Roundtable report

HPG
Humanitarian Policy Group

Markets in crises and transitions

Islamabad expert roundtable

Irina Mosel and Steven A Zyck

Introduction

This document reports on the outcomes of a half-day roundtable discussion organised by the Humanitarian Policy Group (HPG) at the Overseas Development Institute (ODI) in partnership with the Sustainable Development Policy Institute (SDPI) in Islamabad. The event, which took place in early February 2014, attracted 25 participants from government, NGOs, UN agencies, international financial institutions, the diplomatic community and research institutions.

The discussion, like this roundtable summary, was oriented around three key themes: (i) the impact of crises on markets and affected communities; (ii) the impact of external assistance on markets and affected communities; and (iii) the potential to move towards market-oriented relief and recovery assistance. As these headings suggest, the discussion focused primarily on how humanitarian actors, including Pakistani government institutions, can work with and through market actors to assist people affected by natural disasters, violence, displacement and other crises. As several participants noted, while market-linked humanitarian assistance may benefit the private sector, aid actors must maintain a focus on vulnerable communities rather than attempting to integrate private sector development, a long-term economic priority, into emergency response.

Markets in crises and transitions is a research project explored by the Humanitarian Policy Group as part of the 2013 - 2015 Integrated Programme.

Through research in Pakistan, Mali and beyond, and by bringing together experts who work on this topic, good practice and lessons learnt regarding approaches to market analysis and market-linked programming will be analysed to better inform future work in this field.

The impact of crises on markets

Participants emphasised that, while all crises affect markets, the specific effects vary widely based on the type and duration of market disruption. They noted that the features and magnitude of crises were crucial factors to consider, as were the ecological, political and livelihood contexts. Taking an example from Sindh Province, one participant noted that the feudal system in that region poses unique challenges and requires a political-economy approach that considers inequality and the manner in which markets and foreign aid create (or recreate) inequality.

Participants noted that several regions in Pakistan had been affected by recurrent crises year after year, suggesting a need to look at high-risk areas and examine what, if anything, had changed or improved from crisis to crisis in terms of market functionality and resilience. Participants consistently highlighted that, overall, market recovery after crises in Pakistan was speedy and supply chains were rarely fully disrupted; however, they noted that certain commodities were more or less affected by particular types of crises.

Several examples arose during the roundtable. During the 2005 earthquake, key infrastructure was affected, and three to four months passed before markets in the worst-affected areas were able to recover. Some areas, though, such as Upper Swat, were completely disconnected from other parts of the country and supply routes in the aftermath of the earthquake and markets were not functioning.

During the 2010 floods local agricultural markets were badly affected and standing water was slow to recede. One aid agency reported that, despite the disruption, local vendors had strong links with suppliers and were able to obtain large volumes of supplies at short notice and on credit. Participants mentioned that it was important to look beyond the market alone to the regulatory environment and the capacity of financial institutions when analysing markets in crises. For example, in Awaran district during the 2005 earthquake financial institutions only had very limited cash reserves which in turn severely affected the supply of goods to the area. Similarly, the role of remittances, which often exceed formal aid during crises in Pakistan, needs to be considered carefully. Unlike in other contexts such as Somalia, remittances in Pakistan tend to pose a significant challenge to the efficiency and speed of financial processes during crises.

The impact of external assistance on markets

Just as crises affect markets, so too may external assistance provided by government agencies, UN agencies, international or Pakistani NGOs, diaspora networks, religious groups and ad hoc philanthropic initiatives. Local charities and philanthropists in particular have played a key role as first responders in disasters in Pakistan. But some participants noted that the wide range, massive scale and poorly recorded nature of many forms of external assistance means that it can be difficult to tell who is involved in what ways and in which locations; this heterogeneity makes it hard to understand how external assistance as a whole affects markets.

Despite this complexity, participants generally felt that external actors periodically had negative impacts on markets. Firstly, aid agencies have at times worked around rather than with or through markets, particularly those at the local level in and near crisis-affected areas. Hence, local fruit, vegetable and wheat markets were ignored while aid agencies brought in large volumes of food aid from abroad or purchased it in major urban centres, where the revenue would not directly benefit crisis-affected areas. While many roundtable participants felt it is important to initially rely on the fastest sources of aid – particularly in the mid-crisis and immediate post-crisis phases – local markets must be drawn upon as soon as they are up and running. Roundtable participants highlighted that working with small-scale, local traders was often challenging for aid agencies due to lack of local capacities, particularly around registration and documentation. Traditional, small-scale traders were often not in possession of the necessary documentation and could not assure the paper trail that donors demanded and were therefore disadvantaged. Large segments of Pakistan's economy remain informal and undocumented, which can make proper identification and targeting of market-based interventions more difficult.

Secondly, aid agencies must likewise avoid destocking markets in affected areas unless they can be restocked very quickly.

For instance, some noted that aid agencies had periodically absorbed a massive proportion of local resources – whether trucks or construction materials – thus generating a shortage and driving up prices. This problem can be overcome, some noted, by ensuring that markets have ready access to additional supplies from major urban centres so that they can easily respond to large-scale demand from aid actors; the ability of businesses to quickly restock is linked to information systems which allow businesses to anticipate fluctuations in demand and avoid being caught off guard.

Thirdly, businesses and markets must not only be able to ramp up production and supply to meet demand from aid actors – they must also avoid becoming dependent on aid actors. For instance, one participant noted a case where aid actors had become the main player in local markets over a period of more than 18 months. When international aid operations slackened, businesses declined quickly, producing yet another market shock; others found that they were left with large volumes of materials which aid actors were no longer purchasing. This excess stock posed a major burden for businesses, which often have little capital and rely heavily on credit.

Fourthly, aid agencies had at times inadvertently set new standards in the market for items ranging from construction materials to livestock. The materials introduced by international organisations, in particular, were frequently high-quality and relatively costly. For example, some aid agencies introduced a different and higher quality of bamboo into local markets through their shelter projects and associated procurement; while there was previously no local market for high-quality bamboo or other materials, suppliers began to carry these items over lower-cost goods. Customers thus became reluctant to accept the more cost-effective items on which they had previously relied. Participants noted that quality improvements were beneficial, but felt that they should be achieved through relatively low-cost technological improvements (e.g., a new recipe for more durable bricks made from local materials) rather than by introducing more costly goods. Participants also felt that it was crucial for aid agencies to thoroughly study local traditions in order to be able to provide adequate support to market actors. For example, they should make sure they support the supply chains of products that are actually used and needed locally.

Despite these periodic negative effects, aid agencies have frequently helped to revive markets by driving up demand for certain products in crisis-affected areas. In doing so they have sustained construction firms and building material wholesalers. In addition a number of NGOs noted having worked with local businesses to help them benefit from cash and voucher programmes; still others transported goods on behalf of businesses to disaster-affected areas, thus allowing them to reduce their prices (since businesses were able to reduce their prices if they did not have to take the costly step of transporting goods to far-flung communities).

Government actors in Pakistan also intervened positively to stabilise the market in the immediate aftermath of the earthquake, through for example the Earthquake Rehabilitation and Recovery Agency (ERRA)'s coordination and infrastructure hubs, which monitored supply and demand following the 2005 earthquake to ensure that shortages in goods such as construction materials never led to price spikes. ERRA's interventions helped to maintain supplies of tents in earthquake-hit areas.

While ERRA did not function as a market regulator, the product and service specifications set in the tenders issued under its authority served to set market standards. The Authority also established a special cell to provide No Objection Certificates (NOCs) (the access permits international aid agencies need to obtain in Pakistan before being able to travel to regions outside the capital) to those coming to provide support. Even though ERRA was not able to document large amounts of aid that came in through unofficial channels (for example, philanthropic and charity-based) the agency nevertheless established a large database of incoming aid. Since 2011, the National Disaster Management Authority (NDMA) has taken on a coordinating role prior and during disasters.

Moving towards market-oriented interventions

It is crucial for markets to be treated as key humanitarian partners in advance of relief and recovery operations. Once a crisis strikes, the chaotic environment makes it difficult to take detailed analyses, develop new market-inclusive programmes or build trust and relationships with enterprises in and near to affected areas. Hence, several stakeholders noted that: (a) baseline market assessments should be undertaken in the period before (or between) crises; (b) relevant businesses and business associations (e.g., chambers of commerce) should be integrated into planning and coordination processes; (c) training and capacity-building should be provided to enable enterprises, from small shops to larger companies, to contribute to humanitarian activities when appropriate; and (d) memoranda of understanding should be established with firms which are likely to be partners in strategic areas such as cash transfers or voucher programming. Access to credit from formal institutions can often be challenging, in particular for small traders who lack documentation. Participants noted that it would be useful to look at what kind of financial products small traders could access from the State Bank of Pakistan both before and during crises so that aid actors know in advance in which areas they could step in to support.

The recurrent nature of particular crises, including floods, means that advanced planning is likely to yield benefits in certain areas. Even where certain crises are non-recurrent or rarer, such relationships could be established around economic growth and livelihoods while still containing an emergency preparedness dimension. Hence, as several participants noted, there is a need to overcome strict divides between relief, recovery and development when working with markets in Pakistan and elsewhere.

Participants further noted the importance of assessing whether humanitarian and post-crisis interventions had helped improve conditions – allowing them to become more equitable – or whether they had simply enabled a return to the status quo. For example, it was noted that initiatives could have supported moves towards a greener economy, supporting local, sustainable initiatives and thus generating positive impact despite repeated crises. In other cases external assistance surrounding crises could facilitate pro-poor growth and enable vulnerable households to become less burdened with debt.

The question of regulation was also raised during the roundtable. While some advocated on behalf of price controls, other participants worried about excess government influence over markets in crisis-affected areas, which they felt could result in delays and unnecessary bureaucracy. Still others appealed to a more informal approach to regulation rooted in, for instance, the following: (i) cultural and religious appeals for businesses to avoid exploiting people affected by disasters; (ii) codes of conduct for businesses, monitored by aid agencies or government, to refrain from price gouging or unethical behaviour; and (iii) professional standards set by industry associations or chambers of commerce as a precondition for membership.

Participants also validated the need for further analysis and research in order to guide the development of market-oriented interventions. While numerous market analyses are reportedly ongoing, stakeholders noted that they often employ differing methods, are conducted rapidly and focus heavily on prices rather than supply chains, access and seasonality. Future work should consider what types of analyses are ongoing, what types are needed and how a broad swath of humanitarian and recovery (as well as development) stakeholders can develop and pilot more joined-up approaches that combine prices with terms of trade, disaster/crisis risk profiles, social relations, livelihoods and numerous other factors. Such analyses should include not only the 'traditional' humanitarian and development actors, but include for example philanthropists, small charities, remittance companies and businesses that play a huge role in crises response in Pakistan.

Next steps for the research in Pakistan

The roundtable in Islamabad marked the end of the inception phase of this research project in Pakistan. Based on this inception phase, which also included a literature review and two weeks of interviews and focus group discussions in Islamabad and Sindh Province, the remainder of the project has been designed. While subject to change, the next phase of the study will involve more in-depth analysis of construction material and food markets in flood-affected parts of Sindh, in particular in the area around Sukkur. The research will involve original data collection from traders and other businesspeople as well as from disaster-affected communities, government officials, local and international aid agencies and others. Relying on primarily qualitative evidence, the study will not monitor prices or supplies but rather take a retrospective look at where markets were disrupted during the 2010 floods and how such disruption affected local communities and can be avoided or otherwise mitigated during future disasters.

ODI is the UK's leading independent think tank on international development and humanitarian issues.

The Humanitarian Policy Group (HPG) at ODI is one of the world's leading teams of independent researchers and information professionals working on humanitarian issues.

HPG is dedicated to improving humanitarian policy and practice through a combination of high-quality analysis, dialogue and debate.

Front cover image: Orange vendor in Sukkur, Pakistan ©Steven A. Zyck/ODI

Page 4 first image: Small vendors in Shikarpur, Pakistan ©Irina Mosel/ODI

Page 4 second image: Donkey cart carrying supplies in Shikarpur, Pakistan ©Irina Mosel/ODI

Page 5 image: Vegetable market in Sukkur, Pakistan ©Steven A. Zyck/ODI

Overseas Development Institute
203 Blackfriars Road
London SE1 8NJ

Tel +44 (0)20 7922 0300
Fax +44 (0)20 7922 0399