



MAKING THE INPUT SUPPLY MARKET WORK FOR THE POOR

FULL CASE STUDY FROM THE SOMALI REGION OF ETHIOPIA

Executive Summary

The challenges of transitioning from relief programs to longer-term development interventions are felt by many development agencies. This case study explores Mercy Corps' experience and lessons learned making this transition in its Revitalizing Agricultural/Pastoral Incomes and New Markets (RAIN) program in Ethiopia's Somali Region. It traces the program's evolution from an emergency relief initiative building livelihood assets, to one of identifying and funding key services in priority value chains and, finally, to the role of a facilitator supporting market players to address systemic weaknesses constraining those value chains.

The case focuses on the livestock sector where heavy government and NGO investment in vaccination campaigns and training and equipping community animal health workers (CAHWs) had failed to deliver lasting improvement in animal health service quality or accessibility. The case describes how building multi-stakeholder consensus for value chain development plans failed to stimulate action, but highlighted the need for better understanding of the service delivery 'system' and, in particular, the capacity and incentives of all those involved. Applying a 'market systems' lens to the sector deepened program understanding and identified the nature of commercial relationships between market players as a critical bottleneck, alongside capacity and finance. The case explores how a new program strategy emerged, focused on building the capacity of private veterinary pharmacy (PVP) businesses to drive stronger linkages with product wholesalers and to recognise CAHWs as potential sales agents and means of extending business outreach.

The RAIN program journey has not been an easy one. It has challenged the perceptions and capacities of its own staff as well as those of its development partners by suggesting that the solution - as well as the power to deliver that solution - lies in the hands of (private) market players (in this case PVPs). It also exposes how previous project efforts to deliver much needed animal health services not only distorted the market, but also undermined the incentives of CAHWs, PVPs and wholesalers to offer better services. The success of agencies like Mercy Corps in adopting a more sustainable, systemic intervention model depends upon many factors. Not least amongst these is the capacity and willingness of its staff and development partners to reject distortionary, direct-delivery approaches in favour of the more challenging yet, ultimately more sustainable, market facilitative role. If this is to happen, agencies need to invest in capacity building as well as good communications.

This case study was researched and written by Roger Oakeley (The Springfield Centre) and Emma Proud (Mercy Corps). Publication date: June 2013

1. Introduction

In 2009, the United States Agency for International Development's Office of Foreign Disaster Assistance (USAID/OFDA) awarded a three year, \$17 million grant to a consortium led by Mercy Corps. The grant was designed to build the resilience of pastoralist and agro-pastoralist communities in the Somali Region of Ethiopia¹ affected by years of insecurity and recurrent drought. In a departure from the conventional approach of donors, development agencies and government initiatives in the region at that time, the *Revitalizing Agricultural/Pastoral Incomes and New Markets (RAIN)* program adopted a mid-term perspective that sought to deliver relief-based interventions while building sustainable livelihood assets and opportunities.

Figure 1: RAIN program area



This case study charts the evolution of RAIN's market-led programming. Learning from the challenges and limited success of pursuing a value chain approach that concentrated on core formal markets, RAIN moved to a systemic market development approach which identified and addressed underlying constraints in supporting markets. This refocus has achieved considerable success and provides substantial opportunities for learning, with early indicators pointing to sustainable system wide change.

This case study explores the key lessons learned by RAIN, with specific emphasis on:

- Adopting a market systems-based approach in a context that is environmentally, economically, socially and politically fragile
- Operational considerations in applying a market systems-based approach in such a context

The RAIN experience is relevant to a variety of development practitioners intervening in comparable environments and contexts, and in particular:

- Development partners in Ethiopia (donors including USAID Mission Ethiopia, government and NGOs)
- Private sector pharmaceutical entities in Ethiopia
- Mercy Corps
- Development partners working in thin market and fragile contexts
- Individual and institutional practitioners applying the Making Markets Work for the Poor (M4P) approach

2. Program context

The Somali Region represents a quarter of Ethiopia's landmass but only 6% of its population, which gives an indication of the low productivity of the land and the challenges it presents. The harsh climate, characterized by high average temperatures and scant rainfall, does not lend easily to sedentary arable agriculture. Instead, pastoralists and agro-pastoralists move with their herds to transform limited natural resources into nutritional and economic value, operating in remote areas where goods, services and infrastructure struggle to follow.

Frequent drought and conflict in the Somali Region have had negative impacts on both livelihood strategies and asset holdings.² Long-running tensions in the region between and among ethnic groups, the Ethiopian military, police and militia contribute to a challenging trade environment. For example, embargoes on

¹ RAIN also includes three adjoining districts of the Oromiya region

² Mercy Corps (2012) *From Conflict to Coping: Evidence from Southern Ethiopia on the contributions of peacekeeping to drought resilience among pastoralist groups*

commercial traffic have at times required vehicles to travel in military-protected convoys. In addition to the loss of human lives and livestock, this instability has restricted pastoralist groups' mobility, economic activities, market access and their ability to peacefully negotiate access to water, pasture and markets, all of which are key coping strategies for pastoral communities in times of drought³.

Much of the Somali Region has operated under emergency conditions for the last twenty-five years, focusing donor-funded support on delivery of key services including health and education and livelihood interventions such as borehole digging and livestock vaccination campaigns. These services, and the funds supporting them, are now perceived by the government as a crucial supplement to public services. Aid dependency, prevalent for generations, has become ingrained in the regions' socio-economic fabric, influencing the expectations of communities, government and NGO staff.

The fragility of the region has multiple dimensions. *Environmentally fragile*, it suffers from increasingly frequent cycles of drought and flooding. *Socially disparate*, conflict renders swathes of the region inaccessible, with ramifications for the freedom of movement of people, livestock and trade. Cultural boundaries, prejudices and limited trust between the pastoralist lowlands and Ethiopian highlands are ingrained, restricting the flow of trade and stifling investment and innovation. *Economically weak*, the confluence of the latter two issues has resulted in widespread distribution of aid which has substituted public funding, distorted market supply and demand, propagated informal trade practices and has further complicated the relationship between regional and federal authorities. *Politically unstable*, formal government and public institutions are weak. Marginally represented in the federal government, the region's budgets are under-funded yet under-spent and many areas remain marginalized in terms of social services and infrastructure. Coordination between bureaus is weak and technical capacity is low. Local government suffers regularly shifting political boundaries and a high staff turnover. Local governance is further complicated by the complex relationship between customary clan and formal institutions. Government policies have blocked flows of goods and commodities and the actions of government agents (for example, confiscating goods from traders) have undermined communities' trust.

3. RAIN's journey toward a more effective approach

3.1. Evolution of program strategy

From 'relief' to 'development'

Conceived and commissioned in 2009, the RAIN program set out to better manage the transition between relief and more long-term development aspirations. Its aim was *"increasing households' resilience to shocks, helping to break the cycle of diminishing assets and humanitarian decline, and reducing the need for future relief based activities"*⁴. The program advocated use of a value chain-approach to protect household assets, diversify asset bases and develop market linkages to underpin economic growth and development.

The Mercy Corps proposal was heavy with interventions, almost a manual of current development thinking, with two components spanning the humanitarian-development continuum. The *'Agriculture and Food Security'* component promised early warning systems, livestock vaccination campaigns, cash for work, input distribution, technical training and start-up capital to maintain key services and deliver immediate, albeit temporary, respite from drought, livestock disease outbreaks, unemployment and input shortages.

Longer-term growth and development goals were addressed in the second *'Economic Recovery and Market Systems'* component. This aimed to develop high potential⁵ value chains (groundnuts, livestock [live animals, hides/skins, milk/milk products], fruit and vegetables) through improved linkages, market information,

³ Catley and Iyasu (2010), Devereux (2006) cited in Mercy Corps (2012) op cit

⁴ OFDA Annual Program Statement

⁵ Defined as sectors with the greatest potential for increasing incomes and generating economic growth

financial services and grants. Large workshops brought together value chain actors, government line bureaus, university representatives and research institutes to present and discuss assessment findings, build linkages between stakeholders and develop work plans for each value chain.

The sector work plans that emerged concentrated on strengthening the position of the poor within each value chain: building the capacity of the poor by forming producer groups, providing grants and training (business and technical), linking them to potential buyers and negotiating prices and collection terms on their behalf. Yet despite apparent consensus over these work plans, including the allocation of tasks during each workshop, it was soon apparent that little stakeholder action followed and no tangible change in these value chains could be seen.

Moving from 'development' to 'sustainable development'

During program design, both the donor and Mercy Corps had recognised that 'market based' thinking was required to build and sustain the assets and resilience of pastoralists. It was assumed that a 'value chain' approach provided the answer and methodology to connect pastoralists to commercial markets, boost productivity and, therefore, increase their livelihood assets and resilience. One year on, and with limited success, the RAIN team, guided by a new Chief of Party, recognized that its focus on core transactions in each value chain was neither changing the way in which those markets functioned nor benefitting pastoralists.

In particular, workshop consensus had not addressed stakeholders' capacity or incentives to undertake the actions they had committed to. Perhaps inevitably, therefore, RAIN had reverted to the familiar territory of acting for them, procuring and distributing inputs such as fodder seeds, irrigation pumps and micro-finance and providing services such as trade negotiation and market information collation and dissemination. In what turned out to be a critical juncture for the program, the team paused to re-evaluate each intervention and identify how their value chain development goals might be more effectively and sustainably realised.

In consultation with USAID/OFDA, the RAIN management team initiated a shift in program strategy in attempt to effect more lasting change within each value chain. Firstly, to trace the root causes of value chain under-performance, RAIN revisited its analyses to better understand the wider systems and functions around the value chains. Secondly, the program and its partners (implementing partners and government) had to re-assess their relationships with market players to better understand and support their capacities, motivation and incentives for change.

The progress review identified weak input supply as a key constraint across multiple markets⁶ and RAIN set out to deepen and sharpen analysis to understand the factors undermining the sector's effectiveness. This process proved difficult. The early analysis was indicative of the adage that you see what you are looking for. Guided by the terms of reference and the organisation's expertise in value chain analysis, an assessment by sub-grantee SNV did not explore the wider actors and system around the input supply chain, nor the incentives and capacities of key stakeholders (particularly the private sector) to change and improve practices. A further assessment by field teams, most familiar with public or donor funded input provision, focused on the services they were familiar with and produced a catalogue of the inputs used by agro-pastoralists (solely agricultural) and the district government offices and government managed cooperative offices where they could be purchased.

The in-coming Deputy Chief of Party recognised the need for better market analysis. Subsequent research revealed a diverse and active array of service providers from importers and wholesalers in Addis Ababa and regional capitals to a patchwork of small unregistered vendors in woreda (district) towns. It enabled RAIN to better understand how and why both private and public service providers operated as they did and, crucially,

⁶ Other common constraints were identified and pursued further including, for example, financial services

the underlying reasons why they were not responding to address those constraints and opportunities in the market.

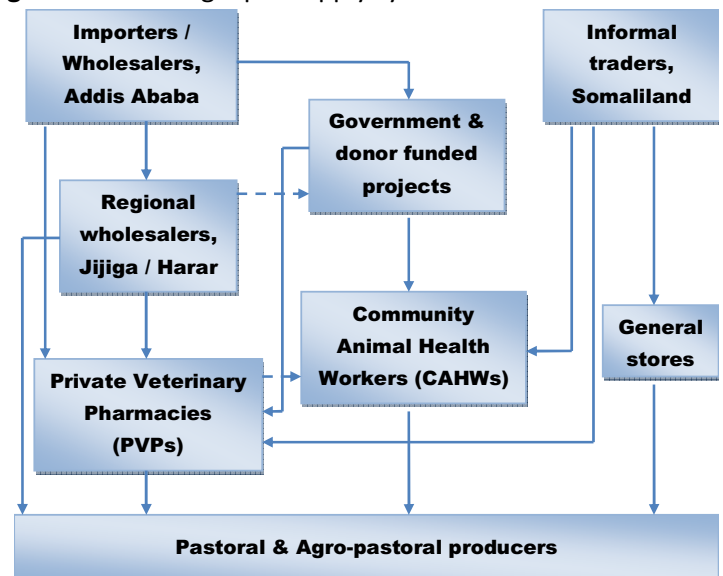
Mercy Corps’ shift in strategy also involved revisiting the intervention strategy agreed with both implementing and regional government partners and, in particular, the ramifications of facilitating change in ‘systems’ outside the core value chains originally identified. While it deepened analysis and convinced partners of the value of the new approach, RAIN suspended some of the direct delivery interventions led by partners including Save the Children UK. RAIN met with significant resistance, however, from partner management, their field teams and, ultimately, regional government stakeholders sceptical and misinformed about both the programmatic pause and the transition to a more facilitative approach. The approach, in particular, was viewed with concern. Mercy Corps’ revised strategy was criticized as *“a sheer wastage of valuable funds that could otherwise be used to make much quicker and tangible impact”* and was recommended to *“focus on concrete activities [such as goods, services and communal assets, where] goods include drugs, equipment, cash etc; services include vaccination, treatment, soil and water conservation activities etc; communal assets include roads, Birkads⁷, water points, livestock markets, range lands etc.”⁸*

Inevitably, expediency required compromise and Mercy Corps’ management team sought one that would meet the ‘quick and tangible impact’ expectations of government, whilst offering operational ‘space’ to pursue a more systemic and facilitative strategy that could deliver better and more sustainable results. Its solution was to assign a proportion of the team to cede immediate service and asset delivery commitments in order that other project team members would be allowed to engage in activities targeting longer-term market system development. The agricultural input supply market system (including animal health pharmaceuticals and services) was identified as an important space to focus these resources, being recognized as a key interconnected market, whose constraints stunted the productivity and market potential of multiple sectors. While Mercy Corps’ market development work straddled inputs for a variety of sectors, for the sake of focus this case study concentrates on the animal health input supply system - a priority market system for pastoralists in Somali Region.

3.2. Understanding the animal health inputs market system in Somali region

The pastoralist system in the Somali Region relies on a low-input, low-output model to negate risk. The transhumant production system presents unique challenges for organising and delivering goods and services, which results in commensurately high transaction costs. But is the stereotype of weak demand and thin supply an accurate one? With the space to investigate the animal health inputs market more thoroughly, RAIN set out to better understand and map the real dynamics of input supply and demand, and the key players and relationships involved. Figure 2 describes the input supply system the program found.

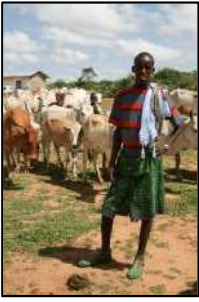
Figure 2: Prevailing input supply system



⁷ Cement lined rainwater catchments

⁸ From the Regional Government’s mid-term review of the RAIN project, September 2010

Pastoral & Agro-pastoral producers



Traditionally, pastoralists such as those in the Somali region had few options but to diagnose and treat animals themselves, often with traditional practices of varying efficacy. As professional animal health services and products have become more readily available, they are increasingly used (and administered) by pastoralists, whose greatest animal health expenditure is on pharmaceutical products. Pastoralists are discerning customers with a rational aversion to risking livestock health on unproven or unfamiliar veterinary services. Pastoralists' demand is, therefore, less constrained by their willingness or ability to pay than by varying degrees of information about, or trust in, service options and efficacy. Whilst understanding of animal disease, treatment options and quality, and the value of modern drugs, care and husbandry techniques is growing, it remains uneven. Asymmetric information underlies significant difference between communities' perception and usage and perception of different service providers. Many pastoralists, for example, still regard community animal health workers (CAHWs) as government officials whose services should be free – a perception reinforced by continued subsidization of their services by donor programs. For many of the more remote pastoralists, demand is also tempered by the limited availability of goods and services and high transaction costs resulting from poor roads and limited transport services⁹.

Government & donor funded projects

Public sector provision of both clinical and pharmaceutical animal health service, often confined to woreda centers, remains limited in both outreach and consistency. In the five operational woredas for input supply¹⁰ 3 government veterinary clinics and 94 animal health posts cover a population of 819,153 people and 2,074,716 livestock. Moreover, these resources are themselves under-resourced with modest staff remuneration, sporadic pharmaceutical supplies and little, if any, transport and thus outreach capability. In light of resource constraints, public services target a range of clinical services (common surgical procedures, laboratory services etc.) on a full cost-recovery basis, and seasonal and *ad hoc* preventive vaccination programs provided free of charge or on a cost-share basis, supported by donor or non-governmental (NGO) partners.

Federal government has established a robust regulatory framework for animal health service providers and products although not all regulations are actively enforced by the Somali Region government. The degree of autonomy enjoyed in the region has, however, provided a conducive enabling environment for the CAHW model and the proliferation of PVPs and satellite shops, as well as unregulated trade with Somaliland.

Community Animal Health Workers (CAHWs)



Government, with its donor partners, has long recognised the limits of public service delivery and has been promoting a more mobile, community-based service model for over two decades. It is estimated that in the five operational woredas some 295 CAHWs have been trained and equipped by a range of NGO, bi-lateral and multi-lateral donor programs across the region. This support is an important supplement to public provision and represents 1 CAHW per 7,000 head of livestock. The variability of selection processes, training quality and support mechanisms has led to significant variation in service quality, sustainability and outreach. Consequently, the work of many CAHWs remains focused on

periodic government/donor sponsored vaccination and other animal health campaigns¹¹. Nonetheless, a number of CAHWs can be found working independently providing both advisory and pharmaceutical sales services to their own and neighbouring communities.

¹⁰ Awbare, Gursum, Kebribayah, Degehabur and Jijiga woredas (districts)

¹¹ Irregular NGO campaigns may provide non-vaccine treatments free of charge, often through CAHWs

Private Veterinary Pharmacies (PVP)



The dominant source of veterinary pharmaceutical supplies in the region is private veterinary pharmacies (PVP). Approximately 14 PVPs (1 per 148,194 head of livestock) operated in the program area at inception. Some were established by donor funded programs which also provided free or subsidized inventory and/or training. PVP owners are licensed holders of diploma or above qualifications in animal health / pharmaceuticals, although some are manned by non-qualified sales people, and as a result the level (and quality) of advisory services varies from shop to shop. The main clients of PVPs are producers and CAHWs. The latter buy high-demand products in bulk and/or on credit for selling on to producers in more remote locations.

Wholesalers and importers



The regulated pharmaceutical market is supplied by four¹² import and wholesale operators based in Addis Ababa. Supplies of both branded and generic products are sourced from Europe, South Africa, China and India. No products are manufactured in Ethiopia. A large PVP in the Jijiga, the Somali Region capital, operates as a (non-registered) regional wholesaler selling to PVPs in the region, with direct and well-established links to all wholesalers in Addis Ababa.

Informal traders, Somaliland



Proximity to Somaliland and its liberal regulatory environment for veterinary pharmaceuticals has fuelled an active market for contraband goods. This unregulated market supplies pharmaceuticals either unavailable or illegal in Ethiopia¹³ as well as popular generic products at cheaper prices. Many products are sold at general stores with no supporting advisory services, but can also be found in licensed PVPs.

3.3. A vision for a more sustainable future

Over time the RAIN team built an increasingly sophisticated understanding of the inputs system and its potential. RAIN identified two main constraints limiting livestock health and productivity in the Somali region: **poor availability of quality pharmaceuticals** and the **limited outreach of animal health services**. Underlying these constraints were three immediate causes of system underperformance:

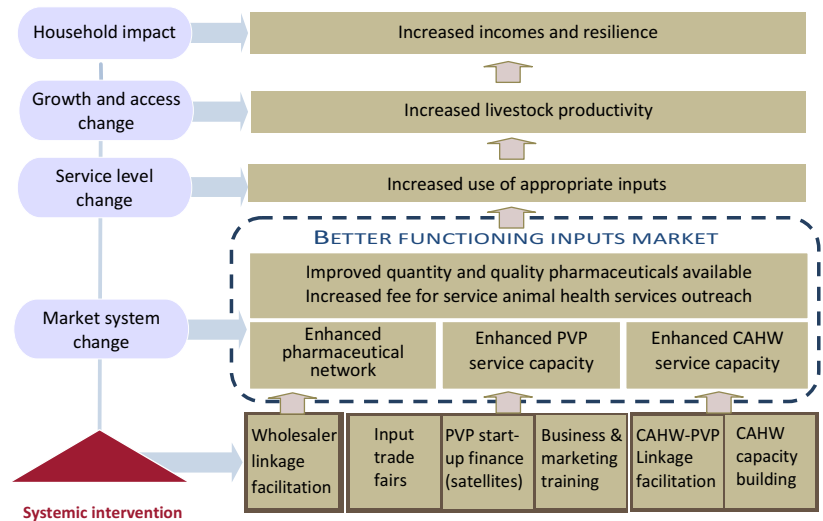
- i. **Weak pharmaceutical distribution network:** Limited access to supply of quality pharmaceuticals enabled the informal market to flourish. Causes included weak linkages between national wholesalers, regional wholesalers and PVPs.
- ii. **Limited service outreach of PVPs:** Services limited largely to urban/peri-urban centres. Causes included low commercial incentives for PVPs to invest in expansion and limitations in the prevailing operating model of most PVPs.
- iii. **Limited scope of CAHW services:** Patchy coverage of active CAHWs, majority relying solely on income from administration of government vaccination campaigns. Causes included weak linkages between CAHWs and PVPs, poor business models and/or acumen of many CAHWs and market distortion by donor funded support.

¹² Impending changes to licensing procedures is expected to increase the number of importers and national wholesale operators. CEO Tropical Pharma, personal communication

¹³ Such as pharmaceuticals in suspension (liquid) forms, which are easier to administer but more difficult to ensure the correct dosage

Their vision for a more sustainable inputs market, and the theory of change underpinning it, is illustrated in Figure 3¹⁴. RAIN recognised that overcoming these constraints could benefit large numbers of poor pastoral and agro-pastoral households. RAIN’s hypothesis was that “assisting private sector actors to develop markets for critical inputs” would stimulate systemic change to sustainably “enhance production quantity, quality and timeliness – that is responsive to output market demand”¹⁵.

Figure 3: RAIN’s ‘Theory of Change’



The mainstay of RAIN’s strategy was to strengthen the delivery of inputs through the wholesaler-PVP-CAHW supply chain. This was to be achieved by providing business and marketing skills training, facilitating retail network strengthening, and co-investing with PVPs in their expansion. Building up-stream and down-stream system capacity was critical to ensure that the services offered by regional and national wholesalers and CAHW outreach potential could be harnessed to justify PVP investment. RAIN’s theory of change determined that improved service outreach and linkages to more reliable drug supplies would enable latent demand for such services to be met and improve the health and productivity of pastoralists’ livestock and the net income and resilience of pastoralist households.

3.4. Intervention process

Partner identification

RAIN’s analysis evidenced the pivotal role of PVPs within the animal health inputs system. PVPs are the conduit between the pharmaceutical wholesale network and the Somali Region - their distribution networks are critical in ensuring quality pharmaceuticals and knowledge reach livestock owners.

PVPs were identified as a key entry point for leveraging changes to the accessibility and quality of pharmaceuticals in the Somali region. The assessment provided a non-exhaustive list of PVPs and basic business information, operating in the area. In developing its ‘offer’ RAIN proposed to support PVPs to develop business linkages; better research and develop their markets; expand the range of products and services; and upgrade their regulatory and technical performance¹⁶. The offer was extended to all PVPs identified by the assessment and a process of self-selection identified those willing to commit their time and an increasing share of required resources to invest in up-grading.

Whilst PVPs were the primary partners identified, RAIN engaged other market actors in parallel to address other system constraints. These included wholesalers at regional and national level to improve the pharmaceutical supply chain, and existing and new CAHWs to improve the outreach of animal health services, including pharmaceuticals.

¹⁴RAIN did not articulate a theory of change. This diagram represents the authors’ understanding of the program’s thinking.

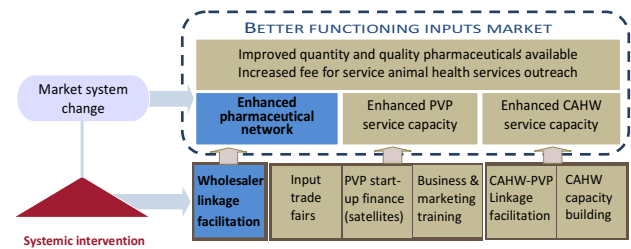
¹⁵ RAIN ‘ISVC implementation strategy’ presentation

¹⁶ ‘The RAIN offer to actors in the inputs supply value chains’ December 2010

Enhanced pharmaceutical distribution network

Wholesaler linkage facilitation

RAIN's first priority was to strengthen vertical linkages in the pharmaceutical supply chain to expedite the flow of quality goods and information. The aim was to improve the quantity and quality of drugs available in the Somali region, substituting inconsistent and/or contraband supplies for reliable and regulated supplies from Addis Ababa. RAIN brought together a disparate and hitherto largely unconnected group of PVPs, wholesalers and importers, and government actors for a workshop in Addis Ababa.

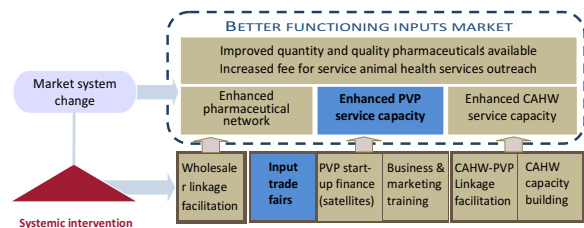


The workshop was designed to expose PVPs to the wide range of products available; provide an opportunity for both private and public stakeholders to build relationships; and to increase basic market awareness and skills among participants. The workshop achieved significant results. PVPs forged connections both within and between regions as well as levels of their supply chain, breaking down cultural boundaries and improving the flow of information. The workshop proved an important advocacy tool, as government partners were surprised and impressed by both the range of available goods and the commitment and interest of the PVPs to make these available in remote areas – a goal shared by the government.

Enhanced PVP service capacity

Input trade fairs

The program anticipated that the national workshop would be a necessary but not sufficient stimulus to build linkages. While PVPs were enthusiastic about new products and connections in Addis Ababa, RAIN predicted they may be slow to invest to bring new products to untested markets, or experiment with unproven marketing techniques. RAIN organized a series of input trade fairs¹⁷ to 'buy down' this investment risk and provide an opportunity for PVPs and regional 'wholesalers' to undertake informal market research.



The first fair included a subsidized discount of 33% on all products, up to a maximum of USD 1,000 per PVP, paid to PVPs directly on presentation of receipts. The subsidy aimed to incentivise PVPs' participation and to explore the marketing implications of product discounting. While the financial incentive succeeded in encouraging participation¹⁸, it had unanticipated consequences. The RAIN team had to negotiate strongly with internal stakeholders (Mercy Corps' internal finance department) to agree on the strategy of subsidizing commercial traders. The program struggled with the administrative burden of monitoring sales to account for traded volumes and discount obligations. More importantly, the logistics required to monitor vendor activity proved substantial and contrary to the original intent for RAIN to maintain a low profile at the event.

Most significantly, while the discount system generated sales, poor marketing by participating PVPs distorted clients' perceptions of the true price of products and PVPs' use of the event itself. PVPs were encouraged to advertise the non-subsidised price, but many clients were disappointed when they bought goods from the same vendor after the event. In turn, the overwhelming market response made it difficult for PVPs to discern whether increased demand at the fair was a response to the product or the discounted price. Finally, the

¹⁷ In total, the PVPs participated in four trade fairs and three district level mini-fairs

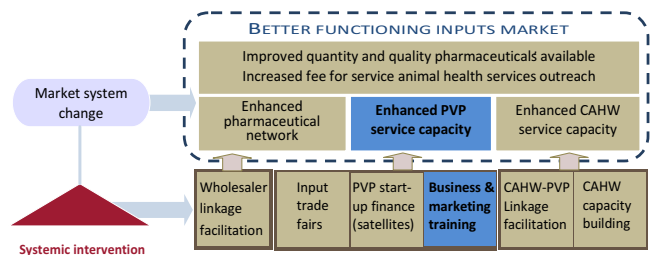
¹⁸ Nine PVPs participated in the fairs that provided a subsidized discount and one ceased when the discount was removed

provision of a cash incentive was seen by some PVPs as an opportunity to make a quick profit, rather than learning about key market characteristics, marketing techniques or strategies for later business use.¹⁹

A second round of fairs saw the discount subsidy replaced with a fixed USD 200 transportation stipend complemented by prizes for overall sales performance and marketing innovation ranked by fellow PVP vendors²⁰, government and Mercy Corps. Innovation was assessed by evaluating performance in terms of: new products or technologies brought to the fair that match customers' demands, use of market development techniques such as discounts and promotion and provision of embedded services such as knowledge sharing or transportation to customers. As expected, lower financial incentives had the benefit of reducing the number of participating PVPs, whittling down participants to those committed to business expansion²¹. The remaining PVPs made strides in their marketing techniques, offering discounts they could afford, evaluating the benefit of smaller margins and greater turnovers, experimenting with new products and creating promotional and informative materials.

Business and marketing training

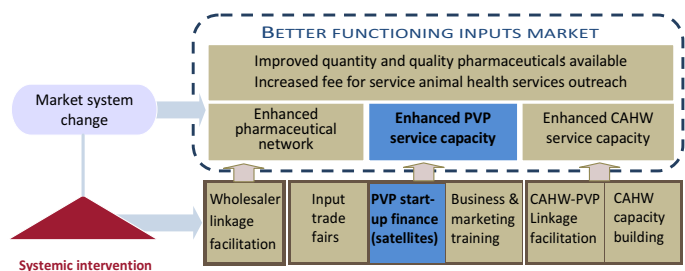
PVPs credit the trade fairs with exposing them to the value of marketing techniques as well as the high customer demand and limited competition in other geographic areas. Their ability to continue to meet that demand, however, remained constrained by the prevailing business model of single premise/storefront pharmacies based in larger urban centres selling to walk-in customers only. RAIN's vision of viable PVP businesses expanding into new markets would require a new way of working and, inevitably, a new set of skills for many.



To improve existing PVPs' business offering, strengthen vertical linkages and showcase the utility and importance of embedded services RAIN developed a capacity building program that aimed to provide key skills including drug administration and handling and warehouse management. To strengthen the relevance and sustainability of training, RAIN supported the regional wholesalers to deliver the training to PVPs. The aim was to establish and consolidate linkages between regional wholesalers and PVPs as well as encourage embedded training and information service development.

PVP start-up and finance

RAIN recognised that skills alone would not guarantee a step-change in the way in which PVPs were operating. The program acknowledged that the reach of existing PVPs would continue to under-serve the customer base without significant expansion in numbers and/or business outreach. RAIN initiated one-to-one business coaching (provided directly by the RAIN input supply value chain officer) to support those PVPs willing to invest in business expansion to develop business plans. Whilst most were able to identify expansion potential in neighbouring areas and identify premises to rent, RAIN found a key bottleneck to be the lack of investment capital to fit out new premises and hire appropriately qualified managers. RAIN developed a cost-share model to encourage PVPs to open a satellite



¹⁹ Some PVPs sold to one another in order to gain the maximum subsidy

²⁰ The two regional wholesalers were excluded from the second round of fairs to avoid undermining the business of those PVPs sourcing from them

²¹ The second round of fairs were attended by eight PVPs

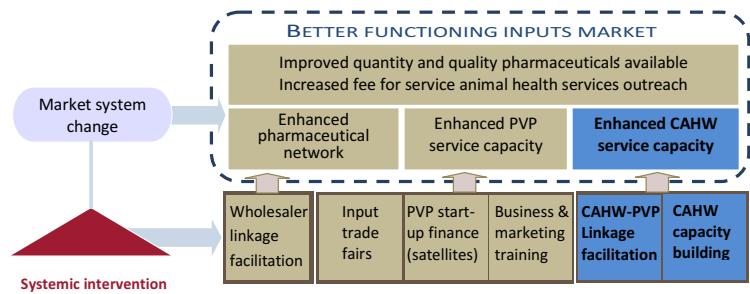
store offering vendors the equivalent of \$1,500 (representing, on average, 37% of anticipated overhead costs) toward the cost of shelving, transportation and five months of employee salary²². Participating PVPs received the full program contribution only once they had opened the new satellite store.

RAIN did not provide guidance or requirements for the satellite stores, so PVP operators retained decision-making on all aspects of satellite development from basic location to operational considerations including store fitting, manager selection and employment. Notably a range of employment models have emerged involving staff with either animal health (CAHW) or sales expertise. Employment arrangements range from a flat salary to payment on a commission or profit-share basis.

Enhanced CAHW service capacity

CAHW-PVP linkage facilitation and CAHW capacity building

The market analysis identified that CAHWs with commercial, albeit informal, business relationships with PVPs could significantly improve animal health outreach. This commercially-oriented linkage was seen as a critical, but often missing, factor in service outreach and sustainability. For many years donors and NGOs, including Mercy Corps, had



been trying to strengthen communities’ use of CAHWs’ services and links between CAHWs and PVPs. Common strategies involved whole or partial subsidies i.e. vouchers and/or direct allowance payments. Consequently, many CAHW-PVP linkages lasted only as long as subsidies supported them. Subsidies, therefore, undermined the sustainability of PVP businesses and critically influenced the perception of CAHW services being free or discounted.

RAIN sought to identify a group of CAHWs willing to invest in their skills enhancement and kit replenishment with the aim of building a sustainable model for CAHW training. RAIN’s Mid-Term Review, however, re-asserted government expectations of free support and forced a strategic re-think. In order to ensure that training strengthened linkages rather than undermined PVP business, PVPs were invited to participate in the refresher training, providing valuable information while updating their own skills and fostering relationships with trainees. PVPs were also offered the opportunity to attend mini-trade fairs at the training sites, so CAHWs could source their refresher kits (drugs and equipment) from the provider of their choice²³.

The new CAHW training model has been rolled out for 162 CAHWs, 128 of whom have taken advantage of the opportunity to establish direct business links with one or more PVPs. This predominantly informal agent relationship is enabling CAHWs to access pharmaceutical supplies at discount prices for on-sale to more remote producer groups. Since RAIN’s intervention the number of agents and the volume and perceived value of embedded services (such as credit, information and advice) has increased notably.

²² RAIN was concurrently supporting the Somali region government to open a microfinance institution (MFI) to address the lack of appropriate credit available in the area, but this was not yet functioning so could not provide vendors access to finance

²³ Mercy Corps’ mandate from the Somali region still required RAIN to pay for those kits.

4. System impact – the story so far

RAIN's intervention in the animal health inputs sector is little more than 18 months old. Consequently, it is to be expected that some service and system level impacts are only beginning to be realized and many more may yet emerge. Significantly, it is too early to expect enterprise and household level impacts resulting from service growth or access to be measurable. Nevertheless, the following section explores some of the results that are being seen and what these may mean for income levels in beneficiary pastoralist and agro-pastoralist households.

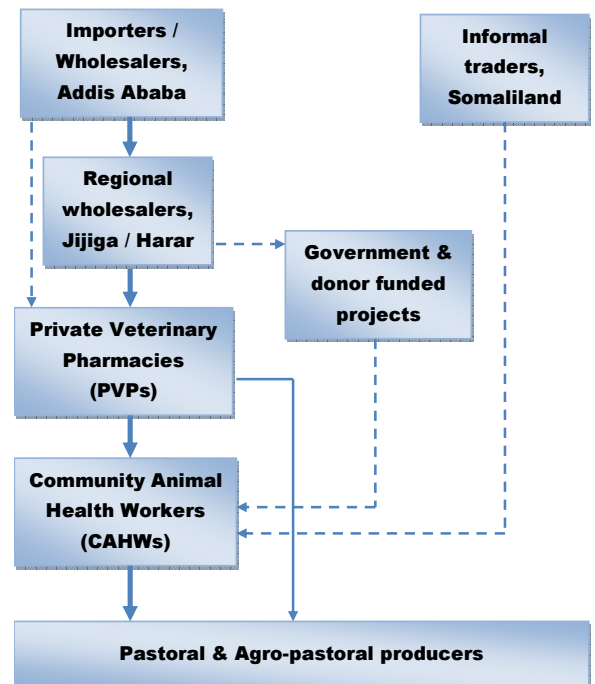
Enhanced pharmaceutical distribution network

Stronger commercial linkages between wholesalers at regional and national levels have developed, underpinned by an array of communications, finance and logistical services, pricing discounts and 'sole trader'²⁴ arrangements. Tropical Pharma, the prime national wholesaler selling to the Somali region reported that product sales to the region have increased by around 70% since RAIN's Addis Ababa workshop. This has translated into significant increase in trade volumes with, for example, the Jijiga regional wholesaler increasing his monthly sales more than eight fold²⁵ over the last two years²⁶. These significant figures can be attributed to increased demand from PVPs in the Somali region. Having identified viable, reliable new supply chains, almost three times the number of PVPs now purchase pharmaceuticals from the Jijiga regional supplier (eight, an increase of five in the last two years). Indeed, increased demand has seen the emergence of a new hierarchy of PVPs, with a number of PVPs buying from their strongest local counterparts (nine, an increase of four in the last two years), and these budding 'local wholesalers' extending their supply chain to Addis Ababa. Since Mercy Corps arranged the workshop in Addis Ababa, Tropical Pharma now has six customers in the Somali region, where two years ago they had one²⁷.

This evidence points to a burgeoning pharmaceutical distribution network, where the accessibility and volume of pharmaceutical sales has greatly increased. The more reliable distribution networks have enabled PVPs to increasingly substitute contraband pharmaceutical products from Somaliland for legal products from within Ethiopia. The proportion of pharmaceuticals reported by PVPs to be sourced from Somaliland has fallen from 29% to 18%.

The sector has seen rapid innovation in embedded services provided by wholesalers, many of which are being passed onto PVPs and subsequently to CAHWs. Regular information flows on new and existing products, their usage and feedback on customer preferences have become commonplace between national wholesalers, regional wholesale and PVPs (while two years ago only 43% of PVPs received any information, 93% now

Figure 4: A better functioning input supply 'system'



²⁴ Tropical Pharma has established 'Sole Trader' arrangements with the 2 primary regional wholesale operators in Jijiga and Harar.

²⁵ From 10,000 birr/month to 84,000 birr/month

²⁶ Unless otherwise indicated, all statistics refer to change over the 2-year period 2010 to 2012 as recalled and reported by surveyed CAHWs (n=19, 23% of RAIN supported to CAHWs) and PVPs (n=14, 100% of RAIN supported PVPs) in the RAIN program area.

²⁷ From interview with Tropical Pharma

receive it sometimes or always). More than twice the number of PVPs can now access credit from wholesalers (nine, while two years ago only four had this opportunity) and three times as many PVPs are provided support with transportation (nine, up from three). Credit lines, telephone ordering facilities and transport services facilitate timely bulk orders and reduce transaction costs.

Enhanced PVP service capacity

Significant change is observable in operating models of PVPs and their level of activity in the program area. RAIN-supported PVPs have become increasingly market-aware, identifying and regularly communicating with active CAHWs to increase sales outreach to remote communities. PVPs now offer price discounts and credit to trusted and regular CAHW clients, and promotions and greater information and advisory support to customers and CAHWs. Interviews with PVPs revealed that for many the bulk of their business has shifted to CAHWs, who now account for 60% of their business, with the community accounting for the remainder. Two years ago, this situation was reversed.

In adopting a market-systems oriented approach to its interventions, a key aim for RAIN was to extend the accessibility of quality animal health inputs both through a combination of existing and new service providers. Early indications suggest significant advance in the 'access frontier' in the Somali region, particularly of pharmaceutical services and products. With RAIN support, seven PVPs have established satellite retail outlets in under-served kebeles enabling them to access wider client and CAHW networks and secure further economies of scale from suppliers. A variety of salaried and commission-based arrangements have evolved around these satellites with many, but not all, managed by trained CAHWs. Many of these PVPs work closely with CAHW networks in order to reach more remote clients. The number of woredas into which PVPs sell has increased by from sixteen to twenty seven (69%). The satellite model promoted under RAIN has been an important stimulus within the system. Since 2010 a further sixteen PVPs not supported directly by RAIN have opened businesses in new locations.

Enhanced CAHW service capacity

Both the level and type of activities of CAHWs in the program area has increased significantly. Average income levels from pharmaceutical sales since 2010 have increased by 16%²⁸ and from non-pharmaceutical services by 28%, suggesting that pastoralists are increasingly valuing and willing to pay for CAHWs services, even when purchasing products directly. The frequency of drug replenishment amongst beneficiary CAHWs has doubled (increasing from once to twice a month), suggesting a concurrent doubling of customer demand. Outreach has also increased significantly with the average number of producers served per month increasing from 167 to 309 (85%).

There are strong signs of increasing strength and robustness of service amongst those CAHWs supported by RAIN and linked to PVPs. Anecdotal evidence suggests those CAHWs without links to PVPs have seen business stagnate or decline in recent years as sponsored vaccination campaigns have become more sporadic. PVP-linked CAHWs, however, have seen increasing demand supported by embedded services (such as transport and credit) from PVPs, which reduce transaction costs and enable them to serve communities more effectively and efficiently. Two years ago, none of the CAHWs surveyed were provided assistance with transportation, while now half receive some support. CAHWs linked to PVPs now have more ready access to information and can inform their supplier about their requirements (two years ago, none of the CAHWs got information from PVPs, now 80% are always/sometimes provided with information)²⁹.

²⁸

²⁹ This leap also corresponds with increased mobile phone network coverage in the operational area

Closer PVP linkages and improved CAHWs' service has had notable impact on prices as well as demand. While CAHWs have seen customer numbers and sales levels increase substantially (as noted above), the average customer expenditure on goods and services has actually fallen by, on average, a remarkable 36%³⁰. This suggests that the economy of scale reached by CAHWs and PVPs is resulting in reduced prices for pharmaceutical and service provision, which results in more accessible health services for rural customers.

Increased pastoralist/agro-pastoralist livestock productivity

RAIN's interventions in the input service market have been ongoing only since 2010. Whilst system and service level changes are observable, it remains too early to demonstrate with confidence the impacts on herd productivity, household net incomes or resilience. Indeed RAIN's results measurement plan for inputs market interventions does not currently include household level impact indicators so a definitive baseline dataset is not available. Nevertheless, RAIN can draw upon a number of other observable indicators that can be used to approximate impact.

Focus group discussions confirmed increasing awareness of animal health services and use of PVPs amongst producers. Importantly, producers acknowledged the significant improvement in reliability and quality of supply as a result of more active PVPs. The shift in demand from pharmaceuticals sourced from Somaliland to the higher quality but also higher priced products sourced from Ethiopia suggests increased awareness of benefits, cost-effectiveness and 'willingness to pay'. The increased utilisation of animal health services in the region (as demonstrated by the increase in CAHWs' customer numbers) is testament to the quality and effectiveness of PVP and CAHW services. Producers noted improved productivity (both in terms of milk production volumes and the number of furrows ploughed by draught animals) as well as decreased mortality, which they attribute to their increased investment in animal health inputs.

5. Facilitating further development in the animal health inputs market

Building on RAIN's experience, the following section identifies opportunities to strengthen the market, to better target interventions, consolidate strategies and gather the evidence toward a more sustainable service sector for Somali Region pastoralists and agro-pastoralists.

Ensuring the buy-in of development partners

Government and donor-sponsored distribution of free or subsidized animal health services and products persists throughout the Somali Region (through government infrastructure, CAHWs and PVPs) and the political imperative to maintain those services remains. RAIN has exposed that such interventions have a distorting effect, undermining pastoralists' proven willingness to pay, threatening the viability of existing and emerging retail businesses and inhibiting private sector investment.

The program experience provides a stark reminder of the importance of building ownership and support for change amongst partners and staff who may remain wedded to traditional, delivery-based approaches. This requires active awareness raising and advocacy, underpinned by a clear strategic and operational vision that can be readily communicated by management and field staff alike.

³⁰ Adjusted for inflation

Building internal capacity

The RAIN program has made a significant and ambitious break from the conventional programming familiar to most in the Somali Region. In doing so it has challenged its own staff, their skill sets and the operational tools they employ. This experience has identified key institutional investments required to support wider adoption of a market-systems oriented intervention approach. The capacity of Mercy Corps and its partners to embed this new approach will be a function of ongoing investment in 4 key areas:

- i) Skills development within the core implementation team(s) to raise awareness of and commitment to the concept and practices of a facilitative approach to intervention and to support communications with key development partners
- ii) Leadership that, informed by experience from the field, can provide ongoing and consistent hands-on guidance, mentorship and challenge to field staff based on a clearly defined and shared strategic vision
- iii) Robust results-based monitoring and evaluation that facilitates ongoing review, reflection and adjustment of market interventions in light of impact performance and market dynamics
- iv) Development and application of core tools to support intervention design, implementation and measurement including appropriate systems analysis, diagnostic framework and results chains supported by comprehensive intervention plans

Aligning market capacities and incentives

The experience of RAIN in the animal health inputs market highlights the pivotal role of the PVP-CAHW nexus in creating a viable, scalable and sustainable service system. The project has demonstrated the mutual dependence between PVPs and CAHWs: the former depend on the latter for outreach, whilst the viability of the CAHW model depends on effective links with reliable pharmaceutical supplies and information flows. The viability of this model is dependent on three factors:

- i) The relationship between CAHWs and a PVP is a commercial one whereby both parties recognise the financial incentives for cooperating to expand service outreach
- ii) CAHWs have the appropriate skills, including business skills, and training that will ensure a sufficient level of service quality and entrepreneurship to maintain demand for their services
- iii) CAHWs are selected and encouraged to target communities in areas of unmet demand (at a distance from PVPs).

Moving beyond 'proof of concept'

RAIN has had notable impact enhancing the scale and outreach of those PVPs with which it has worked and there are signs already of new PVPs and satellite shops crowding-in. The symbiotic relationship between PVP and CAHWs, critical to impact at scale, is dependent upon the willingness of the development community in Somali Region to leverage the significant investment already made in the CAHW network by promoting, and embedding in any future investments, commercial linkages with PVPs. Indeed, one of the greatest threats to the continued expansion of animal health goods and services is the sporadic and unpredictable provision of free inputs by various donor-supported initiatives.

6. Key lessons of developing market systems in fragile environments

Markets in fragile environments – thin or just distorted?

The relief-oriented context in places like Somali Region bring with it a plethora of assumptions about communities' needs and their ability and willingness to engage in markets. The RAIN experience has highlighted that even when environmental, economic, political and social conditions are strained, the market system is dynamic and responsive to incentives and opportunities. Once key bottlenecks in supply distribution and outreach have been addressed, even in the most complex environments an active private sector is willing and able to extend its 'access frontier'.

Implications for relief strategies

Many fragile environments like the Somali Region see significant, if temporary, direct delivery of free or subsidized services and resources. Market distortions are inherent in such relief activities and render the transition to development problematic, creating barriers to change that must be broken down before effective long-term strategies can be introduced. For example:

- A relief environment embeds expectations of hand-outs amongst beneficiaries, NGO staff and even private sector entrepreneurs.
- Direct service delivery through relief programming builds expectations and dependency amongst public sector partners and, in so doing, creates barriers to exit.
- Government and donor imperative for agencies to couple 'quick wins' with longer-term sustainable development objectives requires approaches to relief that are complementary to long-term, sustainable development goals.

Those relief-oriented agencies serious about building sustainable development solutions have an imperative to elaborate a clear vision of the future from the outset and plan relief activities with that future in mind. A coordinated approach will allow for requisite relief and 'quick win' activities while mitigating the most significant distortions, avoid strategies that undermine development efforts and ensure that any relief 'transactions' serve to build the foundations of subsequent system 'transformation'.

Building the case for a facilitative approach

Though important, advocacy alone is not enough to build the case for a facilitative approach. Governments and donors in relief and fragile contexts are, and always will be, under considerable pressure to deliver tangible benefits to disadvantaged communities. Countering the persuasive arguments and voices supporting direct delivery approaches requires convincing proof of the advantages of a more sustainable, systemic approach. It is particularly incumbent upon those applying such approaches in fragile environments to rigorously measure and document system changes and poverty impact. This provides the basis for demonstrating the value for money, scale and sustainability of a more systemic approach, and without it many partners will continue to reject what is inevitably a more complex and difficult approach.

Implicit here is the need for clarity of vision and the theory of change underpinning it. The strength of logic between intervention activities, lasting development, and poverty outcomes is critical to understanding and communicating a market development strategy. Weak logic undermines both impact and the credibility of the approach, damaging efforts to generate support and coordinate action.

RAIN's experience demonstrates that from program outset it is crucial to build a shared vision of a sustainable future for market system, and a common strategy for realising that vision. The program initially struggled to convince key partners that a sustainable and market-based solution could be found in a relief-oriented development culture. Building support for that vision requires ownership within the program as well as beyond it. Within the project, because staff are often the 'front-line' in explaining that approach to partners

and externally, because partners can block or undermine the approach if they are unclear and/or resistant to it.

Bridging capacity gaps

The facilitative approach of market systems development demands quite different skills sets from those commonly found amongst the customary national and international relief-oriented partners operating in fragile environments. Input-oriented relief work will inevitably be more familiar to local staff and development partners and the community as a whole. Their adjustment to a more reactive and outcome-oriented facilitation role is challenging in that it is a new way of 'thinking' as well as 'doing'. It is a significant challenge to equip staff and local partner institutions with the necessary skills to identify and galvanise not displace market players and their capacities, and provide the leadership required to sustain a market development approach. Achieving this requires leaders with conceptual understanding and rationale of the approach to provide ongoing mentoring and support on the ground.