



Tom Van Cakenberghe for Mercy Corps

DRIVING RESILIENCE

Market approaches to disaster recovery

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Executive Summary

After a disaster, the immediate concern of all humanitarian responders is—and should be—to help affected populations meet their basic, urgent needs. But how a response is conducted can have significant implications on how the community recovers—and how fast.

Working with local markets post-disaster can drive recovery and have a multiplier effect by injecting cash into the local economy, improving access to finance, providing economic opportunities for affected individuals, and protecting local networks and social capital. Still, the most effective way to help communities cope with and recover from disaster is to bolster their resilience before a crisis even hits. This requires investing in long-term programming that builds local capacity, strengthens networks, and creates disaster-response plans. To ensure the immediate response maximizes long-term impact, donors and implementing agencies should:

- › Analyze local markets and other systems early and frequently, and work in partnership with local businesses and other actors as much as possible to support more widespread and sustainable recovery.
- › Fund and implement programs focused on rebuilding local economies and supporting local businesses, in parallel to—not after—basic-needs response.
- › Support flexible funding for programs and ensure they can adapt to quickly changing contexts and continue to be relevant to local needs.
- › Adapt approaches and lessons from longer-term development programs to support disaster response and recovery.
- › Include disaster analysis and preparedness in development programs and work toward the resilience of local communities.
- › Document the impact of market-based interventions on the speed and sustainability of disaster recovery.

* The views and opinions expressed in the report are those of the authors and do not necessarily reflect the views and opinions of JPMorgan Chase & Co. or its affiliates.

Introduction: New approaches to an old problem

Imagine a natural disaster striking a community. What do you see? Whether a flood, an earthquake, or a fire, the first visual of a disaster is the physical destruction: collapsed buildings or impassable roads; first responders working to save lives and help people meet their basic needs.

As startling as these images are, they only touch the surface of a disaster's impact. Collapsed buildings leave families homeless, making it harder for them to work and forcing them to use precious savings to rebuild. Small businesses lose their inventories and then their customers. Roads that once transported goods and people to marketplaces are wiped out. And the financial institutions that house savings and provide credit lose their cash reserves when customers cannot pay their loans.

The ripple effects of a disaster like this can last for years—even generations—and they hit the poorest and most vulnerable people the hardest. When multiple crises occur at once, they can become even more life-threatening for those who have the least ability to endure them. The catastrophic effects of this were demonstrated in 2017, when natural disasters like drought, combined with conflict, put 20 million people in four countries—South Sudan, Somalia, Nigeria, and Yemen—at risk of famine. In fact, the World Bank reports if the world had no natural disasters next year, there would be 26 million fewer people living in extreme poverty.¹

When people are hit by disaster, their immediate priorities are to meet basic household needs and start earning money as quickly as possible. Helping them achieve these goals depends on rebuilding their economic opportunities and reviving the economic and social systems that surround them. These systems are made up of a web of actors—individuals, businesses, community groups, government entities, etc.—who are all affected by the same disaster, but who have the ability to support the recovery of the community by providing goods, services, information, and even psychosocial assistance. Many well-intentioned but overly simplistic aid efforts overlook the role of these crucial local actors in both the response effort and in the long-term resilience of the economy. Rather than leveraging their capacities and encouraging their recovery, agencies often bypass existing local systems, undermining local businesses by providing goods and services themselves. This oversight fails to help households and economies fully recover from or prepare for future disasters, and it can also make the impact of the disaster last much longer than it should.

Humanitarian agencies have started coming to terms with this challenge. Recent work in cash transfer programming has demonstrated the value of working

THE CROSS-CUTTING EFFECTS OF DISASTER

After a disaster, people and businesses on many levels depend on one another for recovery support. By looking at the system as a whole, we can address challenges that affect large numbers of people, such as access to money and goods.



¹ Hallegatte, Stephane, and Adrien Vogt-Schilb, Mook Bangalore, and Julie Rozenberg. "Unbreakable: Building the Resilience of the Poor in the Face of Natural Disasters." Climate Change and Development. Washington, DC: World Bank. 2017.

through local marketplaces to meet basic needs?² Providing people with cash or vouchers, rather than goods directly, supports local businesses and transportation networks and injects cash into the local economy at a critical time.

However, while cash transfers support households and spark economic activity in the wake of a disaster, response programs also need to address the setbacks

faced by the businesses that are essential to local economic recovery. These obstacles may include the loss of assets and employees, and destroyed physical infrastructure. The other businesses they counted on to earn their living—suppliers, buyers, financial institutions, service providers—may no longer be functioning, and their customer base may have moved or lost purchasing power. In these circumstances, businesses may have the will to restart operations, rehire employees, and start serving their communities, but they may not be able to without external support. Activities that help these enterprises recover can greatly speed up local economic recovery. This support should also begin before disasters strike: programs that strengthen market and social systems can help local actors prepare for disasters, provide valuable lessons for shorter-term responses, and greatly reduce the need for humanitarian aid after a disaster.

There is a growing body of research on market-based disaster response and programming to build resilience. But many questions remain, and programming on the ground is often still not as effective as it could be. The first section of this issues brief will explore three areas in which recent research and programming has highlighted opportunities to strengthen markets, businesses, and their support systems in the wake of disasters. The second section outlines a set of principles to guide effective programming in disaster-prone contexts. The final section highlights recommendations for donors and implementers to improve knowledge and programming.

What we know: Insights from research and practice

In order for affected households to fully recover from a disaster, they need sufficient, consistent income and access to necessary goods and services. This requires rebuilding local enterprises and other entities that provide these key inputs which, in turn, requires ensuring these enterprises and individuals have access to various types of support, such as:

- › Marketplaces to buy and sell goods
- › Financial services and cash support to manage their needs and invest in their businesses (cash transfers, loans, lines of credit, savings, insurance)
- › Inputs and services (seeds, fuel, tools, stock, veterinarians, mechanics, accountants, technicians)
- › Information (professional/social networks, information from government/regulatory bodies, links to industry)
- › Infrastructure (transportation, communications and technology, warehousing, storage)

› *“After this flood, almost 25 percent of us in micro industries lost their business. When I happened to meet one such person, he said he has sold his machineries, paid his debt and started working in a petrol bunk. Why? Because he cannot repair all the machines and [rebuild] from scratch.”*

— Local entrepreneur in Chennai, after the 2015 floods

² With an extensive evidence base, the use of cash transfer programming for humanitarian response continues to grow. The 2016 World Humanitarian Summit saw huge commitments to make cash the default method of support when possible. <https://www.worldhumanitariansummit.org/>. This brief refers to markets in three ways: markets—the context in which buyers and sellers are in contact to exchange goods or services; marketplaces—the physical location where people exchange goods or services; and market systems—contexts comprising supply and demand as well as supporting functions and rules which are performed and shaped by a variety of market players.

All of these elements together make up a local market system, a complex web of inter-related actors and the rules and norms that guide how they operate. In a strong market system, these elements work together. For example, when adequate capital is available for producers and businesses to buy and sell inputs like seeds and fuel, they're enabled to earn revenue and pay employees, in turn making it possible for households to purchase the goods and services they need, and so on.

There is much the humanitarian response community can do to support post-disaster market recovery, and researchers and practitioners have focused on capturing lessons learned in recent years. The following sections draw on a range of work—especially from the UK Department for International Development (DFID),³ the Overseas Development Institute (ODI),⁴ Catholic Relief Services (CRS),⁵ Mercy Corps,⁶ CARE,⁷ the Consultative Group to Assist the Poorest (CGAP),⁸ and World Vision International⁹—to outline key insights for bolstering each of these market-system elements. This brief organizes those findings into three cross-cutting components which help enterprises and individuals cope and recover: **financial** support systems, **physical** support systems, and **social** support systems.

Financial support systems

Ensure households and businesses can access immediate cash and capital in the wake of a disaster, prepare financial systems to recover quickly before a disaster, and support longer-run financial inclusion for affected populations.

Cash transfers to support basic needs and market recovery

Access to funds can be critical to saving lives, reducing debts, restarting businesses, and recovering from a disaster.¹⁰ Cash is easily exchangeable, providing flexibility to people who need it most and allowing households to make their own decisions on how to cope. While cash transfers are a short-term, direct means of meeting basic needs, they also have a proven multiplier effect on local economies. For example, in Zimbabwe, one humanitarian cash transfer program generated US\$2.59 additional income in the economy for every US\$1 of cash transfers.¹¹



Madrigal and her partner Jordan Rondina run a fried chicken food cart in the Philippines. After Typhoon Haiyan, sales dropped and the price of poultry rose because poultry farms were damaged in the storm. The couple was able to use an electronic cash transfer they received through BPI Globe BankO to support their business while they waited for customers to return and prices of poultry to stabilize.

Cassandra Nelson for Mercy Corps

3 Carter, Becky. "Economic and Market Resilience Before and After Shocks." 2016.
4 Levine, Simon. "Markets in Crisis: Some Implications for Humanitarian Action." March 2017.
5 CRS, and Oxfam. "Supporting Markets in Emergencies: A Scoping Study. March 2017. <http://www.cashlearning.org/downloads/market-support-scoping-study03292017final.pdf>
6 Mercy Corps. "Our Resilience Approach to Relief, Recovery, and Development." December 2016.
7 CARE. "Resilient Markets: Strengthening Women's Economic Empowerment and Market Systems in Fragile Settings." 2016.
8 El-Zoghbi, Mayada, and Nadine Chehade, Peter McConaghy, Matthew Soursourian, and Ban Ki-Moon. "The Role of Financial Services in Humanitarian Crises." Washington, D.C.: CGAP, SPF, and World Bank. 2017.
9 ODI, and WVI. "Institutionalizing Resilience: The World Vision Story." 2014.
10 See, among others: "Supporting Markets in Emergencies: A Scoping Study", CRS and Oxfam, March 2017. El-zoghbi, Mayada, and Nadine Chehade, Peter McConaghy, Matthew Soursourian, and Ban Ki-moon. "The Role of Financial Services in Humanitarian Crises." Washington, D.C.: CGAP, SPF, and World Bank. 2017. CaLP Resource Library holds many of the key studies on multi-purpose cash (<http://www.cashlearning.org/ctp-and-multi-sector-programming/ctp-and-multi-sector-programming>). Also see IPA evidence links: <http://www.poverty-action.org/impact/cash-transfers-changing-debate-giving-cash-poor>.
11 Bailey, Sarah, and Sophie Pongracz. "Humanitarian Cash Transfers: Cost, Value for Money and Economic Impact." ODI. May 2015. <https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/9731.pdf>.

Providing cash transfers acknowledges that every household and business has unique needs, and it enables people to decide what they need when and in what quantity; it gives people the opportunity to make their own decisions for recovery. The alternative is giving every family a set basket of items—food or other goods—whether they need those specific items or not. The common result is families discard or sell what they do not need, leaving them in continued hardship and undercutting the local market. For example, a 2014 study in Iraq found 68 percent of households sold all or some of the contents of food parcels they received in an aid distribution. The same study found people who received food vouchers to purchase what they needed, instead of food parcels, had a more nutritionally-balanced diet.¹² At the marketplace level, in an example from Mali, ODI documented that the delivery of in-kind distributions prevented local traders and shops from selling needed food, such as cereals, to their customers.¹³

Cash transfers infuse money into the local economy. By allowing households to purchase goods in local marketplaces, local businesses gain income and often employ workers. In turn, they can buy goods and services from wholesalers and transporters, spreading cash and its benefits deeper into the local economy. Injecting this capital is the fastest and easiest way to drive economic recovery and build opportunities for local enterprises and job seekers.

Efforts to link cash to financial inclusion

However, cash transfers are not enough. They must connect with other financial services, including loans, lines of credit, supplier credit, and insurance payouts to enable households and businesses to continue the recovery process.¹⁴ These connections should be made proactively and deliberately, as the mere act of opening an account or receiving a cash transfer via mobile money does not generally lead to increased use of financial services by beneficiaries.¹⁵ To support long-term financial inclusion, cash transfers must be combined with direct links to appropriate financial services and relevant financial education, product promotion, and behavior change communications—although further research on this topic is needed.¹⁶

In some locations, improvements in technology are increasing opportunities for disaster-affected populations to access cash and connect with financial services. While there are some promising results, additional efforts are needed to fully realize this opportunity. Following a 2016 drought in eastern Ethiopia, Mercy Corps' PRIME program provided cash transfers to over 5,000 pastoralist households, reaching over one-third of its beneficiaries through deposits into mobile money accounts from local microfinance institutions (MFIs). The program also offered financial literacy training, and required recipients to save small portions of their transfers in their accounts. Prior to receiving these transfers, only 2 percent of participants had bank accounts. After the last transfers, 43 percent had bank balances above the minimum requirement, and one year later 43 percent were still saving significant amounts in their accounts. Lighter touch interventions, combined with cash, can also help drive savings. After Typhoon Haiyan in the Philippines, Mercy Corps deposited cash transfers into mobile savings accounts for 25,000 households. Afterward, it found that beneficiaries who recalled receiving text messages promoting saving

12 REACH and UNHCR. "Multi-sector Needs Assessment of Syrian Refugees in Camps." September 2014. <http://reliefweb.int/report/iraq/multi-sector-needs-assessment-syrian-refugees-camps-kurdistan-region-iraq-assessment>.

13 Levine, Simon. "Markets in Crises: Some Implications for Humanitarian Action." March 2017. Barbelet, Veronique, and Diallo Goita. "Markets in Crises: The Conflict in Mali." October 2015. <http://www.cashlearning.org/downloads/markets-in-crisis-the-conflict-in-mali.pdf>.

14 El-Zoghbi, Mayada, and Nadine Chehade, Peter McConaghy, Matthew Soursourian, and Ban Ki-Moon. "The Role of Financial Services in Humanitarian Crises." Washington, D.C.: CGAP, SPF, and World Bank. 2017.

15 Mercy Corps defines financial inclusion as a broad state where all people have access to and use a full suite of quality financial services, offered at affordable prices, in a convenient manner that does not compromise the dignity of clients. Access alone does not lead to financial inclusion, but rather is the entry point to the broader goal of achieving "adoption" and "usage."

16 Bailey, Sarah. "Electronic Transfers in Humanitarian Assistance and Uptake of Financial Services: A Synthesis of ELAN Case Studies." March 2017. <https://www.odi.org/sites/odi.org.uk/files/resource-documents/11424.pdf>. Gash, Megan, and Bobbi Gray. "The Role of Financial Services in Building Household Resilience in Burkina Faso." March 2016. El-Zoghbi, Mayada, and Nadine Chehade, Peter McConaghy, Matthew Soursourian, and Ban Ki-Moon. "The Role of Financial Services in Humanitarian Crises." Washington, D.C.: CGAP, SPF, and World Bank. 2017.

along with their cash transfer were 19 percent more likely to save money.¹⁷

The benefits of linking individuals to financial services go beyond purely financial gains. A recent study of disaster-affected regions in Indonesia found that existing clients of financial institutions reported reduced anxiety and stress (86 percent) and an increased likelihood of investing in business or farming (76 percent) if they have access to disaster-related financial products,¹⁸ such as flexible savings accounts and disaster-related insurance.¹⁹



An Indonesian woman receives a loan for the first time.

Thatcher Cook for Mercy Corps

Financial support to enterprises

Post-disaster, businesses also need funds to rebuild and recover inventory. And they need to stabilize cash flows, as customers may be unable to pay on delivery. A recent study of post-disaster support found that direct support to traders (typically through cash transfers or subsidized financial services) ensured continued access to goods and services at the consumer level, and supported local markets. In one example, CRS provided cash support to blacksmiths, enabling them to sell tools to over 300 customers—a number which exceeded the blacksmiths' original expectations.²⁰ Some projects combine direct enterprise support with cash transfers to affected households to ensure businesses have the supplies households need and to help households pay for them.²¹

PROJECT SNAPSHOT: SUPPORTING TRADERS IN SIERRA LEONE

The FEEDS program, implemented by Save the Children in Sierra Leone during the Ebola crisis, focused on financing local traders so they could continue supplying local communities. Traders relied on supplier credit to manage their cash flow and could not withstand the drastic fluctuations of supply and demand during the Ebola crisis. The program offered grants of around US\$400 to help the enterprises purchase supplies, conditional on the traders attending business skills trainings. Households were also given approximately US\$30 per month, estimated to cover 40 percent of their basic food needs, which they then spent at the local businesses where they traditionally shopped. After the program, traders reported their sales had increased substantially: every US\$1 invested by the program led to a return of nearly US\$2. In the majority of cases, traders noted that their increased sales were the result of their increased capital to purchase stock and maintain their relationships with suppliers, as well as increased cash in the hands of their customers.

17 Causal Design. "Beyond Meeting Immediate Needs: The Impact of Cash Transfer Approaches on Disaster Recovery and Financial Inclusion." May 2015. https://www.mercycorps.org/sites/default/files/TabangKO%20Impact%20Evaluation%20Report_Final.pdf

18 Toth, Russel, and Chris Hoy. "The Use of Financial Products in Mitigating Natural Disaster Risk". Mercy Corps. May 2017. <https://www.mercycorps.org/sites/default/files/Mercy-Corps-Financial-Product-Mitigating-Natural-Disaster-Risk-June-2017-full%20report.pdf>.

19 Demand for flexible savings accounts was also high (compared to commitment-based savings accounts). However, there was little demand for insurance, indicating that product understanding and willingness to pay may still be low for this type of disaster-related financial product.

20 CRS, and Oxfam. "Supporting Markets in Emergencies: A Scoping Study." March 2017. <http://www.cashlearning.org/downloads/market-support-scoping-study-03292017final.pdf>.

21 See the market-based program framework for additional framing of interventions that work through markets and support markets. CRS. "Market-Based Programming Framework." 2017.

The role of financial institutions and financial services

For households and businesses to have access to capital and financial services in the wake of a disaster, financial institutions need to be operational and liquid. Yet, financial institutions are also often affected by disasters, and the impact is exacerbated by the needs of the community: savings balances are reduced at the exact time clients have new credit demands, clients struggle to repay loans due to more urgent needs (often requiring a loan repayment grace period), and there may be higher non-performing loans that reduce the financial institution's available funds. Disaster-related financial services can fill a critical role post-disaster, but there are still many barriers that limit what financial institutions can supply, and what clients can procure, in a crisis.

For all the reasons mentioned above, most financial institutions' liquidity and loan portfolios often suffer post-disaster. Responding effectively and quickly to that challenge requires the entire financial system to be resilient to disasters, in particular that fund-transfer systems between local and national financial institutions remain operational so funds can flow from unaffected areas to the disaster zone. If the physical and technological infrastructure or bureaucratic procedures break down, they can become choke-points in the provision of financial services. Ideally, central banks need to have response systems in place, and relevant government ministries must make access to short-term liquidity part of their planning and response options.

There are tools and frameworks to help financial institutions, governments, and NGOs determine other ways to preposition liquidity and prepare to respond to client needs in advance of a disaster.²³ Sustained investment and technical support over time can help ensure financial institutions have contingency/reserve funds, diverse client bases when possible, client data protection strategies, trained staff, and appropriate systems and redundancies.²⁴

Pre-existing links between financial institutions, emergency responders, and recovery programs can support quicker cash deployment and build continuity into program strategies, and it can also result in more productive long-term relationships between formal and informal market actors.

For example, local dairy cooperatives in Nepal distributed emergency cash transfers for basic needs shortly after the 2015 earthquakes; the following year, dairy farmers who had received transfers accessed loans from the same cooperatives where they were now clients to stock their herds with improved breeds and create new market

RECOVERY LENDING IN THE PHILIPPINES

After Typhoon Haiyan, Community Economic Ventures Incorporated (CEVI) helped clients get back on their feet by giving them access to savings previously held as collateral, pausing loan repayment for two to three months, and offering clients recovery loans of up to US\$910 that included a 40 percent reduction in interest rates and fees. CEVI, a part of the VisionFund International network (VFI), also realized that borrower confidence in the financial institution's ability to remain intact, along with assured access to lending, were key to increasing clients' willingness to take loans. In this case, CEVI had access to additional funds because it was able to borrow from VFI. Without this support, recovery lending would not have been possible. Repayment rates on these loans were 95-98 percent, with the vast majority of the 1,800 borrowers restoring their pre-disaster income levels within three months of restarting their businesses.²²

22 VisionFund. "A New Model for Disaster Preparation and Response for Microfinance Institutions." Version 2.0 July 2015. <http://www.visionfund.org/library/client/documents/documents/Disaster-Resilience-full-report.pdf>.

23 See, for example: IRC, and SEEP Network. "Cash Transfer Resilience Tool." 2016. <http://www.cashlearning.org/downloads/crtc-handbook-final-revision.pdf>.

24 Red de Instituciones Financieras de Desarrollo. "Technical Guidebook: Post-Disaster Recovery and Response Plan for Development Finance Institutions." 2016. http://www.seepnetwork.org/filebin/images/initiatives/drr/GUIA_TECNICA_RFD_2016_-_ENGLISH.pdf.

links to milk collection points. In the first implementation communities, participants reported increasing their monthly dairy income on average by 44 percent.

Asha Kumari Tamang raised cattle and worked on the farm prior to the 2015 Nepal earthquake. After her house was destroyed by the earthquake she needed the funds to rebuild, feed her family, and continue raising cattle.

Miguel Samper for Mercy Corps



Social support systems

Social networks can speed recovery through interpersonal support and market mechanisms.

Coping through existing social networks

In the immediate aftermath of a disaster, people rely on those who are closest to them. Their social networks are a source of resilience, providing resources, information, and psychological support that can speed recovery. The importance of social capital is common knowledge in development settings and is the core foundation of the many informal savings groups that exist around the world. As a study on social capital in rural Indonesia illustrated, ties between community members enable them to form rotating savings and loans groups that provide credit and safety nets, which help households respond to shocks.²⁵

For vulnerable households, social capital has been shown to increase survival strategies and provide immediate economic support during times of crisis,²⁶ but this reliance on social networks continues even after a disaster. A recent study on post-earthquake Nepal found that social capital between members of the same caste improved food security immediately following the disaster, and individuals who were part of organized self-help systems were also more likely to invest in productive assets after the earthquake.²⁷

» *“A [resilience] support factor is the strengthened solidarity that communal savings groups inspire. VSLAs (village savings and loan associations) all have social funds into which all members regularly contribute tiny amounts. In the event of a large crisis, the fund is probably inadequate to cover all members, but the assumption is that it will have created a solidarity and trust between members which could prove critical to surviving the shock. In emergency settings, CARE has experimented with savings groups operating on shorter loan cycles, with a lump sum contribution from the agency at the outset to kickstart the VSLA group capital, which is then transferred to start new groups once the savings pot has grown sufficiently.”*

— RESILIENT MARKETS: Strengthening women’s economic empowerment and market systems in fragile settings, CARE

25 Bebbington, A., and Dharmawan, L., Fahmi, E., and Guggenheim, S. “Capacity, Village Governance, and the Political Economy of Rural Development in Indonesia.” *World Development* Volume 34, Issue 11, pp. 1958-1976. November 2006.

26 Mercy Corps. “Social Capital and Good Governance: A Governance in Action Research Brief.” April 2017. <https://www.mercycorps.org/sites/default/files/Social-Capital-Good-Governance-Mercy-Corps-2017.pdf>.

27 Petryniak, Olga, and Jon Kurtz, and S. Frischknecht. “What’s Next for Nepal? Evidence of What Matters for Building Resilience After the Gorkha Earthquake.” November 2015.

Promotion of informal group savings models can be an effective way to leverage social capital for economic coping. It can also help vulnerable groups access other social and economic networks beyond their immediate communities. However, community-level social capital is often less helpful in supporting broader economic recovery and growth, especially after a widespread disaster, without intentional efforts to link these groups to external sources of capital or more formal finance.²⁸ In its Technical Guide to the Graduation Approach, CGAP notes that linking local savings groups to loans from formal financial institutions can be one successful approach.²⁹

The role of businesses in support networks

Reliance on trusted relationships is also true for enterprises: social capital is critical to building trust with suppliers and partners, mitigating risks, sharing information, and accessing capital.³⁰ When floods in Sindh, Pakistan, forced people to move to areas where they had no prior relationship with the local traders and enterprises, it was more difficult for them to purchase goods on credit—a vital coping strategy. Even when these people were able to return home, many of the original shops they had prior relationships with were unable to reopen and the debts left unpaid from before the flood left businesses and suppliers unable to extend more credit.³¹ Examples like this demonstrate how weakening social capital puts people at an economic disadvantage that can linger and ripple through the local economy.

Though intangible, these social support systems provide value that should also be recognized in broader efforts to restore or improve local economies.

Mario de Jesus, a blacksmith who participated in the Effective Seed Storage program (ESS), builds grain silos to grow his business. Because ESS partnered with local business networks, approximately one-third of rural households in Timor Leste have now purchased grain silos promoted by ESS, either using program vouchers or paying full price (see “Creating new linkages in East Timor’s ESS Program” on next page).

Miguel Samper for Mercy Corps



- 28 Mercy Corps. “Social Capital and Good Governance: A Governance in Action Research Brief.” April 2017. <https://www.mercycorps.org/sites/default/files/Social-Capital-Good-Governance-Mercy-Corps-2017.pdf>.
- 29 de Montesquiou, Aude, and Tony Sheldon, Frank F. DeGiovanni and Syed M. Hashemi. “From Extreme Poverty to Sustainable Livelihoods: A Technical Guide to the Graduation Approach.” September 2014. CGAP and the Ford Foundation. http://www.cgap.org/sites/default/files/graduation_guide_final.pdf.
- 30 Mercy Corps defines social capital as the networks and resources available to people through their relationships with others. It refers to the connections that exist between people, and their shared values and norms of behavior, which enable and encourage mutually advantageous social cooperation.
- 31 Zyc, Steven A, and Irina Mosel, Huma Dad Khan, and Saad Shabbir. “Markets in Crises: The 2010 Floods.” October 2015. <https://www.odi.org/publications/10089-markets-crises-2010-floods-sindh-pakistan>.

CREATING NEW LINKAGES IN EAST TIMOR'S EFFECTIVE SEED STORAGE PROGRAM

Mercy Corps' Effective Seed Storage Program (ESS) in East Timor focused on reducing risks of food insecurity in areas highly prone to natural disasters. A core risk farmers faced was seed and post-harvest losses, which left them less resilient to disasters like drought, or the related shocks and stresses of rainfall variability and pest and disease outbreaks.

ESS wanted to provide farmers with a better technology for seed storage using a market-systems approach. After assessing farmers' risk profiles and seed storage preferences, ESS partnered with local blacksmiths, input suppliers, and agro-input networks, who were already trusted suppliers of local farmers, to produce and sell a new seed-storage technology called SILO. To promote adoption of the technology and prove its effectiveness, the program offered poor farmers a voucher, which discounted the cost of the initial product.

After three years, 71,613 households had bought and were using SILO, either through a voucher or by purchasing on their own at full price. This program not only delivered a risk-reducing product in a difficult and highly vulnerable context, it also supported disaster recovery in unexpected ways. The relationships and market linkages set up between the farmers and blacksmiths spread to other products and services. After the most recent El Niño, the blacksmiths recognized the farmers needed to sell livestock to reduce feed consumption. They added livestock trade to their business models, giving local farmers better prices and allowing households to cope with the drought while also creating a new business line.

Physical support systems

Resuming market activity depends on the physical infrastructure needed for marketplaces and transport.

The physical restoration of marketplaces, transportation and communication systems, electricity, warehouses, and other infrastructure is crucial for the resumption of trade and local production in the wake of a disaster. The businesses, communities, associations, and governments who have a stake in rebuilding are the most critical actors in this process. Their knowledge and incentives should shape short- and long-term decisions, including how restored infrastructure will be maintained, used, and financially managed.

For example, in the Nepali district of Gorkha, market access was a key concern after the 2015 earthquakes. Landslides changed the course of a river, wiping out foot trails that connected eight northern villages to markets and helped students get to school. The trails were also vital to the local tourism industry, as around 5,000 trekkers used them annually. The district development committee, the trekking industry, and NGO partners designed a solution to re-establish access: a 195-meter cantilevered bridge running along the river, providing safe passage to students, traders, and trekkers.³² (See Case Study 1 starting on page 20 for more details.)

Recovery will be easier if pre-disaster land-use planning and zoning takes account of future risks. This can be difficult as the most affordable land, where lower-income populations and their businesses can afford space,

32 "Nepal's First Cantilever Pathway in Gorkha." The Himalayan Times. June 2016. <https://thehimalayantimes.com/nepal/nepals-first-cantilever-pathway-gorkha/>

often faces the highest exposure to disasters. When floods hit Chennai, India in December 2015, the poorest business districts were located in the flood plain.³³ Many small businesses were washed away, decimating their owners' investments. Repairing the damage alone was not enough, as customers were also dealing with the impacts of the flood and demand had dropped. With households and the businesses they relied on having lost their primary sources of goods, services, and jobs, the markets broke down.

Recognizing that poor households and businesses cannot afford to move to less-disaster-prone areas, specific planning from government, zoning, and business groups is needed to mitigate disaster risks in these communities.

Good practices to support post-disaster recovery and resilience

Analyze markets frequently

A vital first and regular step in any humanitarian response is market analysis to understand how local markets are functioning, who key actors are, and what the potential positive and negative effects of any program will be. At a minimum, humanitarian agencies should be aware of the impact of their programs on markets, mitigate negative consequences, and when possible engage with local markets in ways that support the local economy. To better support the role of market actors in economic recovery, agencies should also consider looking beyond a small subset of suppliers of key goods to understand the broader set of market actors they rely on, as well as the key constraints preventing enterprises from recovering.

As the situation changes rapidly in post-disaster settings, market analysis must be conducted and updated frequently—a process which can involve light-touch interviews and build on the knowledge and observations of team members on the ground.

Support market systems, not just individual enterprises

Increasingly, humanitarian aid agencies recognize that they can better support the speedy and sustainable recovery of disaster-affected households and businesses by supporting the local entities and systems they depend on, rather than just providing goods and services directly. As discussed, cash transfers—while still a method of directly delivering household support—work through local markets and suppliers, potentially reaching more people by leveraging the multiplier effect of local economies. The next vital step is to help local enterprises,



After the 2011 Japan earthquake, JPMorgan Chase supported the Tohoku Small Business Recovery Program. Implemented by PlaNet Finance Japan (now Positive Planet Japan), the program promotes the sustainability of local micro and small enterprises by conducting needs assessments to identify specific challenges the businesses face, organizing business seminars on specific topics, and providing technical support tailored to identified business needs. By supporting and strengthening these businesses, the ongoing program aims to improve opportunities for employment.

33 Mercy Corps, and Okapi. "Transforming Chennai: Building Micro, Small, and Medium Enterprise Resilience to Water-Related Environmental Change." 2016.

and the market systems that support them, recover. Enterprise support programs might include linking actors in the market system to each other, sharing information, providing coaching, and supporting business planning. As noted, direct financial support may also be important, especially if enterprises have lost assets or lack cash flow. However, this support must be conducted carefully and strategically to avoid undermining local financial institutions and to maximize the local market's overall recovery, rather than just assisting specific enterprises.

Businesses with the potential to trigger changes in the wider economy, and with the incentive to serve vulnerable groups over the long run, are well-placed to partner with recovery programs. The example discussed above of blacksmiths in East Timor illustrates how certain businesses can be crucial elements in broader coping and recovery efforts. Moreover, working with these businesses before a crisis can be critical to improving communities' ability to bounce back (also discussed under "Aim for long-term resilience" starting on page 15). Because these businesses are leverage points in local markets, working with them ensures the benefits of a program do not just help a few chosen enterprises but support the entire local economy and recovery process.³⁴

Utilize responsive and adaptive implementation strategies

Given the rapidly changing context of a post-disaster environment, humanitarian agencies must not only analyze the situation frequently but also adapt program implementation approaches to meet the evolving needs of affected households and enterprises. One month businesses may need assistance finding transportation companies to bring in goods, the next month there may be a shortage of labor to meet expanding business opportunities.

This adaptation of program responses must be managed proactively and systematically to be effective. In recent years, the humanitarian and development communities have contributed to a group of principles and practices known broadly as "adaptive management"³⁵ and have developed several frameworks to understand and apply it.³⁶ Some of the common themes that have emerged are:

- › **Team organization, culture, and partnerships:** A diversity of skills and perspectives is necessary to respond to the complexity of the situation and to design effective program responses. Market-based programs in post-disaster settings should work with development programs, humanitarian programs, and market system specialists—not to mention external partners from the private sector, governments, and community-based organizations. Bringing these diverse actors



Because of the flexibility of the Margaret A. Cargill Philanthropies, Mercy Corps' M-RED program in East Timor was able to significantly adapt and adjust over time based on learning and testing. Using its ongoing learning about market systems and the shocks communities face, M-RED added several interventions to help households prepare for disasters and increase their resilience, such as connecting them to micro-insurance and financial services, and improving engagement with market actors like agro-vets and sugar mills.

34 The market-based programming framework outlines a spectrum of strategies from relief to recovery and spans interventions that use markets, support markets, and generate market-systems change. CRS. "Market-Based Programming Framework." 2017.
35 Adaptive management is generally defined as a program's ability to tailor intervention strategies to the unique context, to learn about what works over the course of the program and iterate accordingly, and to shift in response to changes in the context.
36 See, for example: Beloe, Jonathon, and Alison Hemberger, Philippa Hill, and Emma Proud. "Adapting Aid: Lessons from Six Case Studies." June 2016. https://www.mercy-corps.org.uk/sites/default/files/Mercy_Corps_ADAPT_Adapting_aid_report_with_case_studies.7.21.16.pdf. Byrne, Karri, and Tim Sparkman, and Ben Fowler. "The Road to Adaptive Management: Knowledge, Leadership, Culture and Rules." 2016.

together into trusting partnerships with open communication channels can make the most of their wide expertise, allow for cross-pollination of ideas, and ensure ownership of program activities.

- › **Use of data and analysis:** From initial market analysis to gathering the latest information and data on changes in the context, bringing in new information and learning is crucial to adapting the program’s approach. This is critical in post-disaster responses when the situation is complex enough to hinder detailed up-front program design (necessitating learning-as-you-go) and likely to shift unexpectedly (requiring an ability to quickly respond to those shifts).
- › **Budgetary and operational flexibility:** In emergency responses, flexible funding helps implementers adapt to changes in the context. Budgetary flexibility also makes it possible to fund small experiments and then scale/replicate them based on the results. “Crisis modifier” funds and “triggers” in longer-term development programs can ensure funding is available if disaster strikes and the program must pivot to emergency response. Operational flexibility is equally important, as compliance-oriented contracting processes often constrain partnership possibilities. In addition, funders and implementers need to communicate clearly and openly to ensure that programs take advantage of the budgetary and operational flexibility that exists in their agreements.



When drought struck Ethiopia in 2016, the PRIME program used a flexible budget mechanism (a crisis modifier) to help pastoralists access the support needed to sustain their livestock businesses, including providing vouchers for veterinary services and support to traders to carry out commercial destocking (see Case Study 2).

Kelly Lynch for Mercy Corps

Plan for longer time frames, even in a disaster response

While disaster responses must implement short-term activities to respond to immediate needs, teams run the risk of becoming trapped in a short-term response cycle and creating communities' dependency on their activities. For example, a program distributing food items, with a large logistics team set up to manage the process, may struggle to design a program to rebuild marketplaces and support local retailers to resume regular sales of food. Without the time and resources to analyze the shifting context, predict future needs, and design the next phase of programming, humanitarian agencies cannot support affected populations' gradual recovery process. Longer time frames for disaster and recovery programming can address this challenge.

Aim for long-term resilience

While many post-disaster interventions may be short-term and aim for immediate results, such as delivering cash transfers to replace assets, the long-term vision should be to support the resilience of the households, businesses, and community as a whole. Programs should also explore opportunities to increase communities' ability to cope with future disasters and adapt to shifting risks before a crisis strikes, particularly in contexts where disasters are predictable or cyclical.

For example, the PRIME program in Ethiopia combined ongoing development work in an area often affected by extreme drought with a crisis-response approach that included economic recovery. Pre-disaster, PRIME pursued several market-systems activities to support household resilience, including improving the functioning of veterinary supply markets, expanding access to financial services, and providing timely and accurate weather and market information.³⁷ The team worked closely with both large and small enterprises to understand and mitigate risks and prove the business value of investing in risk mitigation.

When a drought hit, the preparation and established relationships demonstrated their worth. With normal livestock trade and household incomes under threat, the program team introduced a "smart subsidy" to help traders purchase larger numbers of sheep and goats than normal. This stabilized the price of livestock and stimulated destocking by pastoralists. By selling over 12,000 sheep and goats at a time when they were healthy enough to be sold commercially—rather than waiting until there were sick and not sellable—the pastoralists gained vital income.

Furthermore, traders who participated in the program built new relationships with pastoralists, which continued after the drought. The project also introduced new techniques for stock verification and identification, such as ear notching, and overcame initial skepticism from traders who experienced the benefits during the destocking process.



Huka Jilo Kilo used to have trouble keeping his cattle strong during droughts. Since benefitting from PRIME's market systems work, he has access to veterinary pharmacists who can treat his animals if they get sick, and his herd is larger and healthier. In addition to feeding his family, he also has surplus milk to sell at market.

Sean Sheridan for Mercy Corps

37 Sagara, Brad, and Dan Hudner. "Enhancing Resilience to Severe Drought: What Works? Evidence from Mercy Corps' PRIME Program in the Somali Region of Ethiopia." January 2017.

These combined efforts before, during, and after the crisis strengthened household resilience—in a recent study, pastoralists in PRIME areas reported higher levels of dietary diversity, livestock health, and livestock productivity than comparison areas.

As the PRIME program illustrates, building true resilience to future disasters requires breaking down the barrier between short-term humanitarian aid and long-term development work, as well as the barriers between sector specialists, whether they are focused on meeting basic needs, supporting enterprise development, or increasing financial inclusion. The divides that exist within donor and implementing agencies inhibit collaboration and sharing of lessons—and keep programs from achieving full impact. The use of market analysis for program design is one area where these missed opportunities are apparent. For example, a recent review conducted by the International Rescue Committee documented the poor uptake of findings from market analysis, pointing to sector divides as one of the reasons information is poorly used to improve program design. It revealed that intervention activities are often shaped by the experience and background of the people involved in the design, rather than the information available for decision-making, and the quality of program design is potentially undermined by failing to bring together practitioners with both humanitarian and development backgrounds in these contexts.³⁸

› *“The fact that we had relationships with these larger-scale businesses from our market facilitation work, who were then affected by the drought, gave us time to work with these markets actors, private sector leaders and even regulatory intuitions—and when the disaster hit, they saw and felt the evidence of how these systems help them stay alive. They proved the business case over time.”*

— Netsaalem Bahiru, Alternative Livelihoods Advisor, PRIME Ethiopia

From learning to action

The emerging lessons described in this brief point to some clear action items for both donors and implementing agencies to improve communities’ long-term resilience to disasters—and better support recovery when they strike.

Actions for donors

Before a disaster

- › Support long-term programs that anticipate disasters, mitigate impacts, and prepare for market-based responses, particularly activities that help local businesses build resilience and develop post-disaster business continuity and response plans.
- › Encourage long-term programs that address systemic constraints and strengthen local enterprises, preventing disasters from exacerbating pre-existing vulnerabilities.
- › Fund programs to build the overall financial capability of households and institutions, positioning them to better withstand crisis, and develop institutional-level disaster response plans (including specialized products, services, and operational processes) and national-level preparedness plans (including liquidity management and infrastructure rehabilitation).

38 Juillard, Hélène, and Lili Mohiddin, and Lauren Weiss, “Improving the Uptake of Humanitarian Market Analysis.” International Rescue Committee, CRS, and Mercy Corps. DRAFT April 2017.

After a disaster

- › Go beyond meeting immediate household survival needs and directly fund efforts that restore local market systems critical to widespread economic coping, recovery, and resilience.
- › Push for relief programming to use modalities that leverage local markets. Support cash modalities over in-kind aid when appropriate.
- › Fund market analysis for disaster response and allow responders to act on this knowledge with flexible program plans and budgets, and decision-making processes that enable programs to adapt quickly to changing circumstances.
- › Budget for adaptive programs so implementing teams can better address shifts in context and needs. This should include:
 - Allowing flexibility in program budgets.
 - Dedicating funding and staff resources to plan for recovery programming at the start of a disaster response.
 - Including longer time frames in emergency programs so implementers can evolve their recovery approaches based on learnings from ongoing programs.
- › Build strong informal communication with implementers to improve understanding of the post-disaster context. Support sharing market analysis and program learning so other actors can also benefit.

Over time

- › Fund post-program assessments and support implementers to include enterprise recovery, financial inclusion, and market-system approaches in disaster response programs and develop models for integrated humanitarian programs.
- › Support efforts to eliminate barriers between development and humanitarian funding, improving implementing organizations' access to flexible funds necessary to prepare for and respond to disasters within long-term programs and pivot humanitarian programs to support economic recovery and resilience.

Actions for implementers

Before a disaster

- › Ensure long-term development programs include contextual analysis of likely shocks and stresses and plan activities to prepare for and mitigate these risks. Include an examination of available social capital—existing relationships, support structures—vital to coping and recovery.
- › Build a strong network of private sector actors, aid agencies, and governments ready to respond when disaster strikes.
- › Strengthen local market systems and businesses whose continuity is necessary for disaster recovery. Include crisis modifiers and other disaster-response mechanisms in the design of longer-term market-systems programs.
- › Ensure programs invest in financial preparedness for disasters, including partnering with financial institutions and governments to improve disaster planning and liquidity after crises.

After a disaster

- › Support local enterprises and spur market recovery by providing cash or other market support, rather than directly procuring and distributing goods.
- › Utilize the capacity of the community to drive its own rebuilding effort—design and implement programs that leverage social capital and local market capacity and rebuild enterprises necessary for comprehensive recovery.
- › Ensure households and local enterprises have immediate access to cash and long-term access to financial services by partnering with and supporting local financial institutions.
- › Analyze market systems early and often and change program activities to match the shifting context.
- › Explore creative partnerships with a broad range of private sector, government, humanitarian and development actors. Make use of opportunities to learn from and influence different types of organizations.

Over time

- › Break down the division between humanitarian and development teams, and between technical sectors, to bring new approaches and learning from other contexts to disaster response.
- › Build diverse humanitarian response teams with increased technical capacity so emergency response programs can be designed to meet immediate needs and support longer-term recovery and resilience aims.
- › Invest in and learn from market-systems approaches in disaster contexts. Contribute to industry-wide learning and research to improve future disaster responses.

In addition to the knowledge we already have and can put into practice, the humanitarian industry needs to build more and better evidence of what approaches work, and then develop training, guidance, and structures to ensure the widespread adoption of those approaches. Some primary actions for further research and learning are:

- › Develop more evidence of impact for programs that support enterprises and markets, particularly evidence of the speed and sustainability of the post-disaster recovery process.
- › Document learning from long-term market-systems development programs that can assist humanitarian response and disaster preparedness.
- › Document best practices for financial sector disaster preparedness and response.
- › Train humanitarian responders on market analysis and market-driven responses.
- › Study the long-term economic impacts of disaster response after programming ends.

After a disaster, humanitarian responders face the challenge of meeting immediate household needs—but the way they respond can have significant effects on the speed and sustainability of community recovery. Assisting the business recovery of local individuals and enterprises and the systems that support them can not only speed up their post-disaster recovery but also benefit the entire affected community. However, the most efficient way to help communities cope with and recover from a disaster is to build resilience before a crisis hits. This requires investing in long-term programming to strengthen local businesses, networks, and systems. If donors and implementing agencies come together to address the points above, we will make significant progress in helping vulnerable communities respond to disasters more effectively and require less external help the next time a disaster hits.

Case Study 1

Early market facilitation: Experiences from Nepal

The earthquakes that struck Nepal in April and May 2015 were the largest in living memory. The loss of life from such a disaster is devastating enough: around 8,700 people were estimated to have died, and another 22,200 were injured.³⁹ The country's physical infrastructure also suffered damage—over half a million homes were destroyed—and reconstruction would take years.

The hardest hit areas were the western and central hills of the Himalayas. Already poor and disconnected from marketplaces, these areas were the sites of several market development efforts prior to the earthquake. These efforts pivoted in the wake of disaster, utilizing their knowledge and networks to increase the effectiveness of the humanitarian response and speed the path to recovery.

Restarting the dairy market

As the Government of Nepal began coordinating the humanitarian response with support from national and international partners, the Samarth-Nepal Market Development Program (NMDP), funded by the UK Department for International Development, recognized it could help assess the status of key market systems and support their recovery.⁴⁰

Because the Nepali dairy industry supports roughly 500,000 households as producers and sellers of milk, Samarth-NMDP worked with the association of dairy cooperatives to execute a rapid market analysis in under 10 days, starting two weeks after the May earthquake.⁴¹ The assessment identified road closures, stranded and dead herds, closed collection and chilling facilities, staffing levels at the cooperatives, and availability of financial services in 11 of the 14 earthquake-affected districts. The level of detail gained would not have been possible without the program's pre-existing networks and knowledge of the dairy sector.⁴²

This assessment was shared with the government actors and humanitarian community to help support the recovery of the dairy market system. Activities were designed to support and co-invest with the government in:

- › Government subsidies to the Nepal veterinarian association to rescue and treat cattle
- › Government subsidies for transport of new cattle
- › Cash transfers
- › Financial products via the dairy cooperatives' financing arms
- › Access and knowledge of government subsidized rates for new cattle purchases

39 Montgomery, Kelly. "Quick Facts: What You Need to Know About the Nepal Earthquake." Mercy Corps. March 2016. <https://www.mercycorps.org/articles/nepal/quick-facts-what-you-need-know-about-nepal-earthquake>

40 <http://samarth-nepal.com/>

41 The methodology drew on principles from the Emergency Market Mapping and Analysis (EMMA) Toolkit. For more, see: <http://www.emma-toolkit.org/>

42 SAMARTH. "Dairy Sector in Nepal: Rapid Post Earthquake Market Analysis." Samarth Nepal Market Development Programme. June 2015. http://www.samarth-nepal.com/sites/default/files/resources/Rapid%20Market%20Analysis_Dairy_FINAL.pdf.

- › Improved cattle sheds and management
- › Government subsidies for cattle insurance

In one case, Mercy Corps and its partners used financial cooperatives to deliver cash transfers to households affected by the earthquake. Follow-up work rebuilding and supporting the dairy sector occurred over the next nine months; new market-chain relationships with collectors and chilling centers were developed within 18 months.

Many of these recovery activities proceeded with the light touch of market facilitation, building on the linkages established through relief efforts. One of these interventions increased farmers' financial inclusion, helping them access new types of loans through the same cooperative they had previously received cash transfers through. As a result of this complementary support, farmers were able to address immediate needs, invest in more productive breeds, improve feeding practices, and increase production.

In fact, some farmers who had previously produced on a subsistence level moved into commercial production. The new financing available—as well as the new connections with fodder farmers, veterinary service providers, and collection and chilling centers—made it possible for more dairy farmers to produce at commercial standards of quality and quantity. Farmers in the first communities targeted for this market facilitation approach increased their dairy income on average by 44 percent (from US\$34 to US\$49 per month).⁴³



After the earthquake, Shukra Tamang was eager to improve his financial literacy and join the local cooperative where he could save money and access loans to rebuild.

Tom Van Cakenberghe
for Mercy Corps

43 Mercy Corps Nepal. "Monthly Report: Earthquake Recovery Program." 2017.

Building bridges for transport and tourism

The Samarth-NMDP was three years into a five-year program, and already working in support of several agricultural sectors, when the earthquakes hit.

In the district of Gorkha, the disaster triggered massive landslides that changed the course of the Budhi Gandaki River.⁴⁴ The river's new path wiped out two key foot trails that served as lifelines connecting local communities and marketplaces.

With the trails gone, the 8,000 residents of eight northern villages were forced to take a long and dangerous detour along a steep hill to bring supplies from another village, Aarughat. Food prices soared, and students walked for hours each day to reach school. The old trails had also become increasingly used for tourism, as part of the Manaslu circuit, an emerging trekking destination that was receiving around 5,000 trekkers annually before the quakes.

Having worked in the area prior to the earthquake, the Samarth-NMDP team knew the importance of the trails for both transport and tourism. They saw an opportunity to link humanitarian infrastructure rebuilding to market development and livelihood promotion. They consulted with the Gorkha District Development Committee, the Department of Tourism, and the trekking industry to design a solution.

The result was a cantilevered trail bridge that runs 195 meters along the river, constructed in a period of two months after the earthquakes.

With the opening of the bridge, travel time for students was cut by two hours. Transportation costs for a 30-kilogram sack of rice grain dropped back down to Rs. 2,100 (US\$20), after having spiked to Rs. 6,400 (US\$62). The quick implementation also meant that the Manaslu trekking circuit has continued to see increased traffic, generating income for the local economy.



“The cantilever bridge is the first of its kind in Nepal and a great example of environmentally sustainable construction. This definitely is of great help to the local community and will also help keep trekker’s traffic to the emerging Manaslu Circuit.”

— Mr. Sudarshan Prasad Dhakal, Director General,
Department of Tourism

44 “Nepal’s First Cantilever Pathway in Gorkha.” The Himalayan Times. June 2016. <https://thehimalayantimes.com/nepal/nepals-first-cantilever-pathway-gorkha>

Case Study 2

Support to the market system: Resilience and response in Ethiopia

Mercy Corps' work in Ethiopia has served as a testing ground for the ways markets contribute to resilience, and as a place for innovation: A five-year, USAID-funded multi-sectoral program called PRIME (Pastoralist Areas Resilience Improvement through Market Expansions) has combined a market-systems approach with adaptive management to both support recovery from slow-onset disasters and build resilience to future crises.

The effectiveness of this approach appears in the program's multi-pronged response to an extreme drought in 2016. Facing what some called the worst drought in 50 years, PRIME's crisis response included three interventions: smart-subsidy destocking, veterinary service vouchers, and household cash transfers.

These interventions leveraged a crisis-modifier, flexible funding set aside during program design to address local needs during disasters. And thanks to PRIME's pre-drought market-strengthening activities and market-oriented emergency responses, an evaluation in January 2017 found that people living and working in the areas where the program was implemented were doing measurably better than a comparison group on dietary diversity, as well as the health and productivity of their herds.⁴⁵

Smart-subsidy destocking

The first component of the response—destocking—allowed pastoralists in the affected districts to sell to livestock traders, reducing their potential livestock losses and increasing their income to cope with the effects of the drought. PRIME reviewed destocking approaches used by various NGOs, including facilitating direct loans to livestock marketing companies, individual traders, or financial institutions, but found these strategies resulted in loan defaults and market distortion.

Instead, PRIME responded with a "smart subsidy" to traders for purchasing pastoralists' livestock based on several factors: the cost of animal feed needed to improve body condition over a 2-3 week fattening period; the cost of transport to end markets, such as slaughterhouses and larger marketplaces; the costs of veterinary drugs, water, brokers, loading, and unloading; and the costs related to livestock keepers and trekkers.

PRIME stimulated the normal functioning of the market system, increased demand and stabilized prices—and, once employed, met its immediate goal of destocking 12,237 sheep and goats from local herds at a time when they were still healthy enough to be sold commercially.

Furthermore, traders built relationships with pastoralists, which would benefit them even after the drought and strengthen their market connections for future disasters. They also picked up on new business processes along the way. For example, PRIME introduced new techniques for stock verification and identification, such as ear notching, and overcame initial skepticism from traders who experienced the benefits of traceability during rapid destocking.

These interventions also complemented PRIME's activities to improve profitability for pastoralists and traders

⁴⁵ Sagara, Brad, and Dan Hudner. "Enhancing Resilience to Severe Drought: What Works? Evidence from Mercy Corps' PRIME Program in the Somali Region of Ethiopia." January 2017.

before and after the drought. For example, to stimulate livestock trade the program collaborated with Jijiga Export Slaughterhouse to co-fund the construction of a new facility intended to serve 250,000 households at full capacity.

TRADER PERSPECTIVE

"I was contracted to destock 900 shoats [sheep and goats] and was able to do so within the agreed period. Without the subsidy, I would not have been able to buy 100!"

—Mohamed Usman, one of the partner traders in Shinile market

PASTORALIST PERSPECTIVE

"I visited the market three times to sell one goat, but there were no buyers. Today, I sold one goat for 600 birr [~US\$30], which will help me buy food to last two weeks for my family of six."

—Hasna Mahmoud, after selling one goat to a contracted trader at Dambel market

Veterinary service vouchers

As the drought continued throughout 2016, pastoralists moved massive numbers of livestock in search of food and water. This movement increased the animals' risks for both disease and stress, yet household funds were too thinly stretched to afford animal health services. The PRIME team collaborated with livestock owners, government actors, wholesalers, and veterinarians to design a response. The result was a cash-voucher system for veterinary drug support. Similar programs in the past had often relied on free distribution, undermining existing market-based relationships between animal health actors and their clients. The voucher system instead protected and supported the economic linkages, while ensuring vulnerable households had access to drugs and veterinary services.

Along with three vouchers, each household received a list of approved commercial veterinary drugs that could be purchased with the vouchers, and a list of participating veterinary pharmacies. Wholesalers were willing to supply the pharmacies on credit, due to their confidence in their written agreement with the PRIME program. The intervention reached over 5,200 households in 53 communities, covering over 168,000 livestock. Furthermore, as government officers monitored performance of the veterinary pharmacies, they gained new understanding of the private sector's importance in emergency response.

Cash transfers for food security and to meet basic needs

PRIME added a final component to the response as the drought intensified: direct cash support to 5,000 households and their family members (30,000 total individuals).

The pastoralists opened accounts with local microfinance institutions (MFIs), which the PRIME program had previously worked with, to receive their cash deposits. And in light of recent research showing the need to support recipients beyond the transfer itself,⁴⁶ the program team supported the MFIs in continued work with over 2,000 of them. This included ongoing training and information about available MFI products in order to reinforce households' connection to financial services—a potentially critical factor in increasing household resilience and a key area for further research.⁴⁷ One year after the last cash transfer, 43 percent of recipients were still saving significant balances in their accounts.

46 Causal Design. "Beyond Meeting Immediate Needs: The Impact of Cash Transfer Approaches on Disaster Recovery and Financial Inclusion." May 2015. https://www.mercycorps.org/sites/default/files/TabangKO%20Impact%20Evaluation%20Report_Final.pdf.

47 Anderson, Thea, and Olga Petryniak. "The Use of Financial Products in Mitigating Natural Disaster Risk." April 2017. El-zoghbi, Mayada, and Nadine Chehade, Peter McConaghy, Matthew Soursourian, and Ban Ki-moon. "The Role of Financial Services in Humanitarian Crises." Washington, DC: CGAP, SPF and World Bank. 2017. Gash, Megan, and Bobbi Gray. "The Role of Financial Services in Building Household Resilience in Burkina Faso." March 2016. Hudner, Dan, and Jon Kurtz. "Do Financial Services Build Disaster Resilience?" 2015. https://www.mercycorps.org/sites/default/files/Philippines%20Resilience%20ToC%20Testing%20Report_Final_03.06.15.cm_.pdf.

Appendix 1

Issues brief development process

The development of this issues brief was participatory and highly consultative. We reviewed over 82 internal and external documents, including case studies, meta-level analysis, and other research pieces, and consulted 58 key informants internationally. A list of key informants was developed in collaboration with Mercy Corps technical advisers Alison Hemberger and Sasha Muench. Semi-structured interviews were conducted, with follow-up conversations as necessary. Other industry thought leaders were also consulted and asked to outline their key issues and current learning. Based on this work, we wrote an expanded outline for the issues brief.

After the outline, and in collaboration with the SEEP Network, two day-long in-person stakeholder consultations were held. We invited technical leaders from the humanitarian, development, market systems, financial, and donor communities. The first was in March 2017 in Washington D.C. with 20 high-level staff representing 14 agencies, in which stakeholders reviewed, revised, and wrote content for the draft outline. Based on this feedback, the draft was revised and reviewed again in a consultation May 2017 in Kathmandu, Nepal. In Nepal, we used a mix of individual interviews, information-gathering sessions, and a full-day stakeholder consultation. Twenty-four agencies and over 40 stakeholders including government, private sector, donor, and humanitarian and development implementers were engaged. Their direct experiences, examples, and knowledge-sharing shaped the first draft of the issues brief. In the final drafting process, key informants were contacted for follow-up and new resources which had been published during the brief's development were reviewed and included in the findings. A full listing of the resource documents and key informants can be found in the annex.

Appendix 2

Resources: Issues brief

The following is a list of the resources cited in the issues brief and the resources reviewed during the issues brief's development. As many of these documents were working drafts, internal documents, and unpublished works, the citations are as complete as possible. For reports not searchable online, please make requests to the Mercy Corps contacts listed at the end of this report.

1. Adem, Alebachew, and Gerry Boyle, Benedict Irwin, Anan Kittaneh, Sherri Lim, Scott Merrill, and Tom Newby. "Strengthening Women's Economic Empowerment and Market Systems in Fragile Settings." n.d.
2. Anderson, Thea, and Diane Johnson. "Financing the Frontier: Inclusive Financial Sector Development in Fragility-Affected States in Africa." 2016.
3. Anderson, Thea, and Olga Petryniak. "The Use of Financial Products in Mitigating Natural Disaster Risk." April 2017.
4. Bahiru, Netsaalem, and Abdillahi Farah. "Responding to Drought Through Cash Transfers: Implementation Strategy." 2016.
5. Bailey, Sarah. "Electronic Transfers in Humanitarian Assistance and Uptake of Financial Services: A Synthesis of ELAN Case Studies." March 2017. <https://www.odi.org/sites/odi.org.uk/files/resource-documents/11424.pdf>.
6. Bailey, Sarah, and Sophie Pongracz. "Humanitarian cash transfers: cost, value for money and economic impact." ODI. May 2015. <https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/9731.pdf>.
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Semi-structured interviews with key informants

1. Alexa Swift, Early Economic Recovery Advisor, Mercy Corps
2. Alison Hemberger, Markets and Learning Advisor, Mercy Corps
3. Bipaswi Tuladar, Sumit Baral, Shilu Shakya, and Srijana Rana, Senior Sector Analysts and Portfolio Managers, SAMARTH, Nepal Market Development Program
4. Chet Tamang, Acting Program Director, Managing Risk through Economic Development (MRED), former Director of Earthquake Response Programming, Mercy Corps
5. Emily Sloane, Market Specialist, IRC
6. Erynn Carter, Humanitarian Leadership Director, Mercy Corps
7. Julie Koehler, Director of Programs, Nepal, Mercy Corps
8. Karri Byrne, Independent Consultant, former CoP PRIME Ethiopia
9. Netsaalem Bahiru, Livelihoods Team Lead, PRIME, Mercy Corps
10. Olga Petryniak, Philippines, Regional Resilience Director: SEA, Mercy Corps
11. Prakash Subedi, Team Leader: Economic Empowerment, Oxfam Nepal
12. Prasanna Pradhan, Market Development Component Manager, Mercy Corps
13. Sanjay Karki, Country Director Nepal, Mercy Corps
14. Sasha Muench, Senior Director, MERG, Mercy Corps
15. Simon Levine, ODI Researcher
16. Thea Anderson, Director, Financial Inclusion, Mercy Corps
17. Vai Krishnan, Regional Economic Opportunities Advisor (Middle East), Mercy Corps

Washington D.C. stakeholder consultation

1. Alison Hemberger, Markets And Learning Advisor, Mercy Corps
2. Arielle Kohr, Senior Associate, Global Philanthropy, JPMorgan Chase & Co.
3. Christopher Addison, Program Assistant, SEEP Network
4. Colleen Briggs, Executive Director, Community Innovation-Corporate Responsibility, JPMorgan Chase & Co.
5. Dina Brick, Technical Advisor, CRS
6. Emily Sloane, Emergency Markets Officer, IRC
7. Hayden Aaronson, Senior Technical Director, ACDI VOCA
8. Kat Read, Independent, Mercy Corps
9. Laura Meissner, Economic Recovery Advisor, USAID Office of U.S. Foreign Disaster Assistance
10. Mark Lindberg, Program Director, Disaster Relief and Recovery, Margaret A. Cargill Philanthropies
11. Mayada El Zoghbi, Lead, Strategy, Research & Development, CGAP
12. Nisha Singh, Independent Consultant
13. Ruco Van Der Merwe, Food Security and Markets Advisor, USAID
14. Sara Netzer, Director, Emergency Food Security and Livelihoods, Save The Children
15. Sarah Morgenstern, Principal, Investments, Omidyar Network
16. Sasha Muench, Senior Director, Markets, Economic Recovery and Growth, Mercy Corps
17. Sharon D'Onofrio, Executive Director, SEEP Network
18. Simon Levine, ODI Researcher
19. Sonya Salanti, Senior Program Manager, SEEP Network
20. Thea Anderson, Director, Financial Inclusion, Mercy Corps

Kathmandu, Nepal stakeholder consultation

1. Abhishek Mahato, Rural Infrastructure Engineer, Helvetas Swiss Intercooperation, Nepal
2. Akum Acharya, Laxmi Bank Ltd.
3. Cheryl Groff, National Director, Habitat for Humanity International
4. Chet Tamang, Acting Program Director, Managing Risk Through Economic Development, Mercy Corps
5. Dr. Sujan Piya, Team Leader, Practical Action Nepal
6. Ekanath Khatiwada, Manager, Value Chain and Entrepreneurship, Habitat for Humanity
7. Ganesh Bistal, Component Manager Financial Services, Mercy Corps
8. Iswar Atreya, Manager, Nirdhan Utthan Bank Ltd
9. Julie Koehler, Director of Programs, Mercy Corps
10. Mahendra Shahi, Director of Economic Development and Special Projects, Mercy Corps
11. Pete Larous, Humanitarian Director/Acting DCD PO, Save the Children
12. Prakash Subedi, Team Leader, Economic Empowerment and Private Sector Development, Oxfam
13. Prakash Tiwari & Guarav, National Specialist, Livelihoods, World Vision International
14. Prasanna Pradhan, Market Development Component Manager, Mercy Corps
15. Rakshya Shah, Senior Fundraising Manager, Handicap International
16. Rekha Bhandari, Project Officer, CMF Nepal, Centre for Microfinance Nepal
17. Rupendra Basnet, CARE
18. Sandip Paudel, Manager, Helvetas Swiss Intercooperation, Nepal
19. Sanjay Karki, Country Director, Mercy Corps
20. Sharad Rai, Market Development Specialist, International Fertilizer Development Centre
21. Sheetal Tuladar, Business Development and Communications Officer, BRAC
22. Shreeju Shrestha, Oxfam
23. Siddarth Khadka, Portfolio Manager, Swiss Contact
24. Srijana Rana, Team Leader, Adam Smith International/Samarth
25. Sujan Dhoj Khadka, Civil Engineer, Helvetas Swiss Intercooperation, Nepal
26. Sundar Shrestha, Laxmi Laghubitta Bittiya Sanstha Ltd.

CONTACT

ALISON HEMBERGER

Senior Advisor | Markets and Learning
ahemberger@mercycorps.org

SASHA MUENCH

Senior Director | Markets Economic Recovery and Growth
smuench@mercycorps.org

About Mercy Corps

Mercy Corps is a leading global organization powered by the belief that a better world is possible. In disaster, in hardship, in more than 40 countries around the world, we partner to put bold solutions into action — helping people triumph over adversity and build stronger communities from within. Now, and for the future.



45 SW Ankeny Street
Portland, Oregon 97204
888.842.0842

mercycorps.org

JPMORGAN CHASE & CO.

JPMorgan Chase Foundation
270 Park Avenue, Floor 04
New York, New York 10017
212.270.6000

jpmorganchase.com