



Using grants to catalyse market systems change in the context of host and refugee communities

Learning from SHARPE

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Overview

The Strengthening Host and Refugees Populations in Ethiopia programme (SHARPE) is one of a number of innovative programmes working at the intersection of market systems development and humanitarian relief.¹ Through the use of an adapted market systems approach – ‘Markets for Resilience’ – SHARPE works to strengthen the economies of target populations in three regions in Ethiopia: Dollo Ado, Gambella, and Jijiga. SHARPE is funded by FCDO and implemented by DAI Global UK in partnership with Opportunities Unlimited. SHARPE started in 2019 and is due to end in March 2025.

This summary paper presents the key findings from a recent study commissioned by SHARPE and FCDO Ethiopia to examine how the programme has used public subsidies (grants) for private sector actors; how effective grants have been in catalysing the desired market system change; and what lessons can be drawn for similar programmes operating in the context of protracted displacement and large refugee populations.

How SHARPE has used grants for private sector actors

SHARPE has provided grants to over 100 different enterprises, which range significantly in size, sophistication, and ownership-type. Broadly, these enterprises fall into three categories:

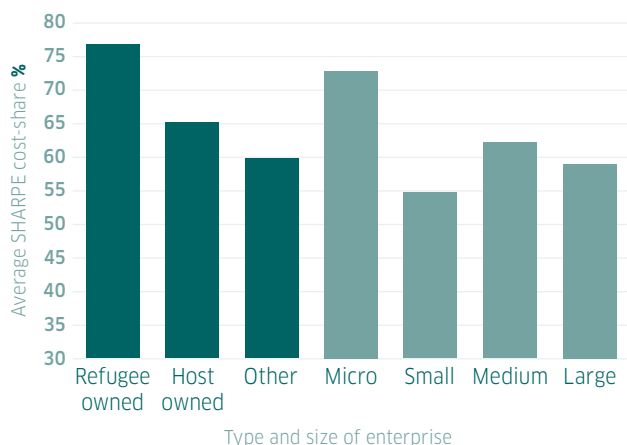
- **Large, national companies, often headquartered in Addis Ababa.** Examples include Shayashone, an Addis-based agro-input supplier with a network of more than 450 vendors and 400 youth resellers, and Shabelle Bank, the largest bank in the Somali region and one of the leading providers of Digital Financial Services in Ethiopia.
- **Small and medium regional companies, typically host-owned.** Examples include Shifo, a small, host-owned agro-vet dealer based in Kebribeyah town and serving approximately 3,000 people from both the host and refugee community, and MartiSoor, a poultry hatchery and feed manufacturer in Dollo Ado town.
- **Micro-enterprises, typically refugee-owned but also host-owned, and often informal.** Examples include small-scale poultry farmers, vegetable farmers, and energy kiosk operators.

Although the specific objectives of each grant agreement varies, in general the purpose of the grants is to catalyse the integration of host and refugee communities into high-potential supply / value chains. For medium and large companies, grants have been used by SHARPE to incentivise firms to expand into host and refugee markets and ‘test the market’. Here the focus has generally been on using grants to buy-down risk. For larger companies, SHARPE grant agreements typically include conditions around the percentage of refugees and women reached. For refugee-owned micro-enterprises, grants have been used to support enterprises to reach a size and sophistication where they can participate effectively in wider supply chains. Given their low levels of income and inability to access formal finance, grants have generally been used to provide a substantial portion of the necessary financing. Host-owned enterprises have also been supported to grow and to more effectively link large companies in the capital or regional centres with refugee-owned enterprises.

Reflecting the diversity of the enterprises supported, the grants provided by SHARPE vary significantly in value, from under £100 to over £200,000; the average value was £15,500. With a few exceptions, all grants are structured as standard cost-sharing grants and paid on a reimbursable basis. Again, reflecting the diversity of enterprises supported, the cost-share provided by SHARPE varies considerably, from 35% to 88% (based on the commitments set-out in the grant agreements); the average cost-share from SHARPE was 70%. The cost-share is highest for refugee-owned businesses, followed by host-owned enterprises (see Figure 1). Given that refugee-owned enterprises, followed by host-owned enterprises, are least likely to be able to access internal or external finance to fund investments, this is consistent with theoretical predictions. The average cost-share provided by SHARPE also falls as the size of the enterprise increases (although with an anomaly for ‘small’ enterprises) – also consistent with the theory.

¹ For a good summary of other programmes working at the same intersection, see ILO / UNHCR (2023): ‘The Humanitarian Development Nexus in Action: A Review and Mapping of Market-Led Approaches in Forced Displacement Contexts’.

Figure 1: average cost-share provided by SHARPE, by ownership and size of enterprise



Source: SHARPE grants tracker and study team's calculations

Although comparable data is hard to come by, the cost-shares provided by SHARPE may be higher than other market systems programmes globally, but not for programmes operating in both 'thin' markets and a 'donor-heavy' contexts, where a higher cost-share is to be expected.²

SHARPE grants have included cost-shares for 'one-off costs' including buildings or equipment and time-limited cost-shares for recurrent costs such as staff salaries. For example, SHARPE has cost-shared for one-off costs such as the construction of satellite bank branches in refugee camps by Shabelle Bank. This is in contrast to some other market systems programmes which have a policy of not contributing to infrastructure investment.³

SHARPE also often provides non-financial support alongside grants - mainly through supporting market linkages and providing on-the-ground facilitation support and training. The SHARPE core team also provide advice and guidance to partners, both at the deal stage and during implementation (e.g. sharing data and insights from the monitoring system).

The processes and considerations used by SHARPE

Before deciding which actors to support, and how, SHARPE undertook a market systems analysis of multiple sectors in order to identify those sectors with the highest potential to integrate and benefit host and refugee communities and to understand the key systemic constraints.

Within the prioritised sectors and sub-sectors, SHARPE has taken a proactive approach to seeking out private sector actors that are genuinely interested in testing refugee hosting markets and trying something new (and not just seeking cheap donor money). This has included SHARPE head-office staff seeking out and engaging with larger mostly Addis-based companies to gauge their potential interest in expanding to host and refugee communities, and local teams engaging with mid-size regional companies as well as identifying entrepreneurial host and refugee business owners in the priority sectors. To aid this effort, SHARPE sought to distinguish itself from other development actors in Ethiopia by presenting itself as a 'business-like' organisation that understands the private sector - for example by negotiating 'deals' with private sector actors that are underpinned by a clear business case. Given the 'donor-heavy' context, to avoid attracting 'donor-hunters' SHARPE avoided the use of Challenge Fund-style call for proposals or open applications.

Once a high-potential partner has been identified, SHARPE and the partner agree the objectives for the partnership, what practice changes the actor will implement in order to achieve these objectives, and what support SHARPE will provide. SHARPE has a clear policy on what costs it will and will not subsidise - with a clear focus on catalysing 'innovation', not 'more of the same'. SHARPE also has relatively robust processes in-place for assessing the additionality and sustainability of any grant-support. SHARPE also considers the extent to which a partner could finance the additional investments themselves and, in some cases, will instead try to link the partner with a finance provider instead of providing a grant itself.

SHARPE adapted its grant and due-diligence processes and procedures to allow it to provide financial support to refugee and host-owned enterprises. SHARPE developed two different grant agreements: 'standard' and 'micro' (for grants up to £5,000). By 'right-sizing' the micro grant agreement, SHARPE has been able to provide support to refugee-owned enterprises that would otherwise be unable to meet the full grant conditions. The micro agreements have also reduced the administrative burden for both SHARPE and the grantee whilst maintaining effective due diligence processes. The SHARPE local teams also provide facilitation support to grantees to help them obtain the necessary licenses and open a bank account.

2 See Beevers, K.: 'Market Systems Development in Thin and Crisis-Prone Markets'; PRIME / Mercy Corp: 'Facilitative Approach for Nascent Markets', and the BEAM Exchange 'thin markets' guidance.

3 For example, the PRISMA Deal Making Guidelines states that funding equipment or infrastructure should be avoided "as this can give unfair advantages to a firm and reduce potential for replication".

Once the overall partnership objectives and budget have been agreed, cost-shares for each budget item are negotiated by SHARPE and the partner. The SHARPE Partnership Manual provides guidance on the 'expected' cost-share (50:50), but not the factors that might drive an upward or downward deviation from this, and no benchmarks are used when negotiating the cost-share. Several SHARPE team members noted the uniqueness of each partnership and context, making it difficult to adopt a 'formulaic' or 'rules-based' approach to cost-share negotiations. Globally, there is also a lack of publicly available cost-share data to serve as an external benchmark, particularly for programmes operating in similar contexts to SHARPE.

The effectiveness of the grants provided to private sector actors

SHARPE grants, alongside market linkages and on-the-ground facilitation, have been effective in catalysing larger companies to adopt and test practice changes targeting refugee and host communities. Interviews with grantees suggest strong additionality: without SHARPE support, the companies would not have adopted these changes by themselves. As such, the SHARPE grants played a critical role in de-risking the initial investments required to test these new markets. Beyond the grants, several interviewees also stressed the importance and value of the linkages SHARPE was able to broker, with small and medium regional companies who could act as wholesalers or agent hubs and/or with host and refugee-owned micro-enterprises. In several cases, the ability of SHARPE to provide on-the-ground intelligence and facilitation support, particularly around access to refugee camps, also seems to have been vital.

For larger companies, grants have also been effective in building the capabilities of grantees to serve host and refugee communities through 'learning-by-doing'. For example, Shayashone management cited learning around how to adapt the size and pricing of vegetable seed packets in order to make them more affordable to refugee farmers. After buying-down the initial risk, SHARPE grants have also been effective at catalysing an underlying shift in motivations in larger companies regarding target markets, suggesting a high degree of sustainability, at least in relation to host markets. Larger companies have naturally been more likely to target host than refugee markets; SHARPE has been able to steer grantees towards the refugee market during the lifetime of the grant, although post-grant, the early evidence as to whether companies will continue to target the refugee market is mixed (especially for large Addis-based companies).

In the case of regional and micro host and refugee-owned businesses, grants or subsidised loans plus market linkages and other support, have been effective in enabling these businesses to upgrade, expand, and integrate into supply-chains. However, in some cases, the use of reimbursable grants has created a barrier for refugee-owned enterprises to make the necessary up-front investments. Many of the refugee-owned businesses have maintained the practice changes post-grant, although the vulnerability of refugees to shocks means some have been unable to sustain their businesses.

Although there is not yet any systematic evidence of wider market-level impacts, in several cases grants from SHARPE have helped to build networks and infrastructure that will benefit other companies in the market. For example, Shabelle Bank's Hello Cash agents are non-exclusive, potentially benefiting other DFS providers wishing to target these markets.

Examples of the practice changes implemented by SHARPE grantees

Shayashone built-out new supply chains for its agro-input products targeting 'frontier' host and refugee communities in two regions. This included building a network of distributors and undertaking various marketing and demonstration activities to build awareness of their products. In interviews, the CEO stated that SHARPE had reduced the risk of entering these market and that, without SHARPE, they would not have made the changes they did.

Under an initial round of grant support, **Shabelle Bank** "deepened its DFS / Hello Cash network to more distant and scattered refugee hosting woredas in Jijiga and Dollo Ado at an accelerated pace that would have been impossible without SHARPE support".* Under a second round of grant support, Shabelle Bank opened satellite branches in or adjacent to four refugee camps to better serve the host and refugee market and to address liquidity issues for its refugee and host Hello Cash agents. In interviews, senior bank staff stated that they already had plans to expand in the Somali region but that the support from SHARPE added a new focus on host and refugee markets.

Notes: * Bear, M. (2022): 'A Review of SHARPE'.

Grants have also been made more effective by the ability of SHARPE to generate insights and learning, and supporting grantees (and SHARPE) to adapt accordingly.

Key lessons and recommendations for programmes operating in host and refugee contexts

Overall programme strategy-setting. Programmes wishing to sustainably improve the livelihoods of host and refugee communities in the context of protracted displacement should combine market systems development principles with direct targeting of large market actors, small and medium regional actors, and micro and host and refugee-owned enterprises.

Identifying private sector actors to support. Programmes should adopt a proactive approach to identifying and engaging private sector partners and test their commitment through cost-sharing, particularly when operating in 'donor-heavy' contexts. This requires a strong core team with on-the-ground presence in the main economic hubs and target host and refugee markets, not just in the national centre.

Designing the package of support. Programmes should co-create ideas with potential partners and undertake a diagnostic of each partner to understand their 'capability', 'opportunity', and 'motivational' constraints to adopting the desired practice changes. Staff should consider a wide range of 'facilitation tactics' in developing the support package, which should be designed to tackle the specific constraints in each partner. The menu of possible tactics should include cost-share grants, but also other forms of

financial support such as risk-guarantee mechanisms, as well as linkages, on-the-ground facilitation, and targeted Technical Assistance.

Setting the grant policies, processes, and procedures. Programmes should adopt a clear grant policy, with a strong focus on innovation, additionality, and sustainability. The grant process should also consider the 'business case' for targeting hosts, refugees, and women (as appropriate), and potential wider systemic impacts. Programmes should also ensure that their administrative processes allow them to effectively administer a potentially large number of small grants to host and refugee enterprises (many of whom will be informal).

Cost-sharing. Programmes should maintain the principle of cost-sharing, but be willing to provide higher-than-average cost-shares, particularly to host and refugee-owned micro-enterprises. Caution should be maintained when considering high cost-shares for large companies. Programmes should also develop guidance and internal benchmarks to assist staff in the negotiation of cost-shares with grantees.

Monitoring, learning, and adapting. Programmes should adopt a flexible and adaptive approach, underpinned by a robust research and monitoring system. The package of support provided should be adapted as needed based on on-going monitoring of what is and is not working on-the-ground. Programmes should also actively support enterprises to learn and adapt their business models, especially larger companies for whom host and refugee markets are often unknown and untested at the start of the partnership.





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