

THE PRACTITIONERS' GUIDE TO HEA

Market Assessment Supplement

MARKET ASSESSMENT SUPPLEMENT

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Market assessment is integral to all aspects of HEA. Each chapter of the Practitioner's Guide has included the components of market assessment most relevant to that chapter. The explicit focus on market assessment in this manual reflects the desire to clarify and strengthen this element of HEA assessments, and to draw on and adapt market assessment tools from other, related sectors in order to add value to our understanding of risk and vulnerability.

In the past, market analysis within HEA has been concerned with understanding how and to what extent households interact with markets, and how different shocks affect market prices for key items such as food, livestock and labour. This has been important for early warning and needs assessment work. However market analysis has been carried out in a somewhat informal manner and has not necessarily provided direct information about market infrastructure or integration beyond what was necessary for achieving an understanding of how shocks affect key prices. In recent years, with the growing popularity of cash-based interventions and the increasing need to consider the likely impacts on markets of cash, in-kind or market support, the need to understand how markets function has increased.

While previous chapters of this Guide have covered the 6 steps in the HEA framework, this section introduces step 7 – response analysis – and describes how market analysis is used to determine appropriate food security responses. The aim here is to help teams identify and focus on the *minimum* set of market information required in HEA assessments, and to provide guidance on tools to collect that information.

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RELATED CD FILES

The CD that accompanies the **Practitioners' Guide** contains the following files relevant to the Market Assessment Supplement, found in the Market Assessment Supplement directory:

- **Annex A: Basic Market Concepts and Definitions**

BACKGROUND

In recent years there has been increasing demand from decision makers for assessments to provide not just information on needs within a population, but also to suggest guidance on which choice of intervention is most likely to be appropriate to local conditions. This has been prompted at least partly by a concern that the food security sector has been using too narrow a range of tools to address needs.¹ Cash-based responses and other in-kind distributions are increasingly used as an alternative to food aid to meet emergency requirements, while a wide range of safety net interventions are being promoted as part of social protection and disaster risk reduction activities. Choosing the appropriate intervention means understanding which intervention is likely to have the maximum benefit for the affected population, with the minimum harm to unaffected actors, such as producers, traders and unaffected consumers. A particular kind of market analysis is central to this kind of calculation.

In one sense, market analysis in HEA has never been part of a separate study. It is an integral component of understanding the household economy, and in gauging how changes in the wider economy translate into effects at the household level. Many of the market activities included in this set of HEA resources are useful at a number of steps in the HEA process; particular tools may be more relevant at a particular step in the framework. Mapping supply and demand, market integration and competitiveness, for instance, is most important when designing interventions. But we still need information related to these areas when we put together the baseline picture because they determine the value of income generating activities, the costs of inputs and food and the change in prices from year to year and season to season.

HEA takes up and adapts market analysis tools as necessary given the circumstances. For instance, if it seems from household information that markets are strong and people get good prices in both good and bad years then we might be satisfied with understanding only the flow of commodities into and out of an area. However, if we find out that crop prices are extremely low in good production years, and this seems to be a major factor in keeping people poor then it becomes necessary to investigate where, in the marketing chain, the biggest bottlenecks are so that recommended interventions result in improved access to markets and lower prices for food and inputs.

However, what is new with this supplement is the focus on the market as a separate entity; and understanding how it may function in different circumstances: with an infusion of new cash (in the case of a cash-transfer), for instance; or with non-food in-kind distributions of needed commodities, such as soap, or salt; or with subsidization of essential goods, such as kerosene. While a complete understanding of this subject will require resources beyond what is normally provided to the HEA practitioner, it is nevertheless important for the practitioner to understand the kinds of issues that need to be investigated in order to arrive at logical conclusions in this area of study. This supplement is devoted to the task of providing an introduction to these issues and some initial tools for conducting this work.

¹ See for example Darcy & Hoffman, 2003, "According to Need?", and Levine & Chastre, 2004, "Missing the Point".

HOW TO USE MARKET ASSESSMENT TO HELP DETERMINE AN APPROPRIATE RESPONSE TO ACUTE FOOD INSECURITY

Background

The six steps of the HEA framework described throughout this guide end with Scenario Outcome Analysis, which provides an estimate of the size of any deficit that different wealth groups might experience after a hazard. (See Chapter 1. Introduction to the HEA Framework). The 'seventh' step is response analysis. As discussed in Chapter 5, HEA practitioners do not carry out research for research's sake, but aim to inform decision-makers with useful analysis and recommendations that will lead to action. There is often a grey area between assessing a situation and beginning a response, which involves choosing the most appropriate way of responding to the situation. Some decision-makers would like to see assessments which have clear actionable recommendations on the best response. But assessing the feasibility of response options often goes beyond the remit – and at times the expertise – of those doing assessments. Feasibility analysis usually requires technical specialisation, for example in agricultural development or small business development, or simply in the operational management of programmes. It is sometimes also argued that to preserve the neutrality and objectivity of assessment staff, they should not make recommendations about the relative merits of different intervention options.

However, in emergency responses, with the increased use of cash- and market-based responses in recent years, it has become imperative that our analysis of needs goes beyond estimating the size of the deficit to provide guidance to decision-makers on the most appropriate way to fill that deficit – whether through food aid, cash relief, or a combination of these and other market-based alternatives. Market analysis is at the heart of this requirement.

Market assessments are necessary because we need to make sure we intervene in the most efficient and effective manner. This section reviews the main options open to decision-makers to respond to a deficit and provides guidance on linking market information gathered during a HEA assessment to a decision-making framework developed by Oxfam to assist in determining appropriate responses.

Setting the Context

Before we go into detail on information that we need to collect to determine the best response, we will first consider the different interests and priorities of stakeholders that have to be taken into consideration when choosing interventions, and then review the features of the different intervention options that are open to us in theory.

Maximising Benefits and Minimising Harm: Stakeholder Interests

The various options for addressing acute food insecurity may be viewed differently by different people. **Table 1** indicates the key concerns of different stakeholders which may be affected when outside agencies intervene, and the advantages and disadvantages that they may see of different types of intervention.

Table 1. Stakeholders' interests

<i>The Affected</i>	In any disaster response our priority should be on ensuring that <i>all</i>
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<i>Population</i>	the local population's food (and non-food) needs are met in a timely and appropriate manner for the duration required. The "humanitarian imperative" to save lives first and foremost remains the priority; but insofar as is possible, doing so should not harm future food security prospects.
<i>Producers</i>	Producers will be concerned with making sure that assistance not result in the reduction of producer prices (e.g. by providing imported food aid to a community where local producers currently provide adequate supplies).
<i>Consumers</i>	Consumers may have been affected by food insecurity or not depending on the hazard, and may be receiving assistance or not. For those not receiving assistance, their main concern is that assistance should not result in unacceptably high price increases of basic commodities such that they cannot afford to purchase these commodities in the same quantities. (E.g. a cash or local food aid purchase project in an area of limited food supply might drive up food prices.)
<i>Traders</i>	Assistance should not displace traders; traders are essential to a population's way of life. A well-functioning market should be supported, and efforts should be made to improve a poorly-functioning market (e.g. supporting traders with cash for recovery after a disaster, or supporting improved transport and communication infrastructure). At the same time, assistance should not weaken the functioning of markets, e.g. agencies' procurement practices resulting in an increase in market share of large traders.
<i>The Government</i>	The government is an important stakeholder, and it will want any intervention to be in line with its national economic and food security policies. Interventions should be coordinated with the government, and lessons learned should be shared to help improve policy if applicable.
<i>The Implementing Agency</i>	Implementing agencies need to consider their own capacity to implement what is required. Agencies collectively should seek to carry out the best responses, but should also understand that second best - as long as it is not harmful - may be necessary in the short term when capacity is lacking.

In our needs assessments, our primary goal will be to identify those options that can address the needs of the affected population in a timely and effective manner. In so doing, a vital secondary consideration is to not significantly harm any other population group or to harm long-term livelihoods potential. The third consideration is then to try to maximise any indirect benefits that the intervention might bring, either to the affected population themselves or to other groups such as traders or producers.

For decision-makers, a host of practical and operational considerations – linked for example to cost, resource availability, technical capacity and security - will greatly affect the final decision on how to intervene. It is important therefore for needs assessment staff and decision-makers to interact and strike the best possible balance between the ideal and the feasible.

What are the options?

The starting point is an assumption that our assessment has identified that food insecurity is or will be a problem for some groups. To choose the best response option, it is necessary to be aware of the range of responses from which a choice can be made, the circumstances in which each is most appropriate, and then to begin narrowing them down according to the prevailing situation. The most important options² are considered below.

Cash transfers – cash provided to food insecure populations: Transfers of cash directly into the hands (or bank accounts) of food insecure households are intended to enable them to purchase food by themselves, or to purchase non-food items and services that are necessary for livelihood protection. This section will focus on cash as a means of purchasing food, but the same analysis will apply if the intention is to enable people to access non-food items. Cash transfers are most appropriate when there is sufficient local supply of food and the chief problem is lack of effective demand due to an income deficit. Cash does not automatically increase the supply of food into an area, but under certain market conditions cash can encourage traders to supply more food. Cash transfers carry many benefits, including flexibility to purchase preferred foods, stimulation of the local economy and promoting recovery among traders. This form of assistance supports traders of all sizes as people are free to shop where they wish. Inflation is often cited as a risk with this type of intervention, and understanding the risk of inflation is a key question for market analysis.

Voucher provision to food insecure populations for exchange through traders– contracts based on fixed price agreements: A voucher system involves targeted food insecure households being given vouchers to access food from local traders, with the implementing agency reimbursing traders for the vouchers they accept. When there is or could be sufficient local or regional supply a voucher system addresses both the demand problem and the supply problem at the same time, enabling households to bridge their food deficit while also supporting producer prices and involving traders in the supply chain. Vouchers may be limited to a specific range of food commodities and/ or may only be redeemed at certain shops. They can be denominated in kind (e.g. one sack of maize) or in a cash value, usually with prices being fixed at an agreed level between traders and the implementing agency. Vouchers can provide the incentive for traders to supply areas they would not otherwise supply (due to effective lack of demand). Voucher programmes require pro-active engagement with the market by implementing agencies and can support the local economy. Arguably, a narrower range of market actors may benefit from vouchers than from cash transfers. Vouchers increase the likelihood of food being purchased by recipients: this may be good if there was a real risk of cash being misused (e.g. spent on non-essential items), but could also be bad if there was a greater prevailing need for non-food items. The choice between vouchers and cash on the one hand, or vouchers and food aid on the other, is more about operational considerations than market conditions.

Local purchase of food commodities and distribution by the aid agency to food deficit populations: This option is most appropriate when there is sufficient surplus within the country but the market is not functioning well (i.e. when an increase in effective demand via a cash injection or vouchers would not cause an equivalent increase in supply, either because the infrastructure is inadequate, or because traders are not trading and cannot be encouraged to trade. Supply for local purchase usually comes from surplus production areas outside the affected area. This option tends to favour large traders as the bidding process requires traders to agree to supply relatively large quantities of grain and small traders

² These options are all unconditional transfers or other forms of support – i.e. cash and food for work is excluded as for the purposes of food market assessment the issues are similar for free food and cash transfers. Where market assessment differs for food and cash for work is in the need to analyse the labour market.

usually have neither the transport, credit nor systems to commit to deliver large quantities. There is a risk of food price inflation with this activity as well.

Imported food aid: Importing food aid is critical if there is insufficient supply in the country, if the government has insufficient resources to import commercially and no donors offer cash funds to enable the government to import from neighbouring countries. Well targeted and properly timed food aid addresses the problem of lack of effective demand and can help to keep inflation at bay. But it is criticised for failing to take the opportunity to support traders, and at worst actually displaces small and large grain traders from a market chain in which they usually participate. Imported food aid provides the least amount of benefit to the local economy, and if provided in inappropriate circumstances the effects can be negative if it brings down the price of locally harvested grain and thus harms producers. The risk of this happening is reduced by effective targeting, supplying no more than the quantity required, timing the delivery to end before the new harvest, and avoiding competition with local producers, e.g. by supplying a less preferred food commodity than is produced locally.

Market Support: Market support refers to a variety of measures that can be taken to ensure that the market functions well in matching supplies of food to local demand. Whereas providing food aid can be an appropriate intervention to compensate for poorly-functioning markets, market support can be an alternative that indirectly supports the food insecure population by addressing an underlying cause of the problem. When a demand failure accompanies a market failure, a combination of market support and cash or vouchers can be a strong intervention package. Most hazards affect traders as well as the rest of the population. See **Table 2** for examples of how different disasters can affect markets and **Box 1** for more detail on how traders may be hampered in times of famine.

Traders at the start of the supply chain are likely to have been affected by disasters such as floods, earthquake or conflict, and may need help in order to resume trading (in the same way that farmers are assisted in getting back on their feet because of a crop deficit). Providing credit or grants to traders to re-establish business, rehabilitating infrastructure, providing subsidies to lower the cost of transport (for fuel, truck hire), or offering contracts to smaller businesses to encourage competition are all useful ways of helping traders recover and potentially participate in the assistance intervention.

Outside of a disaster context, market support can include lobbying government to change policies that may restrict the effective functioning of markets, such as limits on the movement of grain or the monopolies of specific traders or semi-state bodies. These market interventions can increase the supply of food into a deficit area thereby addressing supply problems, and also reducing the price of grain to make it more affordable, thus easing – though rarely solving – demand problems.

Box 1. Factors that influence traders' response in times of famine

Logistical constraints

- Transport costs
- Costs of re-directing distribution channels
- Accessibility of famine-affected villages
- Small surpluses available for merchants to purchase for resale

Limited rewards

- Small size of famine markets
- Short duration of famine markets
- Opportunity cost of losing regular customers elsewhere
- Limited monetary value of assets offered by peasants in exchange for food

Risk and uncertainty

- Risk of being undercut by other traders
- Uncertainty caused by limited information about famine markets

(Source: Devereux 1988, quoted in Harvey 2005)

Table 2. Impact of three hazards on food availability and markets	
Volcanic eruption	
Food availability and markets	Localized reduction of crop production due to lava cover and pollution of soil. Possible short-term, localized disruption of markets and transport.
Household food access	Loss of employment in damaged businesses. Temporary work in rebuilding. Localized loss of household productive assets. Reduction in local social network transfers.
Drought	
Food availability and markets	Reduced food production. No impact on markets other than reduced purchasing power.
Household food access	Reduced crop and livestock production. Reduced income from crops, livestock and agricultural labour. Increased debts. Distress sales of productive assets if conditions are severe and assistance delayed.
Economic crisis	
Food availability and markets	Reduced incentive for traders to supply markets due to reduced purchasing power.
Household food access	Reduced income from employment. Reduced income from trading (due to reduced demand). Increased debts. Distress sales of productive assets if conditions are severe and assistance delayed.

Choosing the Right Option for the Context

Having looked at the different actors for whom we are trying to maximise benefits and minimise harm, and having considered the different broad types of response options that exist, we now move on to how to choose which option – or combination of options - is appropriate for any given context. The recommended starting point for this analysis is the framework developed by Oxfam in their guidelines on “Cash Transfer Programming in Emergencies”, and adapted slightly here. The framework is based on 6 key questions, and guidance is provided on how to use the primary and secondary information collected during a HEA – especially that related to markets – to answer those questions.

1. Determine whether the “problem” is a supply problem, a demand problem, or a combination of the two

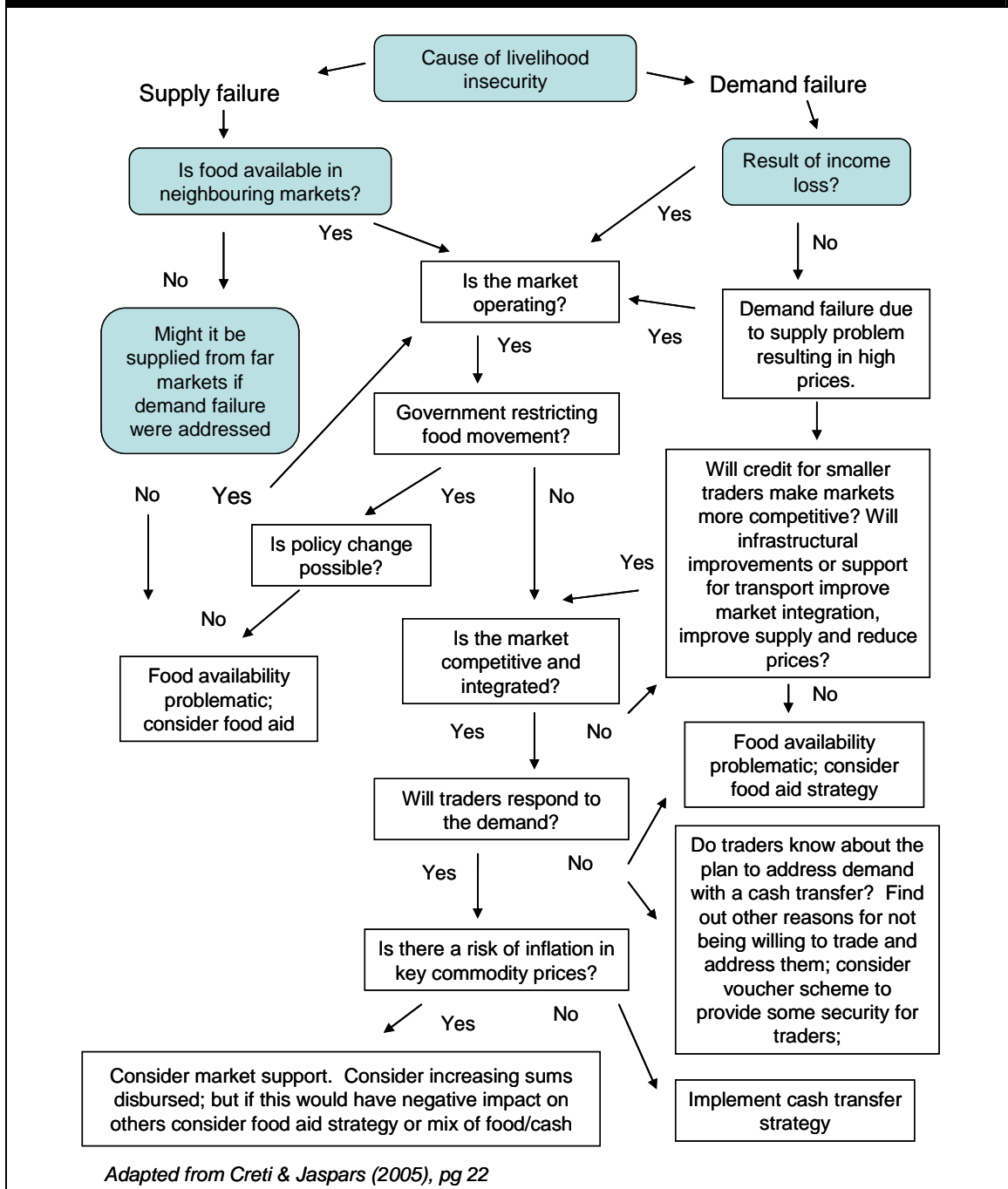
A supply failure, or lack of availability of food, could be the result of inadequate production or imports of food, or of a market failure that prevents available food from reaching the food insecure population. Interventions either to increase food supply (such as food aid) or interventions to address market problems are more appropriate to supply failures. A demand failure refers to when the food insecure population lacks the means to get available food, and cash or voucher problems are likely to be more suitable in those situations than food aid, as the latter could displace trade.

Supply

- Food balance sheet data tells us whether national production is surplus to consumption needs, and we should check whether regional production (from neighbouring countries in the region) is also surplus to needs. If the answer to both

questions is yes, then there is scope for an intervention which encourages the market to move the grain from surplus areas to deficit areas.

Figure 1. Market assessment and response algorithm



- HEA (steps 4 to 6: hazard analysis, coping and outcome scenarios) will have already identified the extent to which local production has reduced supply to the local market, but it doesn't tell us about whether the supply from outside is a problem. Food balance sheet analysis and mapping supply routes from surplus to demand areas is the best way of assessing overall change in supply.

Demand

- HEA (again, steps 4 to 6) has also indicated whether effective demand has been reduced by the shock (how much incomes have gone down, despite people's efforts to make up deficits through coping).

2. Determine if the market is operating

- Mapping markets to determine which ones are still operating, and which have been affected by the disaster is the next step. Maps of market locations can be easily adapted from existing maps, or they can be drawn up in group meetings. The key issue is not just the location of the markets, but access to the markets (mark on the map any barriers – physical, political as well as roads and other infrastructure which enable access). See [Guide 6](#) in Chapter 3, Annex C. The map should be the starting point for identifying supply routes for staple food needed by the population. Interventions such as cash, vouchers and local purchase of food aid require markets to be functioning to be successful.

3. Determine if government is restricting movement

Our concern here lies in the presence of government policies which prevent free flow of goods (staple foods); conversely the government may have intentions of intervening in the market – and your enquiry should therefore look at the implications of government policies for the market chain. Similar to question 2 above, government policies that affect markets will likely also affect potential aid agency interventions such as cash, vouchers or local purchase of food aid. One solution would be to see if these policies may be adjusted in light of the disasters, or they may have been introduced because of intended beneficial effects on the disaster affected population. Identify the market channels through which grain reaches consumers.

- [Guide 5](#) in Annex C of Chapter 3 provides advice on drawing up market structure diagrams – which can explain the influence on government policies in terms of restricting movement of staple food.
- Trader interviews should also establish important information about market regulation (see [Interview Form 2](#), found in Annex A of Chapter 3, and the specialized versions of the same form found in Annex B of Chapter 3.)

4. Determine if markets are competitive and integrated

While questions 2 and 3 can tell us whether food can flow into a deficit area, this part of the analysis will help us know if there are any factors in the way the market is structured or any economic factors which may either reduce the chances of staple food being supplied at all, or which could lead to it being supplied at very high prices. The market structure diagram that we mentioned in step 3 is useful in identifying whether markets are competitive. This issue relates to the number of traders who compete in the market and their market share. If there are only a few then the market is likely to be uncompetitive due to their dominance and power to dictate terms. In an uncompetitive market, the risk is that powerful traders could use their power to force up the price of food, which could devalue a cash transfer programme, or make local purchase of food aid very expensive, and in both cases harm any non-beneficiaries who currently purchase food.

Market integration refers to how changes in prices in one market get transmitted to neighbouring markets. In an integrated market, if the price in Market A is higher than that in market B (taking transport costs into consideration), that should lead to an influx of goods

into market A as traders seek to benefit from the higher prices. Market integration may be hampered by factors such as lack of information on prices in different markets, physical barriers to movement or policy measures such as tariffs or controls on the movement of goods.

Market integration is determined by looking at the vertical links in the supply chain, and the price increment at each link in the chain. We can also find out about market integration by looking at the price trends in different markets and seeing whether the price trends follow a similar trajectory, or whether they appear to be responding to different signals. Finally the most basic element in market integration is to determine whether markets are physically linked – and market mapping helps us to know this.

- Guide 1 in **Annex C** of Chapter 3 explains how to map market chains and then to investigate the price differential at each link in the chain. Investigate blocks at each link in the chain, i.e. what is preventing more people from trading?
- Guide 2 in **Annex C** of Chapter 3 provides direction on plotting, graphing and interpreting of historical price trend data, and Guide 7 (market integration) covers interpretation of market integration using time series graphs.
- Mapping is covered in Guide 6.
- Interview Form 2, found in **Annex A** of Chapter 3 is for use in trader interviews – questions cover change in supply and demand and other constraints to trading in the current year.

5. Find out if traders will respond to demand

This question is critical: even if a market is operational, integrated and competitive, traders may simply decide that it is not worth their while to supply a deficit area. The key question for a trader is whether the prices in different markets make it profitable and worthwhile for traders to bring food into the deficit area for sale. The logistical constraints, limited rewards and risks for traders indicated in **Box 1**, above, are particularly relevant here. The intention of an outside agency to intervene may affect this determination on the part of traders: a cash intervention could ensure that there will be demand if they supply the market; cash, vouchers and local purchase could also help boost the prices for food and thus make it more attractive for traders to supply the area. Thus it is vital that traders are consulted and informed about agencies' intervention plans. CARE in Aceh came up with an effective community-based tool for assessing the willingness of traders to participate in its cash and voucher scheme. After discussing terms and conditions, and the incentive for them to participate (a 5% commission) a number of traders signed up. However, some didn't because they were unable to get credit for the first round of stock. Providing credit for the first round may have helped even small traders to participate.

In southern Niger, much of the population relies on purchasing food imported from northern Nigeria at some times of the year. In 2005, one of the reasons suggested for the severe food crisis in Niger was that there were also food shortages in northern Nigeria that drove up the price of food there, such that traders preferred to sell grain in Nigeria rather than importing it as usual to Niger. This highlights the importance of understanding how different markets are linked.

- Interview Form 2C in Annex B of Chapter 3 is the format used by CARE to assess the various factors influencing their decision in each community. It can be adapted for use with wholesalers to determine whether they are willing and able to supply larger areas with food, if purchasing power were addressed.
- Interview Form 2E in Annex B of Chapter 3 is a post-disaster trader assessment that contains questions about all the changes that have affected current trade; at the end

of this interview you can find out about the theoretical ability and willingness of the trader to supply the food required.

6. Determine if there is a risk of inflation in key commodity prices

The final stage is to consider whether, given all the above considerations, there may still be a price increase in the cost of staple food. There are a number of elements to this issue. If the market has been depressed by a demand shock and supply has not been affected, such that food prices have fallen below normal, an intervention that leads to prices returning to normal levels should not be considered to have harmful inflationary effects. A harmful intervention will be one that causes prices to rise significantly above normal levels. The implications for targeted and non-targeted beneficiaries have to be considered. In a cash programme where inflation occurs, beneficiaries in theory can be provided with a higher cash value (though this may in turn simply drive prices up further); but non-beneficiaries will be just left with less money after buying what they need. The risks of this occurring are greatest where the problem is one of supply, and markets are not functioning well. In that situation, providing cash or vouchers, or trying to purchase food aid locally, can simply drive up the price of the little food that is available on the market. Imported food aid may be more appropriate in those conditions. Conversely, deflation could be a problem if food aid is supplied into an area where lack of demand is the problem, rather than lack of supply. The beneficiaries of the programme will be able to access food, but indirect effects may be felt by traders and local food producers.

Detailed price analysis needed for this would include market chain analysis and analysis of marketing margins, review of the food balance sheet calculations that were covered at the start of the process, and review of the market structure diagram to see where markets could be made more competitive. Detailed market chain analysis and analysis of price margins is usually beyond the scope of HEA assessments, and thus a judgement is often made based on a combination of an understanding of market structure and direct questioning of traders about historical patterns and their intentions and projections for the coming year.

7. Recommendations for intervention and contingency

The analysis that determined which is the most appropriate response or combination of responses from the market perspective should be clearly explained. It should consider the repercussions and severity of potential impact on markets for each option, and the risks and benefits for the different stakeholders listed in **Table 1**. HEA Practitioners should be in a position to make recommendations from a technical perspective about the interventions that may be appropriate in a particular context. Further feasibility analysis on the part of implementing agencies themselves – covering issues such as cost-effectiveness, resource availability and capacity – will usually be needed to make a final determination of the best feasible intervention option.

Information you need to provide

Make clear the information on which your analysis is based. In addition to providing sufficient and clear justification for the transfer option recommended, you should also consider whether the appropriate response may change if the conditions in the food insecure area change over time. This is where response analysis must be linked to the type of contingency planning described in Chapter 5. It is useful in particular to try to specify expected and extreme market prices for consumers and producers, and to consider whether that will not only affect the scale of intervention required, but also the type.

It is important also to clearly explain the prevailing market conditions at the time of the analysis and upon which intervention recommendations were made. In some contexts,

monitoring not only of prices, but of changes in certain market conditions – such as government policy or changes in physical access to markets – will be necessary, and such changes can profoundly alter the appropriateness of planned or ongoing interventions.

Additional Market Guidance

The guidance provided in this section is a relatively simplified approach to understanding markets, and for some purposes more detailed market analysis will be required, and/ or further information on choosing between response options may be required. The "Further Reading" section provides references for interested readers, while WFP (2005) provides a useful table which considers the contexts in which a range of interventions are most appropriate. This table – reproduced in part in [Guide 8](#), in **Annex C** of [Chapter 3](#) considers each type of intervention and asks whether it is a good or bad idea from a markets perspective, and indicates the information needed to inform the decision. This work has been strengthened by Michigan State University with the recommendation to include additional analysis of implications for the market and the population "for options chosen in spite of 'bad idea' conditions", and [Guide 8](#) also includes part of this guidance.

For readers with limited knowledge of economic concepts, the annex to this supplement on "Basic Market Concepts and Definition" provides a very short introduction to key concepts used in this chapter and in the market analysis sections of other chapters of this Guide. However such readers are strongly advised to consult introductory chapters of a textbook on microeconomics (such as Krugman & Wells, 2005) to get a more thorough grounding in this area.

FREQUENTLY ASKED QUESTIONS

Q: When doing a current year analysis I find that prices for some commodities have increased disproportionately to others. What should I do to make sure I put in the correct “problem specification”?

In the spreadsheet for the problem specification you can enter different problem specifications for different commodity prices. Different constituents of the household food and non-food basket can also be given different price problems.

Q2: How is market analysis useful in monitoring impacts of projects? What do we mean?

This answer is best given with reference to specific examples:

Intervention and objective	How price monitoring might be used to monitor impact
(1) food aid is provided to targeted households and a secondary objective is to bring down food prices	<ul style="list-style-type: none"> ▪ price monitoring is needed to check consumer prices over time – are they brought down to within normal (or affordable levels)? ▪ Price monitoring is also needed of farm-gate prices to check that the food aid has had no negative impact on producers. ▪ The project should have defined the prices which are desirable, acceptable, excessive
(2) A cash transfer might be organized to address food insecurity without an adverse effect on market prices	<ul style="list-style-type: none"> ▪ Price monitoring is needed to check that prices remain within the acceptable range – to ensure that non-targeted households maintain access to food and that the cash transfer was sufficient for households to purchase what they needed.
(3) An agricultural project might try to increase incomes by increasing the amount a farmer is producing	<ul style="list-style-type: none"> ▪ the problem with some projects which try to increase production without looking at the market is that higher production in a context of weak markets will result in a price decrease – therefore the net value for farmers (change in income) may be only marginal. ▪ This is particularly true for irrigation projects – while there may be a net increase in cropping terms, has the increase in output resulted in income greater than the expenditure on inputs (considering the possible decrease in the farm gate price for the crop for the reason given above).

Q 3: How do traders determine their prices? This is needed when we make scenarios of likely future prices.

Traders need to calculate the marketing margin and add this to the price at which they buy from suppliers. The marketing margin includes transport, storage, processing (if necessary). In terms of fixing their prices to rig the market – this is done through verbal agreements between members who make up a *cartel*. However, for the purposes of HEA we do not go into these sorts of calculations, but rather rely on a combination of historical data and primary information from key informants.

Q4: Are high prices for grain necessarily a bad thing? How do we make sure our focus on vulnerable consumers does not ignore the needs for producers to get good prices for what they produce?

A: If the prices of locally produced traded goods are lower than the international price for those goods (taking into account differences related to transport costs, storage, etc.), then there is an economic efficiency argument for saying that the price should indeed be higher, and would be higher if there were fewer constraints to trade. Higher prices would benefit net producers but not net consumers. In most of the countries where HEA studies are done, the poorest households are net consumers of grain and thus would be harmed by higher grain prices. Thus while higher grain prices in those specific contexts may be considered more "efficient" in economic terms, our primary concern is with the welfare of the poor and we would not recommend anything that would result in higher grain prices without also protecting the poor. "Safety nets" are becoming increasingly seen as an efficient system to protect the poor while supporting producers. Safety nets are transfers (usually cash) targeted to poor households to enable them to purchase the minimum commodities they need. Thus, a combination of policies – which together result in increased production, higher producer prices and at the same time effectively protect the poor – is arguably the most efficient and effective option for development.

FURTHER READING

Adams L. and Harvey P. (2006) *Cash Transfer Issue Papers: Market assessment* .
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