



REFUGEE MARKETS BRIEF

The power of markets to support refugee economic opportunities in West Nile, Uganda

Overview

Spending and investment by South Sudanese refugees displaced to the West Nile region of Uganda is beginning to drive growth. Increases in the number of businesses and overall revenue in local refugee settlements demonstrate the growing contribution of these individuals to emerging local markets. At the same time, an influx of humanitarian actors are providing in-kind food assistance and direct delivery of livelihood support, strategies which undercuts the development of key markets needed to support refugee and host community livelihoods over the coming years. There is consistent evidence that West Nile's marketplaces have the capacity to support cash transfers, which generate local revenue and increase refugee business investments. But current commitments to a greater use of cash transfers are just a starting point. Aid agencies must support demand-driven livelihoods opportunities and growth in weak markets, working with local businesses and market institutions to improve refugee and host community households' ability to earn an income. To advance these efforts, the Department for International Development (DFID) has funded Mercy Corps, Palladium, and DanChurchAid (DCA) to implement the ReHope project. Taking a market systems development approach, the project's strategy involves channelling coupons for partial subsidies on improved seeds through local agro-dealers, improving agro-dealers' ability to access quality inputs from national seed companies, promoting land sharing between refugees and host communities, and working with produce trading companies to attract them to the area and assist in developing agent networks.

By leveraging the power of markets, these strategies aim to generate durable income opportunities in refugee areas and greater value for money on aid investments. In the first growing season, willingness of refugee farmers to invest in seeds was strong, with 76% of coupon recipients following through to purchase inputs. Partner agro-dealers also expanded their businesses in the refugee settlements and reported a growth in sales of unsubsidized inputs.

Based on these initial project findings, this brief calls for a continued transition away from in-kind aid to an approach that emphasizes partnerships with local businesses, reductions of subsidies and demand-driven, market-based, livelihoods support. This shift requires a combination of market systems development and humanitarian expertise, longer term funding strategies to strengthen local markets, and investments to understand long-run program impacts on markets and households.

Context in focus: economic opportunities and setbacks in West Nile

Over one million refugees have crossed into Uganda from South Sudan since July 2016. The vast majority of these refugees currently reside in settlements within Uganda’s West Nile region, where they are projected to remain for several years.¹ This is not the first time refugees have come to West Nile—there have been three humanitarian responses in the area over the past twenty years. Given this protracted displacement and the likelihood of future refugee responses, the government of Uganda and UNHCR are calling for approaches to help refugees engage in sustainable livelihoods and become self-reliant by participating in the local economy. Yet, by the end of 2017, most food assistance was delivered as in-kind aid and all but two of more than twenty partners working in agricultural livelihoods directly distributed in-kind inputs.²

Continuing this in-kind response strategy leaves aid actors faced with two unsustainable options for addressing protracted displacement: indefinitely provide costly direct assistance or cut support to refugee households, leaving them with limited resources and underdeveloped markets to make a living. Recognizing the need to identify a more durable solution to the refugee crisis, a small number of aid actors are calling for a market systems approach—one that strengthens, rather than undermines, the ability of displaced groups to engage with and benefit from markets.

This brief highlights opportunities for market-driven coping and recovery, shares early evidence from DFID’s ReHope project, and identifies clear action points for improving the West Nile refugee response.

West Nile Refugee Response in Context

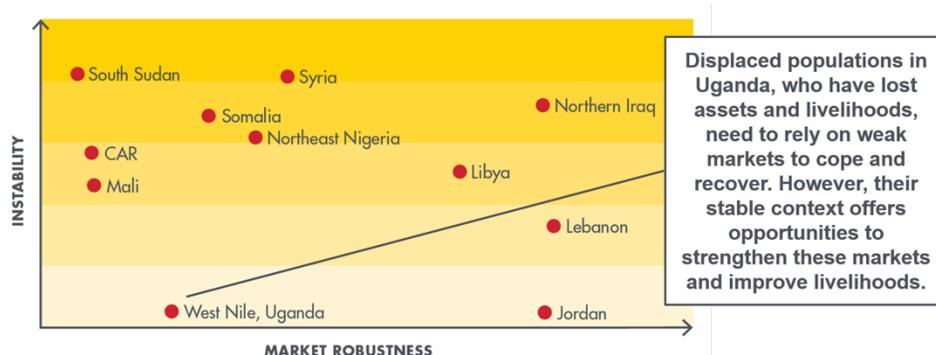


Diagram examples are illustrative. Adapted from: Beyond Cash: Economic Inclusion During and After Crisis. Mercy Corps.

¹ Current estimates suggest that settlements will be open for at least ten years. Once displaced for six months, globally, refugees have a high probability of being displaced for a minimum of three years and an average of 17 years.

² Uganda Technical Working Group on Cash-based Assistance. Meeting Notes, 13 December, 2017. Inter-agency Working Group on Food Assistance for Refugees, Note for the Record, 12 December, 2016. Settlement Fact Sheet: Palorinya. UNHCR, December 2017.

Refugee spending and investment are fuelling markets in and around West Nile's settlements

- Increases in local market activity signal that refugee spending is on the rise. Small businesses and traders in Bidibidi and Palorinya Settlements report that the number of businesses in West Nile's settlements continue to grow, even though population numbers have stabilized. As refugees receive aid and begin to settle, many key informants recall that in the past six months both the number of businesses and revenue for most business people has roughly doubled.³ Meanwhile population growth in these areas was less than 6% in the last six months of 2017.⁴
- These reports also indicate that some refugees are starting to make business investments in the settlements. Those refugees who have started doing business in the settlements commonly note that casual labour, smaller-scale trade, and personal savings from cash transfers and other sources helped them to start their activities.
- The growth in refugee spending and investment within settlements is likely to continue and provides opportunities for surrounding host communities. In focus groups conducted by Mercy Corps in 2017, 75% of refugees reported that they would be willing to pay more for goods if they were located closer.⁶ This also creates new business prospects for Ugandan nationals living nearby who have opportunities sell goods or services to refugees.⁷

A CONTEXT FOR BUSINESS GROWTH

*As of October, Palorinya's largest market housed 218 businesses—a number the market secretary estimates is more than double what it was six months earlier. He notes, "The expectation of making money is high here."*⁵

Critical markets for food and durable livelihoods are limited—and threatened by in-kind aid

- The influx of refugees in West Nile presents possibilities for market development in an area that is remote and has historically seen limited agriculture market opportunities. Prior to the current refugee response, the vast majority of residents relied on subsistence agriculture as their primary livelihood (85% in Moyo and 91% in Yumbe) and few households sold their produce in markets. For example, more than 75% of households growing cassava and maize reported that they grew these crops solely for their own consumption. As a result, input markets for high-quality agriculture have also remained under-developed. Prior to the recent wave of refugees, over half of households in the area reported that agro-dealers were too far away to be a useful source of seed.⁸ The increase in local population has created new opportunities for market-oriented agriculture, but these also require growth in agro-dealer and output trade networks.
- Against this backdrop, in-kind aid threatens the potential for agriculture market growth in West Nile and undercuts existing market players. There have been pilots and aid agencies are working to transition to an increasingly cash-based food aid response. However, in 2017 a significant majority of

³ In Palorinya's largest market, market management surveyed 218 businesses, but smaller market places have lower numbers of traders. Source: key informant interviews conducted with 16 goods and service providers providing non-perishable food and non-food items, butchery, and transport in three market areas of Palorinya and Bidibidi settlements. October 2017.

⁴ Data from UNCHR Situation reports, June and December 2017.

⁵ Key informant interview with market secretary of Konyo Konyo market, Zone 2, Palorinya. October 2017.

⁶ Labor Market Assessment, Mercy Corps 2017. Unpublished.

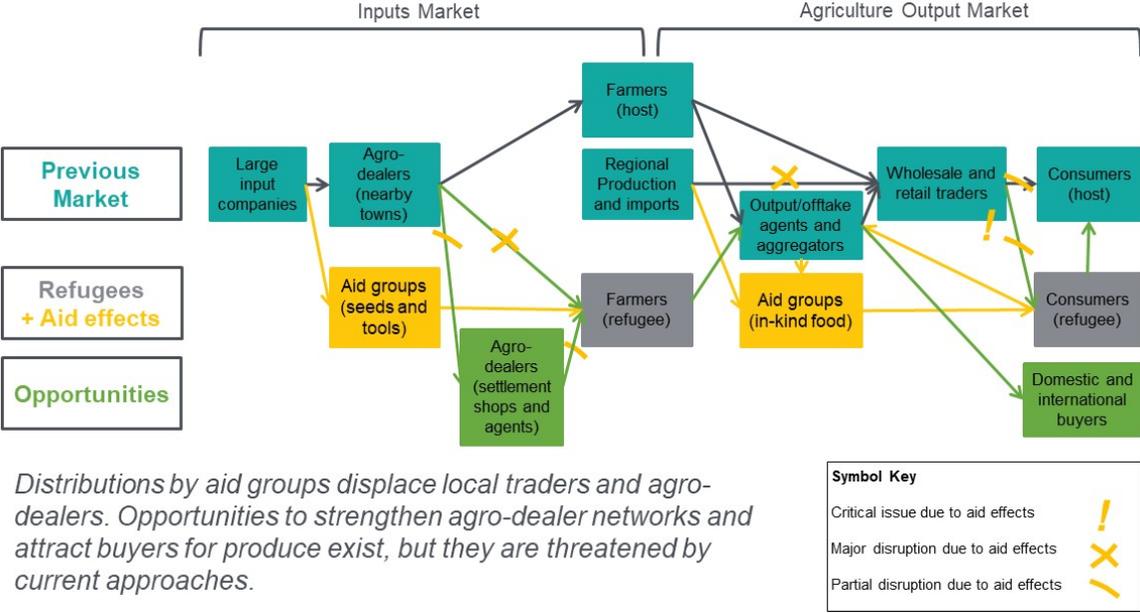
⁷ For example, in Konyo Konyo market secretary roughly estimates that roughly one fourth of sellers are Ugandan nationals.

⁸ Seed System Security Assessment in West Nile Sub region. Integrated Seed Sector Development Programme Uganda. April 2015.

refugee food assistance was delivered as in-kind food, leading households to sell excess in local marketplaces.⁹ This undermines market-based food supply for local populations and farmers' incentive to grow crops for purchase. One grain trader, who purchases distributed sorghum and maize from households, notes that he chooses to sell his grain to a company in Kampala rather than reselling it locally where the market is flooded and demand is limited.¹⁰ At aggregation points during harvest season, farmers with locally grown produce face competition from households selling their sorghum rations.¹¹ In the offseason, food distributions have also affected the market's ability to import commodities to fill local food needs. A lead trader in Yumbe, the nearest town to Bidibidi settlement, notes that prior to the refugee response, ten large traders supplied cereals to the local market when production was low, but since aid distributions have started, only one of them remains.¹²

The dominant practice of delivering in-kind seeds and tools also undercuts markets for agriculture inputs. To date, very few sellers of inputs exist in the West Nile settlements and surrounding host communities, and agro-dealers note that free distribution of inputs prevents them from expanding into the settlements. Yet, lead agro-dealers in nearby towns have the capacity to expand if they see that demand exists.

Effects of Aid on Markets for Food and Livelihoods



Cash transfers can support stronger markets in the short-run

Cash transfer programming—currently implemented by a number of aid groups in West Nile—fuels spending and investment without undercutting critical markets. In fact, a 2016 study of food aid in Uganda's refugee settlements confirmed that cash transfers generated more additional income in local markets than in-kind aid and resulted in better food security outcomes.¹³ This study builds upon a

⁹ December food distributions in Palorinya delivered as 100% in-kind aid (Settlement Fact Sheet: Palorinya. UNHCR, December 2017). Rough estimates from WFP and UNHCR data analysis suggest that less than one fifth of food aid was delivered as cash in 2017 for Uganda. A Rapid Household Economy Analysis in Bidibidi indicated that selling of food aid was a source of income for all wealth groups (DCA and Save the Children, February 2017).
¹⁰ Key informant interview, Konyo Konyo market, Zone 2, Palorinya. October 2017.
¹¹ Mercy Corps staff note that during primary 2017 growing season, households brought sorghum rations to partner agro-dealers at produce aggregation points.
¹² Key informant interview with lead trader of food and agriculture inputs, Yumbe. October 2017. Findings on market displacement by food aid consistent with WFP Market Assessment Report, August 2017.
¹³ Cash transfer beneficiaries spent more on food, but had better food consumption scores and higher dietary diversity. Zhu, Heng, et. al. "Economic Impact of Refugee Settlements in Uganda." Policy Report. 28 October 2016.

growing global evidence base recommending cash transfers over in-kind food aid as a means of increasing market engagement in contexts where markets are functional.¹⁴

- **Aid agencies in West Nile also run the risk of inappropriately concluding that markets are too weak to support an increase in cash transfers.** Because in-kind aid has displaced trade for key staples, it can create a self-perpetuating rationale that markets are too weak to support a gradual scale up of cash transfers. However, there are indicators that local market networks can accommodate a greater use of cash.¹⁵ Traders in Bidibidi and Palorinya report that the flow of items such as dry goods and beverages (items unaffected by in-kind aid) has increased with growing demand. Businesses typically receive weekly truck deliveries from Kampala or source goods from nearby towns and have increased restocking rates with growth in demand. One year ago, a significant majority of traders in Bidibidi reported the capacity to increase stocks by 100% in six days if they anticipated increases in demand that might come from cash transfer programming (93% of traders for fresh food and 68% of traders for staple foods).¹⁶ An assessment in Palorinya in August had similar findings—many traders were small scale, but 64% had the ability to increase stocks in one week. Since then, Palorinya market capacity has continued to increase, with estimated growth in business numbers exceeding 40%.¹⁷
- **Yet more cash transfers alone cannot be a long-term strategy for refugee support.** While cash transfers make it easier for recipients to meet diverse needs and invest in economic opportunities compared to in-kind food, aid actors need to support market-driven opportunities that can help households earn an income and existing businesses to expand delivery of needed goods and services.

Demand-driven income opportunities and other supporting goods and services are needed for sustainable livelihoods

- **Although the number of businesses in West Nile’s refugee settlements continues to rise, markets will have limited potential to support continued growth unless new sources of income emerge.** A recent UNHCR study calling for investments in sustainable livelihoods reported that 33% of South Sudanese refugees in Uganda reported being economically inactive.¹⁸ As this sub-set of refugees begins to look for income opportunities, they are likely to start with small-scale businesses that require limited start-up capital. Without growth in markets that can provide refugees income, higher numbers of low-income households are at risk of making less money in over-crowded economic activities. This effect may already be emerging in West Nile, where the small-scale trade sector shows some early, anecdotal, signs of over-crowding. Among key informants interviewed for this brief, the only businesses that reported a decrease in sales were small, petty traders of food items (e.g. silverfish, vegetables, fruit, and sesame).¹⁹
- **Market-driven aid must include both agriculture opportunities linked to output markets beyond West Nile and demand-driven off-farm work opportunities.** Agencies should consider targeted support for key goods and services necessary to support refugee livelihood activities, such as agriculture inputs, land, information services (such as agriculture extension and work opportunities), and low-risk financing options.²⁰ Addressing the market environment takes time, but can have long run impacts.

¹⁴ Doing Cash Differently. How cash transfers can transform humanitarian aid. ODI and CGD. September 2015.

¹⁵ WFP’s Market Assessment Report, Koboko, Palorinya, and Imvepi is among the most recent reports which recommends that markets can accommodate cash transfers, with proper market monitoring and support to traders in areas where surveyed markets were newly established (August 2017).

¹⁶ Rapid Assessment for Markets: Bidibidi Refugee Settlement. DCA, Mercy Corps, WVI, ACF, and others. December 2016.

¹⁷ WFP Market Assessment Report, August 2017 estimates 50 stalls and 100 shades in Konyo Konyo, compared to market management count of 218 in October.

¹⁸ Livelihoods Socio-economic Assessment in the Refugee Hosting Districts. UNHCR. February 2017.

¹⁹ Key informant interviews with petty traders in Palorinya, Bidibidi, and Yumbe. Declines in business could be the result of other factors, including increased household vegetable production for personal consumption. However, reported declines in business were across all products sold, including non-vegetable items.

²⁰ Finance is a key constraint for refugees who have a low number of loan options and low interest in borrowing. Many businesses note that they do not want to borrow money because they fear they will not be able to repay. In early 2017, only 29% of refugees in Uganda reported borrowing money in the past year, and just

Learning from pilots: making market systems work for refugees

In order to chart a more sustainable course for refugee income, Mercy Corps is working with Palladium and DCA on the ReHope Project, funded by DFID and designed to improve refugees' participation in agriculture markets. The project's strategy involves channelling smart subsidies for inputs through local agro-dealers, promotion of land sharing with host communities, and support to develop agent networks for produce trading companies. By leveraging the power of markets, these strategies aim to generate durable income opportunities for refugees and host communities and greater value for money on aid investments.

Fuelling agriculture networks

To address the limited presence of agro-dealers in and around refugee settlements, ReHope has partnered with agro-dealers in Yumbe and Moyo towns (nearby Bidibidi and Palorinya settlements respectively). While these agro-dealers previously saw the business potential of working with refugees and surrounding host communities, they had limited experience working through agent networks and recognized that expanding their shops into the settlements was financially risky. To address these issues, the project linked national seed companies to agro-dealers to source improved seed varieties. The project also provided light-touch support to agro-dealers to identify agents within the settlements and host communities who could market and sell seeds. To promote broader refugee and host community engagement with input markets, ReHope then provided marketing support for the first growing season. Finally, rather than giving inputs at a 100% subsidy provided by most other aid agencies, the project offered a 60% subsidy to refugees for improved sesame and white sorghum seeds, which the agro-dealers distributed and marketed as a coupon-based promotion with the support of Mercy Corps, DCA, and Palladium. Following a market systems development approach, this strategy encourages longer-term direct relationships between agro-dealers, agents, and farmers in order to increase farmers' access to market-based goods and services after the project has ended. It also aims to make project dollars go further by leveraging local purchasing power and the resources and incentives of local businesses. After the first season of coupons, **76% of refugee households who received coupons purchased seeds from agro-dealers at the subsidized price.**²¹

Although long term changes take time, partner agro-dealers also report several positive signs of an emerging input market for refugees, leading them to make business investments outside of the project. In addition to noting an overall increase in sales in the primary 2017 growing season, one partner agro-dealer explained that his customers for undiscounted inputs are now roughly 20-25% refugees. Increased foot traffic from project advertising led to an increase in sales for seed varieties that were not included in the project discount, such as brown sorghum. Participating in the project has also led him to open an agro-dealer shop within Palorinya settlement.

ReHope is now connecting farmers to output markets in order to increase income potential from the crops they harvest. This process has involved partnering with domestic and export-oriented businesses willing to expand their operations in West Nile. After receiving information on the number of farmers who have purchased inputs and the expected yields from their land, these firms have entered cost-sharing agreements with the project to buy-down their risk of expanding into the region and help them test refugees' and host communities' capacity to produce the quantities needed to continue investing in West Nile. The project has

14% noted that they tried but failed to borrow (Livelihoods Socio-economic Assessment in the Refugee Hosting Districts. UNHCR. February 2017.). VSLAs can provide rotating capital, but refugees' savings vary widely—from 2,000 UGX/month to 10,000 UGX/ week (Rapid Assessment of Informal Savings in Refugee Settlements. November 2017 [Draft]).

²¹ 777 of 1,012 refugees who received coupons reimbursed those coupons to purchase seeds. Source: DFID progress report.

also helped buyers identify networks of local traders interested in serving as buying agents. Because of identified constraints on credit and agent liquidity, buying companies will use cash reserves and mobile payment platforms to provide immediate payment to farmers through their agents.

Supporting refugee capacity to engage with markets

A market systems development approach works with businesses and market institutions to create opportunities for pro-poor engagement. However, where there are short-run gaps that make it risky or difficult for refugees to engage initially with markets, Mercy Corps and DCA are also working more directly with refugee populations to improve their ability to participate in markets.

Two challenges refugees commonly face after displacement are limited access to finance and limited access to information—key resources fuelled by social connections that are fractured during displacement. For refugees in West Nile, access to affordable, informal credit is limited, and displaced groups are eager for information on how to produce and market crops. The project's 60% discount on seeds helped to reduce the up-front cost of investing in improved seed varieties unfamiliar to refugee farmers, but improving access to low-cost credit options could also increase refugee access to inputs. Currently, agro-dealers offer credit to a very limited number of known customers (estimated less than 10%), making it difficult for refugee farmers with limited social connections to access inputs before the growing season.²²



Photo Credit: Ezra Millstein

To address refugee access to information and complement weak market advisory services in the short run, Mercy Corps and DCA's extension agents have monitored refugee farmers' progress to identify key knowledge gaps and provide light support. The agencies have also supported refugees to build connections with host communities and expand their access to land. Through ReHope and complementary projects, they are providing promotional discounts for tractor services to host communities that share land with refugees and encouraging mixed refugee-host farmer groups that have the potential to build social cohesion.

Influencing the refugee response

The refugee response in West Nile represents an opportunity to combine humanitarian and market systems development expertise in a refugee context.²³ To encourage this integration, DFID funded the ReHope project with joint funds from its humanitarian and private sector development arms. As a result, the project is well-placed to learn and influence aid actors. Bridging the spectrum from coping to recovery, Mercy Corps and DCA have begun sharing details about market systems approaches and refugee economic investments with their humanitarian peers in learning and coordination meetings. However, shifting the direction of the Uganda refugee response requires a broader commitment by all donors and implementers to adapt their approaches over time in response to continued, quality market analysis. Understanding and shifting markets takes time, but delivers valuable returns. A deep commitment to a systems-led strategy in West Nile can have implications for future refugee responses in Uganda, but can also have global implications for improving refugee responses in more stable contexts.

²² Interviews with four agro-dealers in Yumbe and Moyo. The ReHope baseline reported that 22% of project participants borrowed money in the past four months, but only 2% used this credit to purchase tools or inputs. Larger agro-dealers restrain from taking loans due to the high cost of capital, which further limits their ability to offer widespread credit to customers. ReHope carried out activities to help agro-dealers access stocks on credit from national seed companies in an effort to begin addressing this challenge.

²³ See also: Beyond Cash: Economic Inclusion During and After Crisis. Mercy Corps.

Recommendations for West Nile refugee response

Transition away from in-kind aid for basic needs and livelihoods, in response to market analysis. Reduce subsidies to encourage longer-run market investment, and channel business through local market networks.

- Implementers of food assistance should invest in continued, joint market analysis and monitoring to guide a shift from in-kind food distributions to cash transfers. Markets can support increased volumes of trade, and cash inflows will increase investment in economic opportunities. Cash transfers can support stronger local market relationships and trade networks for key goods and services. This context-responsive shift in modalities requires inter-organizational investment and support, but is critical for serving refugees' needs.
- Implementers supporting livelihoods should reduce in-kind distribution of agriculture inputs, in favour of gradually reduced subsidies offered through coupons. Agencies should consider partnering with market actors so that aid dollars can go further and improve market investments by refugees and agro-dealers.

Reduce funding siloes and increase project timeframes so that aid actors can address market constraints and protracted needs.

- Donors should improve coordination and joint funding across humanitarian and development portfolios so that programming can address the integrated, yet complex needs of displaced populations.
- Donors should increase project timeframes so that implementers can more effectively strengthen market opportunities for refugees facing multi-year displacement. This approach also fosters adaptive management by enabling consistent staffing structures and learning opportunities that allow projects to iterate and improve.²⁴ Within these projects, donors and implementers should encourage a focus on outcomes and understanding changes in the local market systems needed for durable income opportunities.

Seek opportunities to employ market systems development approaches, leveraging the expertise of actors working in both development and humanitarian spaces.

- Donors should encourage investments that strengthen the capacity of local market actors who refugees and host communities rely on for their livelihoods. Implementers should ensure that project strategies focus on market strengthening in areas where there is a clear demand and opportunity for growth in income.
- Implementers should develop an understanding of local business incentives and use the tools of market facilitation, such as market analysis, business mentoring, and limited cost sharing, to encourage more sustainable expansion of agro-dealer and output markets into West Nile.
- Recognizing that agriculture alone will not support the population influx, actors supporting livelihoods should conduct assessments and develop strategies that stimulate demand-driven non-farm employment and economic growth in West Nile's towns and settlements.

Capture market systems learning for current and future refugee responses in West Nile. Feed global learning on markets in crisis.

- In coordination forums, implementers should provide rapid feedback on the successes and challenges of market-driven approaches, so that agencies can quickly learn from each other and

²⁴ Some global donors, such as DFID, have started longer term funding in protracted crises, including a 4 year grant in South Sudan and 3+ year grants in Syria.

pivot. To improve the quality of programming, implementers should prioritize reflection and comparisons between approaches during learning meetings.

- To understand the full impact and sustainability of interventions, donors and implementers should fund and measure effects beyond direct beneficiaries. This should include monitoring changes in market-level behaviours (such as increased business activity in key areas, or non-partner business behaviours), as well as impacts on non-beneficiary households (such as copying each other's income strategies or engaging with partner businesses).
- Donors should fund studies after projects end to understand their longer-run impacts on markets and households.
- Government, donors, and implementers should generate market learning for future refugee responses. Demonstrating the role that markets can play in coping and recovery will generate evidence that will be useful for both businesses and humanitarians in case the crisis in South Sudan leads to future displacement and response in West Nile.

CONTACT

Miji Park
Director of Programs | Mercy Corps Uganda
mpark@mercycorps.org

Alison Hemberger
Senior Advisor - Markets and Learning | Technical Support Unit
ahemberger@mercycorps.org

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45 SW Ankeny Street
Portland, Oregon 97204
888.842.0842
mercycorps.org