limited economic opportunities for IDPs following over four decades of conflict. The program worked through local implementers to help clients identify their income generation potential. Training, job placement, and SE support tailored to the individual business' labor needs was then delivered. The program competed with many relief-oriented programs offering the same services. CHF found that the most effective way to compete with these programs was via good coordination and communication. If relief managers were aware of long-term sustainable programs, they could divert much needed resources to other areas, particularly to addressing basic housing and nutritional needs, while CHF development complementary services to support and to grow incomes. Through communication and collaborative planning, relief programs and market development programs complemented each other to effectively serve their target population's varying needs.

Ibid Pacholek.

### **5.3 Market Assessment**

Market assessments enable practitioners to understand the specific sectors from which SEs derive income and employment; their relationships to these sectors and the larger market forces and trends that affect SEs' and the overall sector's growth. During and post-conflict, threats to SEs result from changes in, and often in combination:

- Changes in the relationship of individuals, households or communities to the markets they derive their livelihoods from, and
- Changes in the markets themselves, including the supply and demand for products and services for and by both local SEs and consumers, the enabling environment, investors' confidence and linkages to markets not affected by the conflict.

Each circumstance requires a different response. A good market assessment seeks to understand the current nature of markets during the crisis, as well as what existed prior. This then allows for tailored market development responses that address the specific supply and demand issues in ways that stimulate private sector initiative rather than distorting markets. In the spirit of B3<sup>20</sup>, communities, government and development practitioners also seek to reconstruct markets that operate as well as or even better than prior to the crisis, while providing high rewards for the

<sup>19</sup> Pacholek 2006; Muench 2006.

<sup>20</sup> "Build it Back Better" or B3 is a relatively new term which connotes programs that try not only to rebuild what existed beforehand, but to do so in a way that improves upon its processes, systems, and capacities.

poor's participation. In Bosnia-Herzegovina, Partners for Development works with lead firms to address supply side gaps that enable remote villages to sell their products into high value European markets.

***Addressing Supply Side Gaps to Meet Market Demand  
Partners for Development, Bosnia-Herzegovina***

The twin villages of Besselj and Donji Besselj are among the most remote in Jajce, a mountainous region in Bosnia-Herzegovina. Nine years following the Balkans war, 60% of their inhabitants are yet to return and those remaining are struggling to recover from the conflict's aftermath and the economic transition. Both villages have access to large supplies of wild mushrooms and other plants that command high prices in Western Europe. However, local processing, cold storage and transportation capacity are limited by a lack of affordable commercial financing. Partners for Development is assisting a local firm with export facilities to purchase equipment that will expand its capacity and enable it to purchase more from the two villages. The communities estimate the new purchases will expand their daily income from 10 to 30 KM a day (\$6 to \$18 USD) compared to the 5 KM they can make from selling one cow's milk.

For more information contact Michael Carson at Partners for Development: MCarson@pfd.org.

Market Assessments also provide for understanding power relationships and the distribution of benefits within markets, which is particularly relevant during and post-conflicts. Underlying many conflicts is strife over economic resources. Additionally, elites and other powerful groups sometimes take advantage of conflict and poor to no enforcement of rule of law to exploit business opportunities, co-opt relief resources for personal gain, or to consolidate their market position. The poor, who are generally disempowered, suffer the most from the imbalances. Market development programs by their nature influence the power over and benefits gained from these resources, and therefore can mitigate or agitate the conflict. For instance, in Afghanistan, the Afghan Research and Evaluation Unit, recently reported that efforts to promote economic growth through the creation of a light regulative state are re-enforcing the very economic interests that were in power under the Taliban regime and contributing to ongoing political instability.<sup>21</sup> In contrast in Columbia where the economy has been damaged over the long term by drug related civil conflict, CHF found ways to bring conflicting parties and parties with different interests together for the purpose of economic development.<sup>22</sup>

This is an area that practitioners are particularly struggling with as relatively few solutions were identified in the research. Areas where additional research and practices are needed include:

- More flexible and rapid market assessments: Markets and the needs of SEs evolve rapidly in conflict environments. Better tools are needed to assist practitioners in assessing these environments, as well as funding in programs to do so.
- Better program monitoring: If practitioners had tools to monitor changes via their programs they would be more responsive to market changes, while requiring fewer assessments.
- Ranking potential interventions: The constraints to market development and SEs' incomes in conflict environments are often more than one program can reasonably address due to funding and scope limitations. Better tools to gauge and rank potential opportunities and solutions would promote smarter resource allocation.

<sup>21</sup> Lister, Sarah and Adam Paine. 2004. "Trading in Power: The "Politics of "Free" Market in Afghanistan" Afghanistan Research and Evaluation Unit. Afghanistan.

<sup>22</sup> Pacholek et al 2006;

- Collaboration with conflict mitigation practitioners: Conflict mitigation practitioners have developed a number of tools and frameworks by which to map power relationships and influence, and to mitigate potential conflict. Greater collaboration with conflict mitigation practitioners to improve upon market assessments and program implementation.

#### **5.4 Grants, Financing and Market Development**

In conflict environments, identifying and strengthening commercial, unsubsidized solutions for market development can be hindered by a number of reasons including few SE assets; a lack of affordable financing, services and inputs which increases operational costs while discouraging investments; and a dearth of enterprises; etc. especially in high intensity, low development conflicts. Practitioners should approach these environments thoughtfully and ask themselves what can be done without subsidies and how we may have to compromise?

Most grants to replace assets for vulnerable SEs carry pre-conditions such as completion of training programs or other activities, and agencies use a variety of disbursement methods. Some provide the grant as a one-time disbursement. Others, such as ARC, use the phased disbursements to encourage participants to self-invest. Many of the cases however caution to address these grants' underlying risks--particularly in terms of SEs and others expectations, while not undermining existing commercial entities serving the target population. Clear grant eligibility requirements and communication strategies on the grants' short term nature ensure the grants do not support the "relief" mindset or undermine microfinance institutions and other businesses.

*Delineating Grants for Clients  
Mercy Corps Indonesia*

As part of their overall Aceh Recovery Program, Mercy Corps offered cash grants to program clients based on an asset-replacement methodology. Grants were available for clients who had lost all of their assets (up to \$400) based on proposals prepared by groups of individuals in Mercy Corps' target communities. Members of the community with some remaining assets were able to access loans ranging between \$500 to \$10,000 through the Financial Access Program. Mercy Corps developed partnerships with existing commercial lenders (both those within the affected zone and in neighboring districts) to deliver business-oriented financial services to these clients. Clear criteria were set to ensure that transparent lines were drawn between the program's different clients.

*Ibid Muench.*

Another lesson is to plan for the transition from subsidized to commercial services. Successful grant programs strengthen the supply of services, identifying commercial providers and building their capacity to serve enterprises' needs over the long term. Programs then link SEs with commercial providers of services to facilitate long-term, commercial transactions and grant phase-out. Vouchers or matching grants for services are useful tools in this kind of program as demonstrated by GTZ in Palestine and ARC in Sierra Leone.

In addition to addressing the needs of vulnerable individuals, households and SEs, grants are used to spur the re-entry of larger enterprises in a targeted sector. Generally these enterprises occupy a central role as commodity, input or equipment suppliers, and/or wholesale buyers of SE products; thereby, catalyzing growth in the entire sector, while benefiting SEs. CHF in Colombia found that larger enterprises and more profitable SEs, not just those operated by disadvantaged

households, would benefit greatly from matching grants or other support promoting their growth, while expanding local employment opportunities for vulnerable populations. Grant programs to more stable businesses can also promote firm upgrading by fostering early adopters and creating model enterprises. Demonstration effects highlight successful firms and address risk concerns for other enterprises that may be reluctant to invest in their business post-crisis. These programs emphasize innovative technologies and techniques that firms can adopt to advance their business, and promote a commercial distribution by which adoption among firms can be scaled.

In incorporating grants into programs, the cases support the following recommendations for success:

- Understand the environment first: Identify what already exists and works in the private, and sometimes public, sectors.
- Set eligibility requirements, accompanied by a communication strategy: This should clarify who is eligible for grants and not undermine the local financial sector. The grants should be branded as such, accompanied by clear communication of their limited nature.
- Establish a transition plan: How will the subsidies be transferred into sustainable initiatives that will continue upon the program's end.
- Identify initiatives that will stimulate a broader effect: How can grants be used strategically to restart industries, introduce new technologies and efficiencies, benefit larger numbers of SEs and/or to reduce risk

Thus, grants can be effective market development tools if they are implemented as a means to catalyze economic activities, as opposed to replacing it.

## **5.5 *Direct Client Targeting vs. Market Development***

The need for program flexibility during and post-conflict arises in many program dimensions, but the most critical is where typical relief programming and market development clash on principle. Relief programs usually target large numbers of specific conflict-affected individual such as returning refugees or small farmers in a geographic area. Institutional delivery and control systems channel services and resources directly to these populations. This presumably ensures that donations go to those in need, rather than being co-opted by the elite. However as well-intentioned this may be, it clashes with the market development goal of stimulating and strengthening markets, which requires engaging with a broader range of people and businesses in an industry or sector. It also undermines the sustainability strategy of market development in which programs work with both SEs and larger enterprises that are not vulnerable. In order to be effective, Market Development programs channel resources to a wide range of small, medium and large enterprise suppliers, buyers, consultants and trainers, who do not differentiate between refugees and host communities, men and women, different ethnic groups, the poor and the ultra poor. This is a clash of strategy, not of value, but one that requires donor and high-level implementing agency attention in order to change.

While demonstrating success CHF International's PAE (Economic Assistance Program for IDPs) in Columbia, illustrates how a program's potential impact in terms of scale is limited by program structure. PAE works to promote economic opportunities for people displaced by conflict. One of the program goals is to promote formal employment for IDPs via vocational training and employer linkages. However, there are limited formal employment opportunities and the

program's guidelines prevent it from expanding its potential employers by working with larger enterprises so as to expand their workforce.<sup>23</sup>

Some programs are identifying means by which to work around or through these programmatic inflexibilities, with successful strategies used or recommended by practitioners in the case studies including:

- Focusing on cross-sector services that support SEs across several sectors
- Directing efforts towards sectors with high potential post-conflict, such as construction, in which target populations have or may acquire relevant skills, both as employees and SEs
- Expanding focus to a larger sector, such as agriculture, or several related sectors, i.e. sustainable forestry, natural products and furniture, to ensure a larger potential target population

In all of the cases, practitioners ensured that vulnerable populations benefited by devising activities that address what target groups require in their efforts to participate in target markets and higher value opportunities.

***Targeting Sectors***  
***American Refugee Committee - Sierra Leone***

The LINKS program targets households engaged in farming and marginalized youth. While focusing broadly on agriculture, the program developed targeted, value chain specific projects to help poor communities take advantage of growing market opportunities. A market assessment identified cassava, rice and ground nuts as value chains that provided opportunities for increased profits and broad participation by rural communities. Based on the market assessment, services for promotion that were applicable to all three chains, such as input supply and storage were identified. Follow up assessments enabled program staff to target additional specific services such as marketing and transport for the ground nut value chain. The choice of a few complementary agricultural value chains that offers opportunities for high products allowed ARC and the LINKS consortia to serve a large number of farmers effectively.

*Ibid Nourse.*

Another benefit of market development programs is that by excluding no one, but rather engaging a wide range of people and businesses, the practice of “Do No Harm” is followed. This reduces the risk of exacerbating conflict or inequity, while ensuring that the targeted population benefits.

This challenge of direct client targeting versus market development reinforces the earlier recommendation that programs focus on goals, and allow flexibility in strategy and activities as long as program targets are met.

## **5.6 Staffing and Capacity Building**

Development agencies face significant challenges when addressing staffing and capacity issues during and post-conflict. Often, relief staff are not well-versed in concepts related to private sector development. Additionally, their experience in traditional relief instills a “relief” culture, hindering their ability to identify and pursue commercial solutions to market constraints. Practitioner agencies are starting to address these knowledge, skill, and attitudinal gaps in order

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<sup>23</sup> Ibid. Panchoek 2006

to improve economic literacy, particularly in market development approaches. A range of innovative strategies were identified in the case studies:

- Capacity building of staff and local partners through cross-visits, training and mentorship
- Hiring short-term consultants and building staff training activities into the consultancies
- Implementing activities with immediate impact while taking more time to develop solutions that requiring greater staff capacity
- Recruiting individuals in country with private sector backgrounds
- Providing increased technical assistance resources for staff

## **6. Framework for Market Development During and Post-Conflict**

Market development approaches are appropriate at a much earlier stage in conflicts than they are currently introduced. While their early use holds challenges, their application reduces market distortions and provides better program results. As these approaches are further refined they hold the promise of speeding up reconstruction and poverty alleviation efforts, while potentially leveraging the private sector to work with a greater number of households in establishing sustainable and more resilient livelihoods. However, as the cases illustrate, market development approaches should be adapted on a case by case basis, rather than applied wholesale from stable environments. Adaptations are in two categories – first modifications to general Market Development principles, and second more specific responses to conflict’s particular operational contexts. The authors recommend that in identifying adaptations, donors and practitioners start out with the intention of following all of the principles of a market development approach. This allows for a consideration of the principles one by one, to identify based on context where programs should compromise, while working towards the ultimate goal of making markets work better, particularly for the poor.

Some general adaptations or compromises include the following:

- More frequent and less in-depth market assessment: During and post-conflict, markets and the private sector change rapidly. In addition, limited staff capacity in private sector development and difficulties gathering data challenge market assessments. As a result, market assessments need to be more frequent and less in-depth. Improved tools are needed to do this, as well as better program monitoring mechanisms.
- Flexible approach: To adjust to rapid changes in the business and/or security environments, programs need flexibility to change their activities and short term strategies, while working towards a constant, long term goal that provides for pro-poor reconstruction.
- Fewer partners: Travel restrictions, limited capacity, political considerations, and less market depth may reduce the number of service providers, associations, or SEs a program can target effectively. Programs may begin with fewer partners, increasing their numbers overtime as conditions permit. More intensive work with local partners up front, or even direct interventions by programs for a short periods can sometimes compensate for too few suitable business partners.
- Initially greater use of subsidies: SEs’ and other enterprises’ limited assets, combined with the higher operations costs in conflict environments and limited financing options may severely restrict potentially profitably activities. Practitioners use matching grants, direct payments and other means to subsidize key services and activities that will develop markets.

Importantly, there should be upfront planning to assess subsidies activities' viability and to transition subsidies to more commercial and sustainable activities.

- Focused interventions: In conflict environment, the number of challenges may be too numerous for one program to address. Practitioners need to prioritize and focus their interventions based on the most critical constraints which are within the program's means to address easily and partner wherever possible to coordinate on other issues.

As the introduction notes, the research findings are not definitive. However, the research clearly illustrates the promise of market development approaches during and post-conflict, and the need for more research on practice and impact. Additionally, much could be gained by initiatives to foster innovation in these approaches including:

- On-going exchanges of experience between the relief and development communities
- Pilots to spur innovation, further test and elaborate on current recommendations, and investigate unresolved challenges
- Framework and principle adaptation
- Innovative capacity building
- Guidelines for donors and practitioners, as well as policy adaptations

The authors invite your comments on this paper. Please send inquiries to Tracy Gerstle, [tgerstle@yahoo.com](mailto:tgerstle@yahoo.com) and Timothy Nourse at [timnourse@gmail.com](mailto:timnourse@gmail.com).