

Mercy Corps: Catalyzing Market Systems in Ethiopia

Background to Mercy Corps:

Mercy Corps is a global organization that helps people survive and get back on their feet when economies collapse, natural disaster strikes, or conflict erupts. Where there are chronic threats to peace and progress, we partner with communities to overcome obstacles and thrive. We live and work in more than 40 countries facing the world's toughest challenges. We believe in the intrinsic value of dignity of human life and are awed by human resilience. We are confident in the ability of all people to thrive, not just exist. And we operate with the assumption that people have the right to live in peaceful communities in which they participate fully in the decisions that affect their lives. A better world is possible through partnerships with communities, civil society, governments and the private sector.

Challenges:

Over the past decade, Ethiopia has exhibited strong economic growth. However, this growth has not directly translated into equitable benefits across the country's diverse population, leaving an enormous number of Ethiopians impoverished. In the lowlands of Ethiopia, roughly 83% of the people are either pastoralists or agro-pastoralists whose wealth, status, and well-being are closely linked to the quantity, quality, and productivity of their livestock. These mostly rural areas are highly dependent on seasonal rainfall and the livestock value chain which is built around the fattening and sale/re-sale of livestock in rangeland pastures. Increased irregularity of rains, population growth, and mismanagement of natural resources has placed great stresses on the environment and serves as a source of tensions. As pastoralists are challenged to support themselves, a slow but steady transition out of pure pastoralism is occurring.

Ethiopia is ranked 132 of 189 countries in the World Bank's Doing Business 2015 index. According to the World Bank, Ethiopia has one of the lowest financial inclusion rates in sub-Saharan Africa, with only 14 percent of the adult population having access to financial services, a figure that drops as low as 1 percent in rural areas. The financial sector is highly regulated and closed off to foreign investors. Domestic credit to the private sector is constrained by government requirements. Additionally, in pastoralist areas, people are seasonally mobile and dispersed, market systems are weak, and the cost of entry for financial and insurance providers is high. Where systems and institutions do exist, formal state-owned banks follow government priorities in lending to agriculture and industry. Since pastoralists and people transitioning out of pastoralism in Ethiopia are predominately Muslim and engage in micro and small enterprises, available financial products do not satisfy their livelihood and cultural needs. In this environment, it is difficult for households to secure their livelihoods, expand their businesses, and ultimately become more resilient to ever more frequent droughts and natural disasters.

Role of Mercy Corps in partnership with Somali MFI and BelCash:

Our experience shows that people are best able to strengthen their communities from within. Mercy Corps believes that its greatest impact comes from catalyzing all elements of a market while remaining outside the market system itself. With the generous support of the United States Agency for International Development, Mercy Corps is using this market facilitation approach to strengthen the systems in which vulnerable households in Ethiopia operate. The Pastoral Areas Resilience Improvement through Market Expansion (PRIME) initiative is building resilience of pastoralists, agro-pastoralists, and people transitioning-out-of-pastoralism in Ethiopia's dry-land communities.

Mercy Corps is focusing on a population that is in transition: in and out of food security, between drought cycles, and gradual movement away from pastoral livelihoods. Fragmented market systems, specifically for agricultural and livestock production inputs and support services, inhibit households from investing in better production models. Output markets are under-developed and far from producers, resulting in high transaction costs and low opportunities for value addition. Weak vertical linkages and information flows offer few opportunities for knowledge transfer and embedded services and limit the market's reach to more rural producers. Yet, demand for livestock and livestock products on the domestic and international market continue to rise. Unlocking this potential towards more equitable growth of small scale producers, requires significant investment in improved policies, systems, private and public market infrastructure. It is the combination of these challenges, combined

with the potential of great opportunities that highlighted the need for Mercy Corps to engage as a trusted market facilitator.

In partnership with Somali MFI, a local Sharia compliant microfinance organization, and BelCash, an Ethiopian subsidiary of a Dutch mobile banking company, Mercy Corps is addressing financial inclusion for the people of Somali region, in order to catalyze the market system. Interestingly, while Ethiopia as a whole and the Somali Region in particular has exceptionally limited access to financial services, mobile network coverage reaches about 60% of the region, with approximately one million people owning mobile phones. This confluence of constrained financial services and broad mobile access presented an opportunity for action.

At the time, Somali MFI was the only financial institution in the region providing financial products in compliance with the Somali population's Islamic requirements. However, Somali MFI's ability to reach clients at scale was limited by operational costs associated with serving such a vast, low population density area. Partnering with Belcash allowed Somali MFI to include mobile and agent banking technology into their delivery channels for the potential to scale. In this partnership, Mercy Corps has played the role of network facilitator, linking the financial institution to the mobile company, helping the two companies develop a partnership strategy, and supporting efforts to change national regulations. Both Somali MFI and Belcash have invested their own funds in developing this vital expansion in services.

Another transformative element of this comprehensive market development approach is the inclusion of a six million USD Innovation Investment Fund that supports medium to large scale enterprises operating within or directly benefiting pastoral areas in the Somali, Afar, and Oromia regional states. To bridge the gap in access to finance in Ethiopia, the Fund facilitates finance to growth-oriented businesses through matching grants and contracts, leveraging local capital for investments in a range of market development activities that improve market linkages, generate employment, and increase financial inclusion.

In this remote market, the likelihood of external investors moving in or businesses expanding on their own is low. Mercy Corps adapted to the situation by engaging the private sector as development partners and creating co-investment mechanisms. By "buying down" no more than 50% of the risk for businesses to expand and innovate in pastoral areas, PRIME is creating a pathway to profitability and growth for specific key value chain firms, and setting an example and incentive for other investors to crowd-in to the market.

Results and Social Impact:

The Innovation and Investment Fund of the PRIME program has allowed Mercy Corps Ethiopia's market facilitation work to dramatically scale. The Innovation and Investment Fund's activities required, and were instrumental, in key policy changes within the Ethiopia government. To date, the Innovation and Investment Fund has invested \$5 million USD in seven businesses in Ethiopia, with private sector cost share of \$24.8 million USD, or approximately 80 percent.

Similarly, to date, PRIME has provided over 11,000 households access to financial services through microfinance institutions, commercial banks, village savings and loan associations and rural savings and credit cooperatives.

By designing a market facilitation approach that partners with the private sector through shared risk, Mercy Corps is changing the face of economic development in Ethiopia. The initiative is catalyzing sustainable improvements in industry capacity, expanding supply chains, increasing sector competitiveness and strengthening the financial services industry. In Ethiopia, where private sector development has long been hindered, the future is increasingly bright for private investment and private business to truly thrive.

Keywords: market facilitation, access to finance, rural inclusion, Ethiopia

Sector: Financial services