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PROTECTING DEVELOPMENT GAINS

The Crisis Modifier in Mercy Corps' Ethiopia Programs

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Background: The Crisis Modifier Mechanism

Crisis Modifiers (CMs) are funding mechanisms employed within development programs implemented in areas vulnerable to shocks. They encourage innovative approaches to allow development programs to respond to acute shocks, protect the development gains made to date and avoid backsliding.¹ In recent years, USAID has used CMs “in shock prone environments to inject emergency funds through existing development programs,” and USAID/Ethiopia has emerged as a leader in using CMs effectively, particularly in drought-prone pastoral areas.² This paper will discuss the successful use of CMs in Mercy Corps’ PRIME program,³ explain how the RIPA program⁴ has responded to shocks in the absence of CM approval and describe the potential benefits of activating the CM moving forward.

Responding to Drought Under PRIME

Within communities targeted by PRIME, droughts posed major risks that could undermine the resilience gains of pastoralist households, depleting their assets through deterioration of livestock health, selling off livestock at low prices or death of livestock. Mercy Corps and its consortium partners carefully considered the development gains that were at risk due to specific shocks⁵ to develop interventions that strengthened the ability of market and agricultural systems to function during crises while supporting affected households to protect their assets, livelihoods, and food security. Innovative CM

PRIME used a markets-based and adaptive management approach to help pastoralists strengthen systems to simultaneously address economic needs and climate adaptation to increase resilience capacities. By working with traditional pastoralists and those transitioning out of pastoralism in Afar, Oromia and Somali regions of Ethiopia’s drylands, PRIME achieved results within five strategic components to reduce chronic poverty and food insecurity.

interventions were thus designed to protect household assets and inject cash into households to ensure their ability to withstand drought, while building on PRIME’s Market Systems Development (MSD) approach, working through existing private sector partners to maintain the resilience of key market systems.⁶ PRIME’s CM interventions included:

- **Unconditional cash transfers to households:** While beneficiary selection and calculation of transfer amounts were conducted according to humanitarian best practice, PRIME cash transfers were distributed through partner microfinance (MFI) institutions rather than directly by the program.

¹Katie Peters and Florence Pichon, “Crisis Modifiers: A Solution for a More Flexible Development-Humanitarian System?” BRACED/UKAID.

² USAID Discussion Note. “Shock Responsive Programming and Adaptive Mechanisms” (V.1) August 2017.

³PRIME: Pastoral Areas Resilience Improvement through Market Expansion, funded by USAID, October 2012-March 2019.

⁴ RIPA: Resilience in Pastoral Areas, funded by USAID as a follow-on to PRIME, February 2021-February 2025

⁵ Feed the Future, “EARLY RESPONSE TO DROUGHT IN PASTORALIST AREAS: Lessons from the USAID Crisis Modifier in East Africa” January 2016.

⁶ Descriptions of PRIME crisis modifier interventions are based on PRIME progress reports and final evaluation as well as interviews conducted in December 2020 with five PRIME senior staff members.

This approach leveraged and maintained existing partnerships, avoided unnecessary disruption of the financial services market, expanded financial inclusion and allowed the program to link the immediate response (cash transfers) to the larger development program (e.g., by promoting the use of transfers to support nutritious diets and by promoting savings via trainings and savings groups).

- **Emergency access to fodder and veterinary services through market actors:** PRIME used subsidies and vouchers rather than the conventional direct provision to facilitate households' access to fodder and veterinary services to maintain the health of their herds. This in turn allowed households to protect their assets or sell their animals for a better price. This approach avoided market disruption and again allowed the program to support MSD objectives while delivering critical drought relief. For example, 87% of the veterinary vouchers were used in private veterinary pharmacies supported by PRIME, so that CM funds supported both the immediate needs of drought-affected households and the longer-term capacity and resilience of critical market actors.
- **Commercial destocking via “smart” subsidies:** Successive droughts led to declining demand among livestock traders to purchase animals as their deteriorating health made it expensive to rehabilitate them for resale, just as pastoralists most needed to sell to reduce herd size and generate cash income. PRIME's market-led destocking mechanism used carefully designed subsidies provided to local livestock traders who purchased from livestock markets in drought-affected areas. The subsidies helped drive demand and increase prices to provide much-needed income for pastoral households, while building new market linkages for livestock traders.

These examples illustrate how the CM goes beyond injecting emergency response funds within a development program and contributes to market stimulation thus directly contributing to household resilience. The PRIME team applied systems thinking to a crisis response, leading to interventions that built the resilience of market systems while protecting the assets and capacities of vulnerable households. Mercy Corps carried this view of the CM's value and potential into the design and implementation of RIPA.

RIPA Responses: COVID-19 and Afar Floods

The RIPA cooperative agreement includes dedicated CM funding of \$7.15 million, reflecting the understanding that shocks including drought, flood and conflict are recurrent in the Ethiopian lowlands, and that development and resilience-building programs must have the flexibility to layer humanitarian interventions into systems-strengthening activities to be successful. With a start date in February 2020, the program almost immediately faced a massive, unanticipated global shock – the COVID-19 pandemic. A rapid market assessment of the economic and food security impacts of COVID-19 in May-June 2020

RIPA builds on the successes and lessons of PRIME to strengthen the resilience capacities of households, markets and governance institutions across the Somali, Afar and Oromia regions, collectively contributing to enhanced food security and inclusive economic growth.

painted an overall picture of households facing severe impacts on food and economic security and dependent on a livestock market system in sharp decline.⁷

Initial plans for a COVID-19 response included a request to activate the CM to inject about \$1.2 million to reach more than 100,000 additional people with response interventions. Mercy Corps was instead advised by USAID to redirect core development funds toward COVID-19 response activities. Similarly, the CM was not activated in response to severe flooding in the Afar region and interventions to mitigate the impacts of these floods on RIPA households were also funded through redirection of core budget resources.

In developing responses to both COVID-19 and the Afar floods, the RIPA team applied lessons from PRIME and used the same market-oriented systems thinking while necessarily scaling down original plans to layer robust humanitarian activities within development programming when CM activation was not approved. The responses implemented using redirected development funds included:⁸

- **Provision of animal health services and fodder:** Building on best practice learned from the PRIME project, RIPA engaged its private sector partners in the veterinary sector to provide vouchers to nearly 3,000 flood-affected pastoral heads of household to address disease outbreaks.
- **Stimulating offtake of shoats via “smart” subsidies:** PRIME’s successful destocking approach to stimulate the livestock market in the face of falling prices and low demand was replicated under RIPA, as COVID-19 led to a collapse of livestock demand. More than 1,200 households in the Somali lowlands sold over 5,000 shoats to 15 livestock traders selected through an open bid solicitation. These traders bought more than 6,000 additional shoats without subsidy. This intervention contributed to a 10% increase in the average sale price for shoats in the targeted markets.
- **Stimulus payments for Micro, Small and Medium Enterprises (MSMEs):** MSMEs across the agricultural market system were devastated by COVID-19 lockdowns which led to movement restrictions, increased transportation costs and decreased demand for all kinds of goods and services. RIPA’s careful selection process identified MSMEs highly impacted by the pandemic and able to be maintained with a moderate investment. Some 225 enterprises in six woredas in the Somali and Oromia regions were selected to receive a one-time stimulus payment of approximately \$200 USD (8,000 Birr) – most of these businesses are still operating. Similarly, 94 businesses severely impacted by the Afar floods received financial assistance. As under PRIME, cash payments were delivered through private financial service providers rather than directly by the program.
- **Stimulating entrepreneurship for COVID-19 response:** COVID-19’s economic devastation undermined RIPA’s ability to develop diverse and sustainable economic opportunities for people transitioning out of pastoralism (TOPs). However, the team was able to recognize an opportunity within the COVID-19 response, identifying women- and youth-owned small businesses who could pivot to produce face coverings and hand-washing stations and market soap and cleaning supplies. RIPA-supported businesses produced more than 130 handwashing stations and 840 liters of liquid

⁷ Mercy Corps, “Economic Impact of Covid-19 in the Somali Region,” June 2020.

⁸ Descriptions of RIPA crisis response interventions are based on RIPA progress reports and interviews conducted in December 2020 with seven RIPA and Mercy Corps/Ethiopia senior staff members.

soap to health facilities, markets, educational institutions and government offices, and supplied more than 1,200 masks, turning these critical health needs into much-needed local economic opportunities.

- **Promoting COVID-19 prevention behaviors:** RIPA pivoted its engagement with federal and regional health authorities to support the adaptation and translation of critical Social Behavior Change and Communication (SBCC) materials. RIPA reproduced more than 17,000 materials, in addition to using TV, radio and public announcement van communications to disseminate critical information on the symptoms, transmission pathways and prevention methods of COVID-19.

Similar to PRIME's CM activities, these innovative responses were layered into development programming, providing emergency support to RIPA households while simultaneously supporting systems and institutions to manage the impacts of COVID-19. These sequenced activities thus helped prevent the collapse of the livestock market system vital to the long-term resilience of pastoral households, while leveraging RIPA's MSD approach to facilitate health supply provision through local market actors and working with local institutions to disseminate critical health information.

Redirected Funds vs. Crisis Modifier Activation

While redirected funds were vital for both COVID-19 and flood response, lack of additional funds through the CM severely limited the scale and reach of the RIPA response, while the redirection of more than \$300,000 from the core program budget has left little flexibility within budget to respond to future shocks. Nevertheless, these interventions further demonstrate the efficacy of embedding emergency response activities within development programs to minimize backsliding and positioning participant households to benefit from longer-term resilience-building efforts. This approach allowed the team to apply their technical expertise and design approaches around MSD, livelihoods diversification and SBCC to the immediate needs brought on by COVID-19 and acute flooding in Afar. Interviews with Mercy Corps and CARE staff about this process highlighted tradeoffs made, and challenges faced in the absence of CM funds:

- **Reaching geographic coverage targets is delayed:** The need to implement crisis response activities while aiming to start up originally planned development and resilience-building work under the same budget has limited the geographic reach of activities to date, with work done in 12 woredas of an overall target of 22. This delay will ultimately undermine RIPA's ability to reach its overall targets, potentially limiting the number of households who benefit.
- **Unconditional cash transfers to households were not included in the response.** Initial plans included cash transfers to support 2,000-2,500 vulnerable households, to be funded via CM activation. Some indirect financial relief for households at a smaller scale was delivered through the two market-system-based interventions: stimulus packages to enterprises and support to women- and youth-owned businesses to supply COVID-19 response materials. While these interventions helped ensure the survival of some key businesses, they likely did not help the most vulnerable households protect their assets, participate in the market and meet immediate food security needs.
- **Livestock market interventions were scaled back:** Initial plans included a broad livestock market support intervention based on the successful PRIME intervention using vouchers for access to

fodder and veterinary services, and to stimulate livestock purchases to support offtaking. Without CM funds, this package of interventions was significantly scaled back. Support to livestock offtake was given highest priority since that activity both mitigated the deterioration of the livestock market system and provided a potential injection of resources to households in the absence of cash transfers, but this was done at a smaller scale than what would have been possible with the CM.

- **Local government relationships are strained:** The planning and implementation of COVID-19 response activities took place at the same time regional agreements with local government authorities were being finalized. Local authorities, many of whom were familiar with the CM mechanism based on PRIME and were aware of the inclusion of CM funds in the RIPA budget, questioned the lack of additional funding for COVID-19 response and later in light of flooding in Afar, leading to delays in finalizing the agreements required for ongoing work in the target regions. Another failure to trigger the CM in response to a major shock will further strain relationships with the Ethiopian government, who are already questioning the CM mechanism.
- **Delays in responding to shocks:** For both COVID-19 and the Afar floods, there was a slow turnaround from onset to implementing a response. Significant time was lost awaiting a decision on activation of the CM vs. fund redirection. This delay frustrated both the RIPA team and the government, and potentially reduced the ability of response activities to minimize the impacts of those shocks.

RIPA staff are justifiably proud of the innovative and adaptive thinking they showed in identifying meaningful interventions to mitigate the worst impacts of COVID-19 and flooding in Afar within the limitations of funds redirection. As they look forward, they are deeply concerned about their ability to respond to future shocks in the absence of CM activation. Desert locusts are an immediate threat and projected impacts of La Niña include drought in the Ethiopian lowlands. These are just two potential future shocks that will require a CM-funded response to meaningfully protect development gains. Additional acute flooding or drought events over the remaining lifespan of the program are nearly certain and will require responses even if mitigated by early warning and disaster risk mitigation efforts. Thus, perhaps the greatest concern among RIPA leadership is that while creative approaches have allowed them to provide critical support in response to COVID-19 and the Afar floods, it will be impossible to respond to another crisis without severely reducing the potential development and resilience-building outcomes of RIPA, unless the CM is activated.

Recommendations

RIPA was designed based on the near certainty that the program would face multiple shocks that could undermine development gains and resilience capacities. The program's development objectives are thus based on the assumed availability and flexibility of funds for integrated shock responses to preserve the gains achieved. This paper's overarching recommendation is to prioritize the obligation of funds to activate the CM in response to future shocks. The following are suggestions to help facilitate that overall priority:

- Recognize that separate funding for crisis response activities is essential if the goal is to advance and protect development gains in crisis contexts, even when they are layered into development programs. 'Repaying' some or all of the redirected funds from the RIPA CM budget would maximize its ability to achieve its development and resilience goals.

- Clarify and streamline the CM request and approval process, including the process for responding to local government requests for support.
- As advance preparation for CM responses, develop conditional service agreements with market actors likely to have a role in future responses (modelled on the RIPA service agreements with financial services providers).
- To help speed responses, develop scenarios for responses to most likely future shocks, including anticipated interventions that could be embedded within development activities, and their costs.
- Explore possibilities to pre-identify funding sources for CM activation based on estimated response budgets for 2-3 of the most likely crisis response scenarios.

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About Mercy Corps

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