MARKETS AND POVERTY IN NORTHERN KENYA: TOWARDS A FINANCIAL GRADUATION MODEL

By

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This report was commissioned by FSD Kenya. The findings, interpretations and conclusions are those of the authors and do not necessarily represent those of FSD Kenya, its Trustees and partner development agencies.

The Kenya Financial Sector Deepening (FSD) programme was established in early 2005 to support the development of financial markets in Kenya as a means to stimulate wealth creation and reduce poverty. Working in partnership with the financial services industry, the programme’s goal is to expand access to financial services among lower income households and smaller enterprises. It operates as an independent trust under the supervision of professional trustees, KPMG Kenya, with policy guidance from a Programme Investment Committee (PIC). In addition to the Government of Kenya, funders include the UK’s Department for International Development (DFID), the World Bank, the Swedish International Development Agency (SIDA), Agence Française de Développement (AFD) and the Bill and Melinda Gates Foundation.
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<td>Community Based Targeting</td>
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<td>CGAP</td>
<td>Consultative Group to Assist the Poor</td>
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<td>COSALO</td>
<td>Community Savings and Loans</td>
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<td>FSDK</td>
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<td>HSNP</td>
<td>Hunger Safety Net Programme</td>
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<td>IDS</td>
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<td>MFI</td>
<td>Micro-finance Institution</td>
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<td>OPM</td>
<td>Oxford Policy Management</td>
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<td>PSNP</td>
<td>Productive Safety Net Program</td>
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EXECUTIVE SUMMARY

INTRODUCTION

This report is the outcome of an analytical review of markets and poverty in northern Kenya, commissioned by the Financial Sector Deepening Trust Kenya (FSDK). It is a preliminary scoping study intended to inform FSDK’s proposed Financial Graduation Programme. The programme will target recipients of cash transfers under the Hunger Safety Net Programme (HSNP) which is implemented across Kenya’s four northern districts: Turkana, Marsabit, Mandera and Wajir. The research for this report was based on secondary sources, including academic and grey literature and interviews with experts. Contributions were also made in a workshop by practitioners in the fields of livelihoods strengthening, food security, market functioning and development in northern Kenya.

Background

Since Kenya’s independence in 1963, livelihoods in Kenya’s northern regions have been increasingly undermined and threatened by recurrent drought. This has been compounded by deep-rooted marginalisation, lack of infrastructure and services, conflict and violent livestock raiding. The HSNP seeks to strengthen food security in chronically poor households by delivering cash payments of KSh 3,000 bimonthly. While there is some evidence that these cash transfers are used to start up small enterprises and engage in income-generating activities, such attempts have often been unsustainable during drought. No HSNP programming has so far been targeted towards promoting beneficiaries’ engagement with markets. The aim of the Financial Graduation Programme is to address this gap by strengthening the security of very poor households through meso-level interventions designed to facilitate the expansion and development of markets. This will be undertaken whilst simultaneously promoting the engagement of the poor with markets through more micro- or household-level interventions. Cash transfers under the HSNP and the development of new financial infrastructures across the region will be leveraged for these interventions.

What is financial graduation?

Financial graduation programming has developed out of a realisation that the prevailing approaches to economic development (e.g. microfinance, value chain development) have not been sufficient to reach the very poorest households. At the same time, programming that aims to provide temporary support to those households (e.g. food aid, cash transfers) has rarely contributed to sustained graduation from dependency. Implementers are increasingly finding that a combination of the two approaches is needed, creating new economic opportunities that are suitable for the very poor while simultaneously addressing the barriers that prevent them from engaging. Several graduation models are relevant to FSDK. These include the Productive Safety Net Program Plus in Ethiopia; the Consultative Group to Assist the Poor (CGAP) and the Ford Foundation’s graduation pilots in seven countries; AMPATH’s programming in western Kenya and the Grameen Foundation’s work in India. These projects provide several lessons for FSDK to consider, including:

- The need to define graduation carefully, and how graduation will be measured
- The importance of combining and sequencing interventions to provide multiple entry points and pathways
- The support that savings groups can provide in accumulating assets for graduation
- The importance of incorporating non-exclusive targeting approaches into graduation models to ensure programming reaches its target population
- The necessity of understanding the viability and appropriateness of any market opportunities that it supports
- The need for realistic timelines in designing and implementing graduation programming.

These lessons need to be considered in the context of poverty and livelihood in northern Kenya.

Poverty and livelihood context

Poverty trends in northern Kenya are closely related to processes of settlement by traditional pastoralists. Pastoralists have always partially settled and diversified into alternative livelihoods during times of hardship, including farming and trade, but the pattern has intensified since independence. Historically, pastoralist populations of Northern Kenya have tended to be marginalised and excluded from national development processes. This has compounded their vulnerability to climatic shocks and scarce resources, and resulted in rapid settlement and urbanisation coupled with a reliance on food aid. Towns, peri-urban areas, and permanent and semi-permanent satellite camps have grown as poor pastoralists have opted out of a traditional pastoralist way of life, partially settled, and/or split their households between sedentary camps and mobile herds in order to diversify their livelihoods and spread risk. In northern Kenya today, partially mobile households are often the poorest, with the settled component of the unit often headed by women. Partially mobile households remain tied to the pastoral economy however, and are able to engage in livelihood activities which are related to livestock such as trading and processing livestock products. Poor, fully settled individuals and households who have lost ties to pastoral social configurations entirely are perhaps among the most vulnerable people in northern Kenya.

Livelihood zones in northern Kenya are mainly pastoral, dotted with growing urban and peri-urban areas, small pockets of agro-pastoral production and farming, and fishing around Lake Turkana. In spite of the unfavourable climate, more people are engaging in small-scale farming in response to
loss of livestock. Fishing, an activity associated with poorer households, is important for pastoralists around Lake Turkana whose livestock has dwindled. Trade in bush products such as charcoal and firewood is also important across all livelihood zones and districts in the north. In urban and peri-urban areas, there can be opportunities, particularly for women, to supply livestock products to growing town populations and to engage in other forms of small-scale trade. Indeed, some researchers have argued that poverty and settled life actually bring opportunities for women to improve their economic status and independence, increasing their negotiating power at the household level. The increasingly settled way of life may be more demeaning for men, however. Opportunities in and around towns for poor men who have opted out of pastoralism are often in casual labour or jobs as watchmen, and lack the social capital and prestige associated with keeping livestock. For both settled men and women who have lost ties to the pastoral community entirely, opportunities may become more limited.

In spite of a dramatic decline in the viability of subsistence pastoralism and increasing diversification into other livelihood activities, livestock remains the backbone of the economy in northern Kenya. Although poor households are unable to sell and buy at livestock markets on a regular basis, small stock (sheep and goats, or shoats) serve an important economic function as alienable assets. They are used as ‘currency’ to purchase staple food commodities such as maize, cooking oil, tea and sugar. Northern Kenyan populations rely on markets for as much as 55 per cent of their food, and weak markets and high prices have a direct impact on a households’ food security. Poor market functioning is thus a considerable constraint to households’ security in northern Kenya.

**Market context**

There are multiple contributors to the dysfunction of northern Kenyan markets. These include:

- Poor transport and communication networks.
- High levels of insecurity.
- Low population densities whose purchasing power decreases during drought.
- Minimal economies of scale.

The consequences of these factors include significant price volatility and vulnerability to shocks increasing the risk for households which rely on the market to purchase food or sell their products. In such situations, donor investments will necessarily take longer to produce results than in more dynamic contexts. Furthermore, encouraging poor households to engage more with markets may in fact increase risk and vulnerability. Interventions which address market functioning combined with an understanding of the most viable opportunities for very poor households are therefore critical.

**Value chains in northern Kenya**

The authors reviewed the major economic activities in the north through the perspective of the value chain approach. Each value chain was considered in terms of four factors:

- The existence of unmet market opportunities.
- The potential to reach large numbers of households in the north.
- The difficulty of overcoming the constraints that impede those households from benefiting from the market opportunities.
- The extent to which very poor households can benefit from the available market opportunities.

The analysis indicates that shoat meat, camel milk and fodder demonstrate the greatest potential for pro-poor development among the livestock value chains. Gum resins, herbal and medicinal plants, honey, fish and charcoal demonstrate the greatest potential for pro-poor development among the non-livestock value chains.

**Recommendations**

In order to address the crucial issue of poor market functioning, FSD’s financial graduation programme will need to work with strategies that address fundamental constraints to market efficiency. Where possible, FSD should advocate for improvement in basic infrastructure in the north. The lack of roads for example, is perhaps the single most significant hindrance to market development in the region. FSD should also support initiatives such as the EC Food Facility, led by Save the Children. These schemes stimulate local market supply by sourcing the protein component of the food aid basket from local producers, delivering food aid through local traders, promoting demand through a voucher system. Measures which address poor market functioning must be taken into account to make sure that interventions seeking to promote the engagement of poor households with markets are not rendered more vulnerable due to unstable markets. FSD therefore needs to launch its financial graduation in conjunction with an initiative such as the EC Food Facility.

FSD’s interventions will need to vary according to districts and regions within districts. Spatially, northern markets are diverse: remote trading posts are found around food distribution centres and satellite camps, around settlements along roads and growing peri-urban settlements. FSD’s market development interventions will therefore need to be tailored to different market contexts. Developing market hubs in very remote areas for example, would provide important opportunities to semi-settled pastoralists residing in satellite camps, while interventions supporting petty trading activities in towns would be more appropriate in a peri-urban context.
Savings groups have been found to have an important role in other financial graduation programmes. FSD should be able to use such groups to enable poor households to engage in livelihood opportunities that are opened up by meso-level interventions. Savings groups will then serve as a basis from which to introduce other important interventions, such as promoting income-generating activities and introducing business development services. These might include business planning and linking group members with wholesalers and middlemen. As households become more economically stable, their capacity to enter or upgrade their engagement in value chains begins to grow. FSD can support this by strategic investment in the high potential value chains identified in this study.

The authors also recommend that FSD support the value chains which are complementary across different members of the household. This ‘portfolio approach’ has the advantage of reducing household risk, since it generates opportunities that cater to multiple household members. Finally, the authors recommend that FSD supports the development of credit products for households as they become more financially stable and able to engage in riskier activities. SGs play an important role in assisting households to mobilise liquid assets and are a significant first step towards financial graduation. However, their financial products are less well-suited to supporting investment in larger assets, and complementary sources of credit for investment are needed. FSD should work with banks, MFIs and other financial institutions to develop loan products that meet the investment needs of dynamic value chains (e.g. loans for agricultural investments: beehives, fishing boats, milk chillers), which will support households to enter and expand their engagement in high-return economic opportunities. Currently, many institutions do not offer financial products that cater to these investment opportunities.
INTRODUCTION

OVERVIEW

This report is the outcome of an analytical review of markets and poverty in northern Kenya, commissioned by the Financial Sector Deepening Trust Kenya (FSD). It is a preliminary scoping study to inform its forthcoming Financial Graduation Programme. FSD’s Financial Graduation Programme will target recipients of cash transfers under the Hunger Safety Net Programme (HSNP), implemented across Kenya’s four northern districts of Turkana, Marsabit, Mandera and Wajir.

In recent years, livelihoods in northern Kenya have been increasingly undermined and threatened by recurrent drought, compounded by the region’s deep-rooted marginalisation, lack of infrastructure and services, conflict and violent livestock raiding. The HSNP seeks to strengthen chronically poor households’ food security by delivering cash transfers of 3,000 KSH bimonthly. While there is some evidence of households using the cash transfers to start up small enterprises and engage in income-generating activities, these have often been unsustainable during drought (see HSNP, 2011a; 2011b; 2012) and no programming has thus far been targeted at promoting beneficiaries’ engagement with markets. The proposed Financial Graduation Programme, therefore, seeks to address this gap by strengthening very poor households’ security through meso-level interventions, which facilitate the expansion and development of markets, while simultaneously promoting the poor’s engagement with markets through more micro or household-level interventions. These interventions will leverage on cash transfers under the HSNP and the development of new financial infrastructures across the region.

APPROACH AND METHODOLOGY

At the request of FSD (see Terms of Reference in Annex 1), this scoping study critically examines previous and existing financial graduation programmes and models in order to identify key lessons learned. An analysis of poverty and livelihood trends across the north, with particular reference to HSNP beneficiaries, was then necessary in order to identify where these lessons were relevant, and what approaches would be most appropriate to promoting sustainable livelihoods in northern Kenya. As recommended by FSD, the authors took the value chain approach as an analytical framework. This was used to identify opportunities and constraints to market engagement by the very poor, and interventions with which to address these constraints. The study is entirely based on secondary sources, drawing primarily on academic and grey literature, and interviews with experts. A Financial Graduation Workshop at a later stage in the research, with contributions from practitioners in the fields of livelihoods and food security, strengthening market functioning and development helped to develop recommendations for FSD and how its Financial Graduation Programme might practically be implemented.

STRUCTURE OF THE REPORT

This report begins with a discussion of the evolution of approaches and pathways out of poverty which have informed financial graduation models. It provides an overview of these graduation programmes and describes key lessons to be learned from them. This is followed by an analysis of poverty and different livelihoods in northern Kenya in order to gauge where these lessons might have the greatest relevance. Appropriate interventions for a financial graduation programme in the north are also identified and discussed. Finally, the value chains approach is used to identify important interventions for developing markets and enabling the very poor to engage in them. These proposed interventions form the basis of our recommendations for FSD’s Financial Graduation Programme.
Chapter 1

SYNTHESIS OF APPROACHES TO SUPPORTING PATHWAYS OUT OF POVERTY IN SIMILAR CONTEXTS AND OPPORTUNITIES IN NORTHERN KENYA

1.1 BRIEF BACKGROUND TO INITIATIVES SUPPORTING PATHWAYS OUT OF POVERTY

There is an increasing focus on programming that deliberately strives to ensure the very poor - and not just the less poor - benefit from economic development programming. The microfinance movement, for instance, has been limited in its outreach: the Consultative Group to Assist the Poor (CGAP) found that “[w]ith rare exceptions, even MFIs dedicated to reaching very poor populations fall short of reaching those at the very bottom” (Hashemi and Rosenberg, 2006: 2). Economic development approaches, including value chain development and making markets work for the poor, have also found it difficult to reach the very poor, who often struggle to access the market opportunities they generate. The limited success of these strategies to “pull” the very poor out of poverty is driven in part by the range of tangible (e.g. lack of assets) and intangible (e.g. marginalisation, limited risk tolerance) constraints that the very poor face.

Conversely, initiatives that have provided direct social transfers or social safety nets to “push” the poor out of poverty in a sustainable way have also been found wanting. Decades of food relief in northern Kenya for instance, has not created a long-term reduction in poverty (Philpott, 2011: 1). Households may temporarily graduate from reliance on transfers, but ultimately return to a situation of poverty due to lack of adequate income opportunities and resilience to withstand subsequent shocks. (Ministry of Agricultural and Rural Development, 2009: 7).

1.2 TAILORING ECONOMIC STRATEGIES

These challenges confirm findings that have long been recognised: there is not one single category of “poor” people and appropriate economic strategies will vary for households facing different levels of vulnerability (see Dunn et al, 1996 and Wolfe, 2009). Furthermore, family units themselves are not homogenous and members may experience different levels of economic hardship, particularly in split households. To date, most literature has used the household as the basic economic unit. One conceptualisation of the difference in appropriate strategies for households at different levels of vulnerability is provided in Figure 1.

Figure 1 suggests that supporting financial graduation requires creating multiple on-ramps that are appropriate for households at different levels of poverty. Value chain strategies are most appropriate for households at stages four and five, which have developed risk mitigation mechanisms. They have a greater tolerance to assume the risks associated with investing in entering or upgrading a value chain. Social transfers such as those provided by HSNP are typically required for households at stages one and two. The combination of “push” and “pull” interventions can therefore enable the very poor to exit poverty sustainably. Their combination into a package of interventions is increasingly referred to as a “graduation model” - an anticipated graduation of the very poor out of poverty. In contexts characterised by varying levels of intra-household vulnerability, different strategies will be appropriate for members of the same household.

Figure 1: Economic strengthening pathway

Stage 5: Expand household income and consumption
Stage 4: Smooth household income and promote asset growth
Stage 3: Smooth household consumption and manage household cashflow
Stage 2: Build self-insurance mechanisms and protect key assets
Stage 1: Recover Assets and stabilize household consumption

Source: Fowler and Endalamaw, 2011: 4

For further discussion on how the principles of the value chain approach must adapt in working with very poor populations, see Fowler and Brand (2011).
1.3 OVERVIEW OF GRADUATION PROJECTS

Graduation projects most relevant to FSD in northern Kenya are briefly described here. Their respective graduation models are presented in Annex 2.

1.3.1 PSNP Plus in Ethiopia

The Productive Safety Net Program Plus in Ethiopia was designed to build on the Government of Ethiopia’s cash and asset transfer programme. This targeted people who were extremely food insecure with a series of additional interventions including savings group formation, training in promising value chains and links to micro-finance institutions (MFIs) (Fowler and Endalamaw, 2011). Rather than providing a direct asset transfer, the project worked with local MFIs to design products suited to the economic activities within their targeted value chains. With loan funds provided by the project, the MFIs then offered loans to the project’s target clients, repayable by the client with interest in accordance with the cash flow of the investment. These loans were made available to individuals who had already built up sufficient liquid capital within a savings group. The types and timing of interventions implemented by PSNP Plus are presented in Table 1:

Implemented as a pilot by a consortium of organisations led by CARE, with funding from USAID, the project ran from 2009 to 2011. Significantly for FSD, a case study of the PSNP Plus project found that the savings groups played a critical role in supporting economic advancement of the PSNP recipients. They did so by lowering risk, mobilising financial capital for investments and providing a cost-effective platform to receive other project services (Fowler and Endalamaw, 2011). The project targeted food insecure areas in four provinces. However, most of the project areas faced a serious drought in the first year, which meant that progress in the value chain interventions was significantly set back and many households needed several years just to regain the assets they had at project inception. This limited the total number of households graduating over the period to 2,800 out of a targeted 47,414 households. Importantly, the project regarded graduation as defined by ceasing reliance on the PSNP transfer. However, the Government of Ethiopia was responsible for determining graduation, and political incentives sometimes favoured graduating households to demonstrate the project’s success, regardless of their actual status. The project’s budget was $15 million and aimed to reach 47,414 households, implying an annual cost per household of $105. Significantly, participating households favoured livestock value chains (particularly small ruminants) over crop-based value chains, which they felt were too risky in an and environment characterised by unreliable rainfall.

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<th>PSNP Plus Interventions</th>
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<td>Cash / food transfers</td>
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<td>Savings Group formation and training</td>
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<td>Income Generating Activity training</td>
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<td>Producer Marketing Group formation and development</td>
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<td>First micro-leasing</td>
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<td>Productive VC training</td>
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<td>Business skills training</td>
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<td>Financial literacy training</td>
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<td>Subsequent micro-leaseings</td>
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Table 1: PSNP Plus interventions

Source: Fowler and Endalamaw, 2011: 4
Box 1: Savings groups in northern Kenya (data sourced from interview with Otieno and Odera, 24.02.12).

CARE Kenya is implementing the Community Savings and Loans (COSALO) project — funded by FSD — that is mobilising savings groups in Marsabit district. COSALO is targeting 22,000 members and supports each group for 18 months (1.5 cycles). At the time of the study, and an early stage of the project, the poor communications infrastructure contributed to an implementation cost per member of approximately $48 (higher than the averages for savings group projects of $20 in the more densely populated parts of Africa and $20 to $40 globally), though this cost is constantly reducing as new clients are recruited. (Recruitment is also expected to increase following the first share-out). CARE is also hoping to reduce costs per member in part by using a fee-for-service model for group mobilisation.

The savings rates of group members are much higher than in other parts of Kenya: roughly 200 KSH on average per week compared with 50 KSH in southern Kenya. While this may appear positive, it could also indicate that the groups are not reaching the very poor.

COSALO targets those without access to formal financial services and HSNP recipients. The latter typically forms a minority of the group members. Thus far, SG members consist primarily of pastoralist “drop-outs” who have no, or very few, livestock, yet are partially mobile and occasionally shift their location. There are also urban groups who are permanently settled and tend to be more business-oriented, though these do not include the largest business people who have alternate sources of finance.

Some challenges limit the performance of the SGs. Intermittent conflict can interrupt group mobilisation and training. At present the SGs rarely lend: CARE reported that people in the area, particularly women, have few ideas or opportunities for business development as a result of their remote location and distance from markets, and hence there is little demand for loans. Among Muslim group members, there was said to be some reluctance to borrow due to the requirement to pay interest on loans; paying interest is discouraged in Islamic teachings.

Like the PSNP Plus project in Ethiopia, the savings groups could become a platform that supports financial graduation. CARE currently does not provide any other activities to SG members, though it is planning to do so as the groups mature. CARE’s more mature Groups Savings and Loans (GS&L) groups in Mandera have proved successful, and have enabled Somali women in particular to engage in diverse businesses, including khat sale and clothes businesses.

1.3.2 CGAP and Ford Foundation graduation pilots

CGAP and the Ford Foundation are funding ten graduation pilots in eight countries, building on the work BRAC has been doing on financial graduation since 2002 (Hashemi and Umaira, 2011). The pilots vary by context, implementing agency and cost, which ranges from $330 per person for 24 months in India to $1900 per person for 18 months in Haiti (Hashemi and Montesquiou, 2011). There are five aspects that are common to all of the pilots. They include a focus on explicitly targeting the very poor; incorporating savings services (typically through a savings group); providing consumption support (e.g. cash transfers, food aid) that enables households to engage in other income-generating activities; incorporating an asset transfer to support value chain entry or expansion; and providing skills training on both technical skills and general business management (Hashemi and Montesquiou, ibid.)

1.3.3 AMPATH in Kenya

AMPATH ran a two-year project in western Kenya aimed at supporting the graduation of over 1000 HIV positive households receiving food by prescription (Indiana Institute for Global Health Kenya, 2011). The project focused on both ‘push’ and ‘pull’ interventions. It facilitated savings groups’ formation for both HIV positive and non-affected individuals to prevent stigma. The aim was to encourage African leafy vegetable cultivation for improved household nutrition, and income generation where there was surplus. The project also supported links to a passion fruit value chain development project operated by Fintrac, Inc. with the collaboration of the Export Promotion Council. Significantly however, only two or three members self-selected this opportunity, partly because of a lack of land and liquid assets. This highlights the importance of selecting and promoting economic opportunities that can be realistically accessed by very poor individuals in relation to their physical and non-physical assets. In this case, the land and investment capital required for passion fruit production exceeded that available to nearly all of the HIV positive households (Lundman, interview 31.01.12).

1.3.4 Grameen Foundation, India

The Grameen Foundation’s Livelihood Pathways for the Poorest programme aims to develop a commercially viable model for the BASIX Group, (a large Indian Microfinance Institution) to integrate very poor households as new clients. The pilot is currently quite small, working with nearly 200 people in Bihar, India (Sivalingam and Griffin, 2011; Tolat, forthcoming). The model starts with savings group formation and trust-building. It continues by supporting
households within higher performing groups to start or expand supplemental income-generating activities and ultimately, activities with higher return. Linkages to tailored credit products are eventually offered through BASIX once individuals have become economically more secure. Unlike many of the other graduation models, BASIX does not provide an asset transfer and instead prioritises fast income-generating activities in the first six months of the project. As the project is still on-going, it is not yet clear how expensive the model is and whether it will be profitable for BASIX as a means of acquiring new clients it cannot currently attract. Of relevance to northern Kenya, many of the participating households migrate during the year. This has created challenges for savings group formation and service access which the project is still trying to resolve.

1.3.5 Lessons learned from existing graduation initiatives

There are a number of lessons from the profiled graduation initiatives that are relevant for FSD’s exploration of a financial graduation pilot in northern Kenya:

- All graduation pilots that were reviewed use a household-focused approach to address the constraints faced by their target groups to economic strengthening. This includes limited access to financial services, a lack of productive assets and insufficient knowledge about how to use those assets. “Push” interventions including income and asset transfers feature in many of the profiled graduation models as a means of increasing a household’s ability to engage with markets.

- Every approach uses a combination of interventions. These interventions are typically sequenced to build successively on each other (e.g. value chain linkages are only helpful once a household has sufficient assets and risk tolerance to invest), and to permit multiple entry points (creating opportunities for households at varying levels of poverty and vulnerability to engage).

- Targeting is often used to ensure the inclusion of the very poor, sometimes by presenting opportunities to recipients of government support. This is typically non-exclusive targeting that also permits others to participate in group structures (e.g. savings groups and marketing groups). These groups typically benefit from having wealthier members who increase capitalisation and economies of scale.

- Providing untargeted economic support (e.g. asset transfers) without understanding the market potential of the specific value chain, the constraints to growth, and whether the value chain creates pro-poor opportunities, will produce limited results. Livestock and related value chains often pose lower risks to engagement than crop-based value chains, particularly in environments characterised by low or irregular rainfall.

- Most graduation initiatives have supported the very poor to engage in economic activities as entrepreneurs rather than as employees or consumers, despite the lower barriers to entry of many employment opportunities.

- Timelines to achieve graduation are at least eighteen months and usually longer, depending on the depth of poverty of project participants. Two or three year projects have proved insufficient in more difficult contexts, particularly in arid areas facing periodic droughts like northern Kenya. A drought will have a significant negative impact on livestock and agricultural value chains.

- Savings groups are a common feature of graduation pilots. They enable fast mobilisation of large numbers of people, a platform for subsequent interventions and improved access to capital. The pace of capital accumulation in some groups may be inadequate to enable fast investment in higher return activities (e.g. livestock rearing).

- How graduation is defined varies significantly across pilots. In some cases it is based on an absolute income threshold, while in others it is based on a broader range of factors (e.g. household assets, food security).

- Graduation is not always sustainable: if adequate risk mitigation strategies and safety nets are not in place, future shocks (e.g. drought, illness of an income earner) will reverse graduates’ gains.

- Where the government defines graduation, the potential for subjectivity in measurement grows.

- It is important to invest in understanding available market opportunities and value chains. Where graduation pilots have not carefully considered the viability of new businesses (such as by distribution assets for which there is little demand), or promoted links to businesses with inappropriately high barriers to entry (such as passion fruit cultivation that requires very high up-front investments), they have seen less success.

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2 For more information on tools that assess the risk level of value chains, see Fowler, 2012.
Chapter 2

NORTHERN KENYA: POVERTY AND LIVELIHOOD CONTEXT

In this section we discuss poverty and food security trends in the north together with the region’s major livelihood zones and dynamics. This is with particular reference to cash transfers recipients under the Hunger Safety Net Programme (HSNP). We begin with an overview of poverty and food security trends across the whole of the north,3 and go on to focus on the characteristics of the north’s poorest communities. We look specifically at the poverty profiles of HSNP beneficiaries. We then analyse the key livelihood strategies and dynamics for the very poor in the different livelihood zones of the area.

2.1 POVERTY AND FOOD SECURITY IN NORTHERN KENYA

Northern Kenya is widely viewed as an extremely challenging place in which to live. The region is prone to climatic shocks, recurrent drought, and is largely under-developed and lacking basic infrastructure. Kenya’s four most northern counties — Turkana, Marsabit, Mandera and Wajir4 — were ranked the four poorest districts in Kenya according to government statistics released in December 2011 (Omar, 2011). The percentage of people living in poverty in Turkana, Mandera, Wajir and Marsabit was found to be 94.3, 87.8, 84 and 83.2 per cent respectively.5

Too often it is assumed that northern Kenya is underdeveloped because of its climate and predominantly pastoralist populations. These people are viewed as existing outside processes of development and modernisation in southern ‘down’ Kenya. Furthermore, governments, popular media, NGOs and international agencies have tended to view pastoralist populations in northern Kenya as monolithic, and have failed to acknowledge that disasters do not impact all communities in the same way. A more nuanced understanding of poverty in the north is vital to inform effective intervention policies aimed at reducing the vulnerability of pastoralist communities. Understanding the dynamics of poverty in northern Kenya requires focus on both the structural aspects of poverty, (why people are poor and why their options are so limited) and the behavioural aspects of poverty, (what the poor people do to survive) (Little et al, 2008: 588). We begin by focusing on structural poverty in northern Kenya by situating the region in its historical context.

2.1.1 Historical context

Historically, northern Kenya has been marginalised. The colonial government viewed nomadic populations in the then Northern Frontier District as a problem, and put in place policies to control and restrict the movements of what they perceived as distinct ethnic groups, curtailing the mobility that is so essential to pastoral production (Fratkin, 1997: 251). Furthermore, colonial policies undermined indigenous and essentially egalitarian political structures, designed to ensure sustainable and equitable use of resources between pastoralists by implementing a modern administrative hierarchy of chiefs and headmen (Hogg, 1986: 321). Growing economic disparities between pastoralists came with the opening up of the livestock economy during and after the Second World War (ibid.). Town populations grew as poor pastoralists who had lost livestock and wealthy pastoralists who could diversify between livestock and urban-based businesses sought opportunities in towns (ibid.).

Pastoralist livelihoods were further threatened with the outbreak of the Shifta War immediately following independence, when the wishes of the majority of northerners to secede with the newly independent Republic of Somalia were ignored in favour of maintaining the region as a ‘buffer zone’ between neighbouring Ethiopia and Somalia (Whittaker, 2008). Somalis and their allies launched a guerrilla war in protest, and the new government responded by rounding up whole communities into secure ‘villages’ and gunning down large numbers of livestock. Indigenous responses to the Shifta War varied; many Boran, Somali and Turkana migrated ‘down country’ to look for work, while others settled in towns, carving out a living as alcohol brewers, khat sellers, charcoal burners, casual labourers or sex workers, or drifted to famine relief camps to become permanent paupers (Hogg, 1986: 322). Following the war, the government retained a state of emergency in the north, and invested little in infrastructure and services.

Population growth across the region has been rapid, due to both natural growth and migration, often across national borders. This includes Boran from Ethiopia to Marsabit and Somalis from Somalia to Kenyan Somali areas, as well as the arrival of non-pastoralists excluded from high-potential agricultural zones (Dietz and Zaal, 1999: 186). Although average population growth has been higher than livestock growth, and drought has decimated large numbers of animals intermittently, it is probable that the total absolute number of livestock in pastoral areas is still higher than it was in the 1950s (ibid.). The increased pressure on a delicate environment and resulting conflicts over resources, compounded by lack of investment and infrastructure, has meant that since the late twentieth century, pastoralists have increasingly been drifting to towns in search of opportunities outside pastoralism. In addition, development policies have often undermined pastoralist systems by encouraging settlement, range privatisation and commercial ranching, in the belief that subsistence pastoralism is essentially unviable (Anderson, 1999; Fratkin, 1997).

Aid agencies such as the Catholic Relief Services encouraged poor pastoralists to settle permanently at relief posts to receive food and services, disengaging them from their nomadic lifestyles (Fratkin and Roth, 2005: 2). More recently recurrent drought has had a devastating effect on pastoral livelihoods, and catalysed processes of settlement. This has exacerbated conflict over resources; inter-ethnic violence is becoming increasingly common,6 in addition to violent

3 For the purposes of this report we consider broad socio-economic poverty trends across the whole of the north, while recognising that the four districts where HSNP is implemented are by no means homogeneous, with diverse histories, ethnicities, religious affiliations, cultural norms, geo-political contexts and thus varying livelihood dynamics.
4 Also the four counties receiving cash transfers under the Hunger Safety Net Programme.
5 Turkana ranked poorest, followed by Mandera, Wajir and Marsabit. (Omar, 2011).
6 Turkana ranked poorest, followed by Mandera, Wajir and Marsabit. (Omar, 2011).
and commercialised livestock raiding facilitated by weapons which have filtered into Kenya from troubled neighbouring countries. Insecurity has a significant impact on pastoralism and other livelihoods; market activity in pastoral areas grinds to a halt where there is conflict in the hinterlands (author’s previous research, July 2010). Insecurity in northern Kenya has often been found to have a disproportionate effect on women; violence is increasingly targeted towards settlements of mothers and children rather than youth (Little et al, 2008: 603). Women’s freedom to pursue livelihood strategies may then be significantly curtailed by insecurity.

2.1.2 Poverty and settlement

While settlement is not a recent process, and various degrees of mobility and sedentism have always been part of a pastoral economy (Fratkin et al, 2011: 3), the process has been occurring at a particularly intense rate since independence. Nevertheless, settlement should not be viewed as an unidirectional process, nor one that involves a complete departure from a pastoral economic, social and moral economy. Former pastoralists residing in towns or on farms often own livestock which is herded by family or clan members in the hinterlands. Households are sometimes split, with some members farming or seeking opportunities in towns while other household members herd livestock. Sedentary individuals may trade in livestock or livestock products which they are able to source through familial ties to the pastoral economy. Settlement thus operates along a continuum from highly mobile pastoral households to permanently settled households, and individuals may move from one sphere to another (ibid.).

In the northern Kenyan context, extreme poverty and food insecurity are increasingly associated with stockless pastoralists who have either lost all their livestock to drought or raiding, or have been forced to sell their few remaining animals to purchase food. Since the 1980s, per capita livestock holdings have declined, and few households remaining with livestock have more than 4 Tropical Livestock Units (TLUs) (Little et al, 2001: 422). According to Little et al, households holding less than 4.5 TLUs struggle to move out of poverty; unable to gift and exchange livestock, and thus create intricate social relations and safety nets. Poor households remain vulnerable and exposed to shocks (Little et al, 2008: 598). The only option for such households is often to settle, at least partially, in order to facilitate better access to food aid and social services. As a result, towns in northern Kenya continue to grow; Marsabit town has experienced 4-5 per cent annual growth rates since 1990, compared to growth of 2 per cent or less annually in surrounding rangelands (ibid: 600).

Although residing close to towns has benefits in terms of access to amenities, a trade-off typically emerges since residing closer to towns and markets reduces pastoralists’ mobility and thus ability to remain pastoralists (ibid: 597). This would suggest that there is a positive correlation with wealth and resilience and distance from towns and markets. However, diversification opportunities increase with proximity to markets, as well as opportunities for paid labour; the HSNP baseline survey found that the wealthiest households were fully settled in towns, often working as civil servants (OPM and IDS, 2011: 100).

2.1.3 Markets and food security

In recent years, northern Kenya has faced recurrent droughts – in 1999, 2000, 2004, 2005-6, 2007-9 and 2011. A complete failure of short rains in 2005 caused a loss of an estimated 30-40 per cent of livestock. In 2011, rainfall was thought to be at the lowest levels recorded since 1950 (ibid: 3). Between 1999 and 2010, the World Food Programme (WFP) delivered emergency food relief every year except one (ibid: 51). Famine relief has been provided in northern Kenya since the 1930s (ibid.), and has become institutionalised within local political, social and economic sub-systems. The baseline survey for HSNP found that 70 per cent of households interviewed were food aid recipients. The survey found that on average, households rely on famine relief for 30 per cent of their food (ibid: x).

For decades, pastoralists have diversified a traditional diet of meat and milk with commodities such as maize, sugar and tea, to the extent that such commodities have been absorbed into notions of indigenous pastoralist diets (see Holtzman, 2003). Consumption of cereals has increased significantly over the past twenty or so years in northern Kenya (OPM and IDS, 2011: 44), in part an outcome of heavy reliance upon famine relief which typically consists of maize and beans. People in northern Kenya today source most of their food (55 per cent) by purchase or barter. As goats are typically bartered for maize, households tend to rely heavily on the market, albeit indirectly (ibid: x), particularly during the dry season when milk and meat are less available. Exchanging livestock and livestock products for cereals gives herders favourable terms of trade in terms of calories (Dietz and Zaal, 1999: 169).³

6 As witnessed in Marsabit and Moyale recently. It should be noted that conflict is fuelled by multiple factors, and the recent clashes in Marsabit and Moyale can also be attributed to politicians inciting ethnic hatred as a strategy to eliminate competition in the forthcoming elections. Devolution prospects look likely to exacerbate tensions – see Kosire, 2012.

³ However, it has been argued that a diet high in carbohydrates is not necessarily favourable over a traditionally pastoralist diet. See Nathan et al, 1996.
However, prices of foodstuffs are susceptible to varying degrees of inflation in northern Kenya according to the districts’ market functioning. Markets in Wajir, for example, are relatively well connected geographically, and receive staple food commodities. These include rice via the port at Mombasa and across the border from Somalia, as well as in Wajir north through Moyale, sourced from across the border in Ethiopia, and in the south from Garissa and Habaswein (Mercy Corps, 2011: 13–14). Markets in Turkana, on the other hand, are significantly less integrated, perhaps in part due to the fact that there are few opportunities for cross border trade since Turkana is relatively landlocked (OPM and IDS, 2011: 32), and largely attributable to insecurity and poor road infrastructure. These differences in market functioning may account for higher levels of poverty in Turkana as compared to Wajir. Nevertheless, across the north, prices of staple food commodities are disproportionally high as compared to the rest of the country; cereal markets are dependent on trade inflows, are generally poorly integrated and have high transaction costs (OPM and IDS, 2011: 49; De Matteis, 2006). In addition to insecurity and bad roads, costs have been pushed up recently by a hike in fuel prices (Mercy Corps, 2011: 13). Prices of imported goods increase along the trade flow. In Turkana, for example, the average rate of price increase of goods between source markets and the district’s furthest main market, Lokichoggio, is around 40–50 per cent (De Matteis, 2006: 21). Furthermore, distribution of relief food may be a causal factor in inflated prices, especially of maize, as it suppresses demand and local cereals markets suffer. Livestock products in northern Kenya do not follow this pattern of extremely high prices: milk and meat are relatively cheap during wet seasons, though prices tend to increase during drought (OPM and IDS, 2011: 49).

Recurrent droughts have eroded household assets and reduced household incomes, further impacting on local markets and inflating prices. An Emergency Market Mapping Analysis conducted in Wajir found that local credit systems essential to market functioning were undermined during drought. Wholesalers would frequently allow retailers to take stock on credit and repay once the goods had been sold. Retailers would in turn provide credit to trusted households. This system strengthens a household’s food security since it improves the terms of trade for pastoralist households. Households are

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8 In Turkana, apart from livestock trade flows, almost all food and other commodities are imported, and the average price of maize is disproportionately high in comparison with the average price for the rest of Kenya (De Matteis, 2006: 20, 24). Tropical relief is often bought from households by traders and sold on the market for a significantly lower price than food sourced elsewhere, since traders do not have to cover transportation costs and quantities tend to be high following distribution. The amount of relief food on the market thus affects purchases from other sources (Mercy Corps, 2011: 13).

9 Though milk tends to be expensive in Marsabit all year round, perhaps because the main market in Marsabit town is located far from milk-producing areas and prices are raised by transport costs.
able to buy food on credit when it is needed and wait to sell livestock when prices are more favourable to pay the debt. However, with drought, households become less reliable when it comes to paying debts, which prompts retailers to limit selling food on credit or stop altogether (Mercy Corps, 2011: 13). This has a direct impact on the food security of a poor household.

2.2 POVERTY PROFILES OF HSNP BENEFICIARIES

The Hunger Safety Net Programme is implemented across the four northern Kenyan districts of Turkana, Marsabit, Wajir and Mandera. Cash transfers recipients, identified as the poorest households in the locations surveyed were targeted according to three methodologies: community based targeting (CBT), social pensions (SP), and dependency ratio targeting (DR). Poverty dynamics were found to vary significantly across the four districts, reflecting the different livelihood contexts in the north. Here, we give a brief overview of the poverty profiles of HSNP beneficiaries, touching on how these vary according to district.

The baseline survey conducted by Oxford Policy Management (OPM) and the Institute of Development Studies (IDS) found that the poorest households across the four districts tend to be those that are ‘partially mobile’, whereby some members move with livestock while others remain settled. Fully mobile and fully settled households tend to be better off (OPM and IDS, 2011: 33). ‘Partially mobile’ can describe a number of trends in patterns of settlement: mobile households may send a young male to town to seek labour opportunities, the proceeds from which can be remitted to the mobile household, or send children to reside with family or clan members to be educated in town, which is seen as a future investment. In Wajir, a trend has developed whereby poor households split during drought, with women and children settling in peri-urban areas around Wajir town, and male members moving with livestock in search of pasture. Communication across split households tends to be strong and regular, involving not only exchange of news but also of resources. Food aid is delivered from the settled part of the household to the pastoralists, as well as cash, medicine (veterinary and human), tobacco and khat, while pastoralists send milk, livestock and ghee are sent back to the settlement. Cash is also sent to the settlement when pastoralists sell livestock (ibid: 102). These transactions are often facilitated by a member of the camp in the fora [grazing areas in the hinterlands] who treks to town to deliver and collect goods (personal communication).

According to Hjort, towns function as ‘safety valves’ for poor pastoralists against negative effects of increased population pressure and drought. He identifies two classes of ‘town-based’ pastoralists in Isiolo town: temporary migrants who use town-based livelihood strategies to support the pastoral household at ‘home’ in the hinterlands (effectively to remain pastoralists), and wealthy livestock owners who settle permanently in town, employing herdsmen to care for their livestock (he also calls these people ‘absent pastoralists’) (Hjort, 1990: 144; 156). While the baseline study found that settled town-dwellers represented the wealthiest households surveyed, towns may be home both to a wealthy pastoral elite who also have town-based businesses or waged labour as civil servants, and to economic migrants and pastoralists who have opted out of pastoralism altogether, who may represent the poorest of the poor. There may be a pattern whereby as families and households move further into poverty, the further they are forced to rely upon the town. Mobile households may initially split to cope with increased pressure on resources, and ultimately move to towns more permanently on further loss of livestock.

Figure 4: Transfers between split households

Source: the authors.

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10 Including all individuals aged 55 years and over. While poverty in the north is clearly associated with age, we leave this poverty trend unexplored in this paper, focusing instead on the ‘productive poor’. HSNP baseline report states that these poverty categories are also perceived locally; female elders in Marsabit referred to “The poor who are disabled or are too old to fetch for themselves, and the poor who are able-bodied and can engage in meaningful activities like casual labour” (OPM and IDS, 2011: 37)

11 Peri-urban temporary settlements look to become increasingly permanent in response to the current frequency of droughts. (Alex Crosskey, interview 07.02.12).
The HSNP baseline survey found that one in four households surveyed across the region were female-headed. This rose to one in every three households among targeted HSNP beneficiaries, and constituted 42 per cent of those selected by community-based targeting (CBT). This highlights the fact that among communities in the north, female-headed households are generally considered to be disadvantaged. Poor households are significantly more likely to be female-headed than wealthier households (OPM and IDS, 2011: 21). Across the districts, there are higher numbers of female-headed households in Turkana and Marsabit (30 and 28 per cent respectively) than Mandera and Wajir (23 and eighteen per cent) (ibid: 18). In light of the fact that OPM and IDS identify partially mobile and often split households as the poorest, it is worth considering that the term female-headed household may be somewhat ambiguous. Settled components of split households may be female-headed while a male ‘head’ is absent with livestock. The HSNP baseline assessment fails to unpack what is really involved in being the head of a household, or how the role of household head may shift according to circumstances. For example, when a household is split during dry periods, the settled component may be headed by a woman as the main decision maker, but her authority may be undermined during the rains when the male head returns to the camp with the animals.

28 per cent of HSNP recipients were found to have a female budget decision-maker, as compared with 17 per cent of non-beneficiary households (ibid: 26). The baseline study found that in cases where the main household provider lives within the household, in one in eight cases the main provider is not the head of household. This could have an impact in terms of intra-household dynamics (ibid.). When the divide is defined by gender (i.e. the main provider is a woman and the head of household is a man), or generational (when the main provider is younger than the household head), there could be tensions about how income should be allocated. There is an overall trend across the north whereby there are more female main providers than household heads. This reflects enduring gendered dynamics at the household level where men continue to be the main decision-makers in spite of having less earning power (ibid.). Overall, 79 per cent of households’ main providers were found to be illiterate and 80 per cent to have no formal education (ibid.).

Households tend to be larger among HSNP recipients with an average of 5.7 members, compared to households in the richest quintile which average 4.8 members (ibid: ix). The baseline study found that HSNP households in Wajir are significantly the largest, followed by Mandera and, surprisingly, smallest in Turkana. However, the survey found that local notions of ‘household’ in Turkana differed from ‘household’ as defined by the survey; Turkana definitions of ‘household’ included livestock, as well as more extended households which included a number of ‘nuclear’ families (ibid: 18). This is an important point for FSD to note when developing its financial graduation programme: NGO-defined notions of ‘household’ may not always be applicable in the northern Kenyan context.

The use of income and consumption as measures of wealth have been criticised by a number of researchers who suggest they are not applicable to a pastoralist context. This is because consumption levels vary little between wealthier and poorer communities (Little et al, 2008; Levine and Crosskey, 2006). However, the HSNP baseline survey finds that income and consumption levels do square with other indicators of wealth and poverty. The wealthiest quintile of the population surveyed consumed five times as much as the poorest (OPM & IDS, 2011: xi), and the average cash income of beneficiary households was 30 per cent lower than non-beneficiary households (ibid: x). Across the four northern districts, net cash income was highest in Mandera and lowest in Turkana (ibid.). Food was the main consumption item across all quintiles, from a low of 70 per cent of total expenditure on food in Mandera to 84 per cent in Turkana (ibid: 29).

Formal financial services in the form of savings, credit and insurance markets are very limited in northern Kenya. The large majority of households in the OPM and IDS baseline survey had no savings at all (89 per cent), and the proportion of those with savings within targeted households under the HSNP was significantly lower than among the non-selected population – 5.5 per cent as compared to 17 per cent. The proportion of households with cash savings in Turkana (16 per cent) was surprisingly significantly higher than in Wajir (1 per cent). However, the average amount of cash savings in Turkana was lower than in other districts.

Mobile and partially mobile households were found to be less likely than non-mobile households to save — only 2 and 3 per cent respectively saved — although the average savings were significantly higher among the fully mobile households who do save. Settled households were significantly more likely to save. Of the 14 per cent of settled households who save, 67 per cent kept their savings at home. Settled households’ average savings were significantly higher than mobile households’ and much higher than partially mobile households’ (ibid: 104).

The majority of households had not borrowed money in the last year that the survey was conducted (85 per cent) but tended to instead purchase goods on credit. The reasons for not borrowing were not wishing to get into debt (40 per cent), not being credit-worthy (27 per cent) and not having anyone to borrow money from (25 per cent). Of those who did take loans, most borrowed from family, friends and neighbours, a third borrowed from traders, and a small percentage from religious organisations and banks. Two thirds of loans were used to purchase food (ibid: 104-5). Wealthier households were less likely to borrow than poorer ones, since borrowing seems to be a response to stress as

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12 Since the survey found the wealthiest households to be fully settled and living in towns, consumption figures may be higher because of a small elite class residing in urban areas which likely have high consumption levels. This should not discount from the fact that among more mobile households, consumption likely remains a limited measure of poverty. In addition, poorer households may be forced to purchase more since they lack livestock.
opposed to an opportunity to invest. Households in Turkana were more likely to borrow money than in Mandera, for example (ibid: 105).

A majority of the households surveyed had purchased on credit during the three months prior to the survey (60 per cent). However, only 40 per cent of the poorest households had done so — probably because they are less credit-worthy, and because they were afraid of accumulating debt they were unable to repay (ibid: 105). The vast majority of credit taken was for food. The survey found that credit-taking behaviour differed significantly across the districts; in Wajir and Mandera, 86 per cent of households bought on credit, as compared to only 40 per cent in Turkana. Households in the north eastern districts owed an average of KSh 4,949, and in Turkana just KSh 194. The lower credit taking rates in Turkana are supply rather than demand-related, people would not lend, a reason for not taking credit given by only six per cent and seven per cent in Mandera and Wajir respectively and no-one in Marsabit (ibid: 106).

Informal transfers in the region are significant — possibly more so than formal transfers. One in four households said that they had given cash or in-kind transfers to friends, relatives and neighbours, and 37 per cent reported receiving such support (ibid: x). Fully settled households received significantly more informal transfers in cash-form than partially and fully mobile households (40 per cent, 32 per cent and 28 per cent, respectively) (ibid: 68). Across the four districts, it was common for those who receive informal transfers to report sharing them with non-recipients, though this was said to decrease during drought when the entire community is affected (ibid: 67). The survey found that a significant proportion of the value of informal transfers was received from outside the community (ibid: 65). Though poorer households are significantly more likely to receive informal transfers than wealthier households, those transfers to wealthier households were significantly larger: more than seven times higher than those transfers to poorer households. This suggests that informal transfers operate horizontally across quintiles as opposed to vertically; poorer households are likely to receive transfers from other poor households, while wealthier households receive transfers from their wealthy relatives and friends, who may be remitting cash from a city in southern Kenya or from abroad (ibid: 65). The baseline study gives no indication of existing financial infrastructures across the district, but other sources report that formal banks are present in the districts’ main towns and some agents in more rural areas, for example in Marsabit (Otieno and Odera, interview 24.02.12).

MPesa agents are likely to be found in all significant urban areas and trading centres, though many households will still likely need to travel significant distances to reach them, and the availability of cash is not always guaranteed. Other (usually cheaper) money transfer agents are likely to be present in the districts in North Eastern Province, Wajir and Mandera, since this is a model pioneered by Somali businessmen and facilitates money transfer between the Somali diaspora and relatives and friends at home. This model has also reached parts of Upper Eastern Province; there is a Dahabshiil agent in Marsabit and Moyale towns. In addition, informal money transfer systems exist, for example among the Burji, though the data accessible on this particular system refers specifically to transfer of cash between traders as opposed to social support / philanthropic transfers (Mahmoud, 2008). In Marsabit, CARE’s Community Savings and Loans (COSALO) project represents new financial infrastructure which will likely become very important for HSNP households. While their groups are relatively young, and so difficult to evaluate at this stage, CARE has seen significant positive results in Mandera, where there are more mature savings groups (Otieno and Odera, interview 24.02.12).

### 2.3 LIVELIHOOD ZONES AND STRATEGIES

#### 2.3.1 Overview

Pastoralists seeking alternative livelihoods are not a new phenomenon; nomadic livestock-keeping people have historically used ties with foraging, farming and, more recently, urban communities during times of hardship and combined livestock herding with agricultural production and trade. Rapid rates of settlement over the last half century however, have intensified diversification strategies. Former pastoralists have settled in rural, peri-urban and urban spheres, seeking livelihoods as farmers, agro-pastoralists and townpeople, engaging in trade, wage labour, entrepreneurial activities and craft production (Fratkin et al, 2011: 1).

Diversification tends to be an activity most common among the wealthiest and the poorest of pastoralist communities; Hogg writes, “Only the very poor, whose stock was insufficient to maintain an exclusively pastoral existence, or the very wealthy, who had the necessary capital and motivation to invest in trade, let their sons leave pastoralism” (1986: 321). Opportunities tend to increase with proximity to urban centres (Little, 2001: 1). While Little et al (2008) have emphasised that wealth among pastoralist populations tends to increase with mobility and number of livestock, usually requiring pastoralists to reside around more rural areas away from towns and markets, the HSNP baseline survey found this not always to be the case. Indeed, the survey found that poorer households are more likely to own livestock than wealthier ones, suggesting that the wealthiest households abandon livestock production entirely (OPM and IDS, 2011: 32). This is surprising, since research has shown that wealthier individuals and households engaged in business or waged labour in the formal sector remain connected to the pastoral economy, injecting capital from urban-based jobs to expand their herds, and investing profits from livestock sales into businesses (described by Hjort as ‘absent pastoralists’) (Hjort, 1990: 156).

Among the poor, however, diversification is a means of survival as opposed to profit-making or herd expansion, as well as a means of avoiding selling one’s few remaining animals. It is usually the poorest categories of households with less than 1 TLU per capita that have the most diversified sources of income and depend heavily on activities such as petty trade, rain-fed agriculture, waged and unskilled labour (Little et al, 2008: 600).
2.3.2 Livelihood zones

The HSNP baseline survey found that only ten livelihood activities beyond livestock could be identified for more than 2 per cent of the population: salaried work, wholesale trader and shop-owner or worker, livestock production and farming, selling firewood or charcoal, selling other bush products (e.g. wild food), casual labour, construction work, petty trading and craftwork (mats, baskets, etc.) (OPM and IDS, 2011: 61). It is important to bear in mind that different livelihood strategies in northern Kenya often remain related and tied to pastoral economies. Start-up capital for small businesses for example, often comes from capital earned through sale of livestock. Town-based businesses are driven by demand from pastoralists visiting towns to purchase commodities such as foodstuffs and clothes using income from livestock sales. During drought or conflict in pastoral hinterlands, town-based businesses suffer as there is significantly less money circulating from the pastoral economy (author’s research project with British Institute in Eastern Africa in Marsabit and Moyale towns, July–August 2010).

Four livelihood zones are identified by HSNP across the four districts where cash transfers are administered: pastoral, agro-pastoral, peri-urban and urban (Fisher, interview 17.02.12). The Famine Early Warning System Network (FEWS NET) gives a detailed map of eight livelihood zones according to natural resource availability across the north for 2010 (see Figure 2). While by far the majority and largest zones are pastoralist, other zones are agro-pastoral, riverine, fishing in Lake Turkana and a mixed farming zone on Marsabit Mountain. A limitation of the FEWS NET livelihood zone descriptions is that it lacks data on urban and peri-urban livelihood zones. This section discusses the livelihood context in each of the livelihood zones identified by HSNP and FEWS NET and the interconnections between them.

Pastoral

Livelihood zones across northern Kenya are largely pastoral, and are inhabited by fully mobile, partially mobile and fully settled households (FEWS NET, 2010). Livestock remain the backbone of the economy (including the social and moral economy) in northern Kenya, in spite of a gradual shift from subsistence to commercial production. Cattle and camels continue to play important social functions as bride-wealth, diya (blood money in inter-clan feuds), as well as reinforcing ties of reciprocity and social safety nets through exchange of animals. However, increased commodification of the livestock economy has created classes of ‘haves’ and ‘have-nots’ within pastoral communities; commercialised livestock production has benefited pastoralists with large herds and enabled them to remain within the pastoral economy, while it has pushed out pastoralists with few animals (Fratkin et al, 2011: 2). Having herds...
is insurance for pastoralists against disaster, for which pastoralists traditionally stock up in good years in preparation for bad years (Thampy, interview 08.02.12; Levine and Crosskey, 2006: 21; Watson and van Binsbergen, 2008: 2). It is for this reason that poor pastoralists with few animals tend not to sell unless forced to by consumption needs, and explains the low numbers of stock in northern livestock markets (Thampy, interview 08.02.12). Restocking costs are so high that it is difficult for poor pastoralists to build up their herds enough to begin regularly selling to markets. Livestock markets tend to be driven by wealthier pastoralists with 40 TLU or more (Thampy, interview 08.02.12), who have higher demand and expenditure for consumer goods (Barrett et al, 2005: 8). Poorer households tend to remain largely with small stock (sheep and goats), and lack larger livestock assets and thus the social capital to remain in networks of mutual reciprocity, rendering them increasingly vulnerable to falling out of pastoralism altogether.

Nevertheless, livestock production remains the dominant livelihood activity in northern Kenya; the HSNP baseline survey found that more than half (58.3 per cent) of households practiced livestock production (OPM and IDS, 2011: 60-1). Poorer households who tend to rely on food from markets make purchases through exchanging small stock, since shoats, unlike larger stock, have a commercial exchange value and thus have an important market function. An alternative to selling shoats is often sale of bush products such as charcoal and firewood (FEWSNET, 2010: 3). These activities are found across the livelihood zones. For those households in reasonably close proximity to markets, sale of livestock products such as milk and ghee, often to ‘middlemen’ from peri-urban settlements (Anderson et al, forthcoming; Little, 1994), also enables purchase of other foodstuffs from markets.

**Agro-pastoral and mixed farming**

In agro-pastoral zones, households are able to diversify to some extent between livestock production and food crop cultivation. In the north western agro-pastoral zone, food and cash crop production contributes up to 40 per cent of total household income. Crops are cultivated under rain-fed and irrigated conditions during long and short rainy seasons. The most important cash crop is sorghum, followed by maize, tomatoes and green grams (FEWSNET, ibid: 7). In the north eastern agro-pastoral zone, livestock production accounts for around 60 per cent of household income, while cultivation of drought resistant crops, particularly sorghum, millet and maize, contributes around 30 per cent. In Moyale, crops are mainly cultivated under rain-fed conditions, as well as through floods from the Ethiopian highlands (ibid: 15).

The HSNP baseline survey finds that across the north, crop cultivation is practiced by a minority of households — seven per cent (OPM and IDS, 2011: x). Less than one in ten households owns any agricultural land, and poorer and richer households are equally likely to own land (ibid: 32). Numbers of households engaging in farming are lower in Wajir, since the district has no rivers for irrigation (ibid: 61), and higher in Marsabit around the mountain (ibid: 76). Not all owned land is farmed, likely due to lack of inputs and risk of low returns. However, farming appears to have increased across the region in response to loss of livestock through drought, raiding and disease (ibid: 76). While large-scale agriculture has relatively limited prospects in northern Kenya, small-scale vegetable farming is a common diversification strategy in areas that receive better than average rainfall, for example among the Rendille in Songa and the Boran in Badessa on Marsabit Mountain, both in Marsabit county (Fratkin et al, 2011: 4); around the Mandera Riverine livelihood zone in Mandera district at the Ethiopian border; and around the Turkwell riverine zone (FEWSNET, 2010).

Around Marsabit Mountain, after livestock, cash crop production is the next highest contributor to household income (around 30 per cent), the majority of which is through sale of khat; increasingly, cultivators are opting to grow khat as opposed to vegetables because of high demand in Marsabit town and relatively easy cultivation (ibid: 13; personal communication). Khat tends to be cultivated by wealthier households, however, and is a controversial crop since it is often grown at the expense of locally-produced staple foods (ibid.). Mangoes, bananas, maize and beans are also grown around the mountain, usually for sale in Marsabit town (ibid.).

**Fishing**

Fishing is practiced around Lake Turkana among pastoralists with small numbers of livestock, who remain culturally very much part of the wider pastoral society (Levine and Crosskey, 2006: 25). Fishing tends to be the preserve of very poor pastoralists with few remaining livestock as opposed to a livelihood choice (Levine and Crosskey, 2006: 2), and there is thus some shame around resorting to fishing (IFRA, 2010: 26). Fishing is carried out using simple lines and nets set from rafts (FEWSNET, 2010: 9). Those who have access to boats, either group-owned via NGO donations or individuals paying a fee to hire boats from boat owners, are able to have reasonable catches all year round and access larger fish (Levine and Crosskey, ibid: 2). A report from 2006 on North East Turkana found that individuals with access to boats made around 10,000 KSH more per year than those without boats (ibid.). Fishing is a seasonal activity, and catches drop to around half during the dry season (FEWSNET, ibid: 9). Fish tend to be sold dry rather than fresh (ibid), a trend which may have been accelerated recently with the EC Food Facility programme led by Save the Children and implemented by Oxfam (see Annex 4). Livelihoods around Lake Turkana are threatened, however, by the size of the lake due to the effects of climate change resulting in lower levels, and human activities such as the construction of dams, industrial and commercial use of fishing equipment by other nations and increased water extraction for irrigation projects in the region (ibid.).

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13 Mobile households have an average of 3.5 TLU per capita which tends to include some large stock, while partially mobile households own an average of 2.1 TLU per capita, mainly or exclusively of small stock (OPM and IDS, ibid: 74).

14 There are ten times more livestock producers than farmers in OPM and IDS’ sample (p. 61).
reducing pressure on resources at the household level, but also earning money also often send male members to seek labour opportunities in towns, not only settled households with livelihood opportunities. Mandera have created pockets of demand for goods and services, and present of Kakuma refugee camp in Turkana and 'temporary' refugee camps around Rapid growth of small towns and other urbanisation trends such as the growth Urban more than camps of more mobile male youth (p. 603).

women and children tend to be targeted in violent attacks and livestock raids in markets, however. Little et al (2008) point out that sedentary camps of milk is plentiful (Little, 1994). Insecurity can curtail women's ability to engage more so during the wet season when herds are situated closer to towns and urban markets, purchasing livestock products such as milk, ghee and hides and skins from pastoralists and selling them in town, though this tends to be more so during the wet season when herds are situated closer to towns and milks is plentiful (Little, 1994). Insecurity can curtail women's ability to engage in markets, however. Little et al (2008) point out that sedentary camps of women and children tend to be targeted in violent attacks and livestock raids more than camps of more mobile male youth (p. 603).

Peri-urban

As discussed above, during times of stress, poor households may opt to split as part of a diversification strategy; while women and children settle in 'temporary' peri-urban settlements with a few animals, male household members migrate with their herds in search of pasture. This strategy enables households to access health and education services, food relief and cash transfers, and to diversify their livelihood strategies due to good proximity to markets, while remaining mobile pastoralists and livestock owners (Crosskey, interview 07.02.12). The strategy is thus also a means of mitigating the trade-off between market access and mobility that Little et al (2008) write of, referenced above. Households residing in peri-urban areas can be well-positioned to market small stock and livestock products in urban markets as well as engage in petty trading activities, while being able to maintain small sedentary herds on towns' peripheries. Peri-urban households are also sometimes able to provide a link with more remotely located pastoralists and urban markets, purchasing livestock products such as milk, ghee and hides and skins from pastoralists and selling them in town, though this tends to be more so during the wet season when herds are situated closer to towns and milks is plentiful (Little, 1994). Insecurity can curtail women's ability to engage in markets, however. Little et al (2008) point out that sedentary camps of women and children tend to be targeted in violent attacks and livestock raids more than camps of more mobile male youth (p. 603).

Urban

Rapid growth of small towns and other urbanisation trends such as the growth of Kakuma refugee camp in Turkana and 'temporary' refugee camps around Mandera have created pockets of demand for goods and services, and present settled households with small livestock and livestock products in urban markets as well as engage in petty trading activities, while being able to maintain small sedentary herds on towns' peripheries. Pastoralist households also often send male members to seek labour opportunities in towns, not only reducing pressure on resources at the household level, but also earning money to remit back into the pastoral economy (Hjort, 1990: 156). Male labour migrants find work as security guards, carrying out manual labour and in entrepreneurial activities such as small shops and kiosks, and transportation. However, the latter require significant start-up capital and may not be accessible to individuals from poorer households. Women play an important role in petty trade in commodified livestock products such as milk and ghee, as well as garden vegetables, khat, sweets, tobacco, used and new clothes, and operating small (often open-air) tea shops (Fratkin et al, 2011: 1; HSNP, 2011a, 2011b, 2012). On the lower end of the economic scale, women also eke out a living through selling charcoal and firewood, beer brewing and sex work (Fratkin et al, 2011: 1).

2.3.4 Diversification and socio-economic change

Some researchers have argued that poverty and settled life can increase opportunities for women and their negotiating power at the household level, since the necessity to diversify beyond the typically male-dominated livestock economy enables them to engage with the market and improve their economic status and independence (Oba, 1989: 104; Smith, 1998. Buhl and Homewood, 2000). Studies have found that where households are male-headed and relatively wealthy, women have fewer opportunities to market milk, for example, which is traditionally under women's control, since men tend to prioritise milk for herds, especially during dry seasons (Herren, 1990: 12-13). Poorer women (and often those who are household heads), on the other hand, tend to be able to access income from milk sales all year round (Buhl and Homewood, 2000; Nori, 2009). While petty trade in livestock products, as with all petty trade, is typically the domain of women, studies have found that where demand for these goods increases — and their trade becomes more lucrative — men may take over (Anderson et al, forthcoming; Elliott, 2011: 33; Sikana et al, 1997: 27-8).

However, the extent to which poor women are able to access livestock products and markets likely varies according to women's livelihood strategies. Trade in livestock products often reinforces sedentary women's ties to the pastoral economy and can be a source of social capital, since this trade supports the pastoral economy. However, entering this business depends in the first place upon either direct access to herds (i.e. familial ownership) or sufficient ties to the pastoral economy to access livestock products from other households' herds. Women who have lost these ties may be faced with limited income-generating opportunities (Smith, 1998: 464), and be forced to engage in trades which are considered less respectable such as selling khat, beer brewing or prostitution.

15 Urbanisation may also increase in response to devolution following the next presidential election, since there will be more political opportunities at the local level (Siloma, interview 13.02.12; Thampy, interview 08.02.12)
16 Mitumba or used clothes markets are thriving in Moyale town (Elliott and Lofchey, 2011). Sale of new clothes manufactured abroad and purchased from Somal wholesalers in Eastleigh is an increasingly popular business among women (Elena and Odexa, interview 24.02.12)
17 Diversification out of pastoralism and into activities which support the pastoral economy, such as milk processing and sale, animal health services and fodder production may be a way of enabling those who still remain with animals to continue to do so (Thampy, interview 08.02.12)
For men, diversifying out of livestock may be less of an empowering process than some researchers have found for women. Pastoralists with few skills beyond livestock husbandry are often forced to take low-paying jobs as watchmen or casual labourers, which may have psycho-social implications. According to Broch-Due, in Turkana, towns are often 'poverty traps' for 'drop-out' pastoralists who have lost all of their livestock; since social relations among Turkana are mediated by livestock, not having livestock renders one an outsider, any former alliances forgotten. She argues that herders fall into poverty not only having lost their livestock, but also due to not having managed livestock so as to establish social relations that provide a social network that buffers individuals and households against risk (Broch-Due, 1999). People residing in urban centres who have lost ties with pastoralist communities perhaps represent the poorest of the poor in northern Kenya and those most at risk of destitution. These people may be less visible to donors, especially when targeting the poorest communities through community-based targeting where such individuals are isolated from communities.
Chapter 3

OVERVIEW OF MARKET DEVELOPMENT PROGRAMMING OPPORTUNITIES IN NORTHERN KENYA

3.1 OVERVIEW

In addition to the challenges discussed above relating to livelihoods, an arid climate, low population and poor infrastructure limit economic opportunities in northern Kenya. The region is characterised by weak markets, in which transaction costs are high, the functions and services that support economic development and diversification are largely non-existent, and there are few economies of scale. Accessibility is a major challenge: roads are few and in poor condition while telecommunications networks are patchy. These and other constraints lower returns and limit the attractiveness of investment. They also increase the volatility of markets in the face of shocks. Figures 5 and 6 compare price fluctuations in basic food commodities between markets in ‘down’ Kenya and northern Kenya.

Figure 6: Fluctuations in prices of maize in southern Kenyan markets

Figure 7: Fluctuations in prices of maize in northern Kenya markets

Source: De Matteis, 2012.
The volatility represented in the figures above suggests that market engagement can be risky when dysfunctional, particularly for the very poor. As buyers, relying on the market for key staples exposes the household to potential price spikes that far exceed those in southern Kenya. As sellers, the variations in selling price also increase the risk for value chain engagement. In such a context, encouraging households to engage to a greater extent with the market can increase their risk to an unacceptable level, particularly for very poor households with fewer risk mitigation and risk management options. FSD’s financial graduation model will therefore need to consider carefully how to address and mitigate these market risks before or in conjunction with investments that encourage market participation by the very poor. It should think not only about opportunities to increase incomes but also to lower prices of staple foods that are consumed by the very poor (e.g. maize). The benefits of lowering staple food prices can be even greater than increasing income generating opportunities for very poor households. Food expenses represent a significant part of their total expenses and tend to occur during the most vulnerable period of the year: the lean season. Moreover, if food prices are lowered, very poor households will avoid the risks associated with investing in income generating activities.

The characteristics of northern Kenyan markets outlined here mean that donor-funded interventions will yield fewer results than in higher potential areas. They will also require a longer period of time to overcome the greater number of binding constraints to growth (Practical Action, interview 27.01.12). The opportunities being generated from Kenya’s economic growth are not spread evenly across the country. For many northern Kenyans, the best way to access those opportunities will be through migration to more dynamic areas in southern Kenya. Supporting northern Kenyans to access those opportunities through migration, though not a focus of this report, is nevertheless a sound strategy (World Bank, 2009: 230).

Opportunities vary within northern Kenya and within northern Kenya’s districts: the livelihood and market contexts across the region are not homogeneous. FSD’s interventions will therefore need to vary according to the different characteristics of each district and regions within districts. Spatially, markets are diverse in the north and include remote trading posts around food distribution centres and satellite camps, settlements along roads and growing peri-urban settlements. FSD’s market development interventions will thus need to be tailored to all these different market contexts. In Turkana district for example, where there are few population agglomerations or service centres, developing market hubs would provide important opportunities to semi-settled pastoralists residing in satellite camps. In areas of Wajir district which are much better integrated into the economy, interventions targeting the ability of the peri-urban population to access petty trading activities would be more appropriate. FSD will also need to consider variations in livelihood strategies and market fluctuations according to season.

In spite of increasing diversification, the region’s economy remains dominated by livestock. Many - though not all - of these new opportunities are urban-based and stand to benefit those living within approximately 40 kilometres of an urban area (Watson and van Binsbergen, 2008: 3). This section provides a broad overview of the key market opportunities in northern Kenya using the value chain approach as an analytical framework. The value chain approach sees economic activities occurring within a series of transactions that ultimately bring a raw product to final consumption. Every value chain is part of a broader market system that includes the enabling environment (e.g. social norms, formal and informal rules), relationships and related power dynamics and support services used by those within the value chain. This market systems perspective assists in identifying constraints that limit returns and suggests areas of potential intervention. This section looks not only at the economic activities of households and communities, but also at the broader value chain for many of the principle economic activities practiced in the north. Following analysis of significant value chains in northern Kenya, we look at some important intervention strategies that could be employed to improve returns for poor households and communities. These strategies range from more meso-level interventions, the objectives of which are to improve market functioning more broadly across wealth brackets, as well as interventions that specifically target very poor communities.

3.2 ANALYSIS OF SIGNIFICANT VALUE CHAINS IN NORTHERN KENYA

Identifying economic opportunities that are relevant to the very poor is critical to the design of effective financial graduation models. As described above, this report analyses these opportunities through the lens of the value chain approach. The value chain approach interprets economic activities (e.g. fishing, providing animal vaccinations) as part of a broader market system. This approach offers a framework for analysing and comparing the potential of diverse economic sectors. This allows the identification and selection of those value chains with the greatest potential to benefit the very poor in northern Kenya. Drawing from available secondary information, the authors assessed each value chain in terms of four distinct factors:

- Market opportunities: market opportunities vary dramatically among the value chains under consideration. Those with growing market opportunities and in which northern Kenyan producers are or could be competitive can generate greater income gains and opportunities for expanded participation relative to value chains with stagnant or shrinking markets.

18 For further information on the value chain approach, see ‘Value Chain Development Wiki’, USAID website (http://microlinks.aidod.org/good-practice-center/value-chain-wiki)
19 It is important to note that the authors did not conduct primary research and thus the information provided here is reliant upon the accuracy of the cited sources. Information gaps that the authors could not address are noted.
livestock-related value chains include:

- Potential for scale: there is significant difference in the size of the value chains in northern Kenya; some engage hundreds while others engage tens or hundreds of thousands of people. Value chains that do or could encompass large numbers of households will offer FSD the opportunity to achieve greater impact at typically a lower cost per household.

- Constraints: the challenges that impede households from accessing market opportunities vary in their number and significance. In northern Kenya, the harsh climate and lack of infrastructure create insurmountable barriers to the development of certain value chains. Those sectors with fewer or more easily resolved constraints offer FSD greater scope for engagement.

- Pro-poor potential: many factors influence the ability of the very poor to engage in promising value chains, including labour-intensity, low barriers to entry, acceptable risk, regular cash flows and accessibility for women. FSD’s focus on supporting financial graduation for the very poor makes the pro-poor potential of each value chain a critical consideration.

An assessment of each of the four factors above is combined to determine the attractiveness of the value chain for FSD, and is ranked low, medium or high. Value chains assessed as medium are recommended for FSD’s consideration.

Based on an analysis of the binding constraints that inhibit the very poor from engaging in each of the recommended value chains, the authors suggest interventions that FSD could support that lower the barriers to their entry. The interventions reflect lessons learned and promising models from the private sector and development partners.

Wherever possible, multiple sources have been used to triangulate findings. A short summary of the fifteen major value chains are provided here while a more detailed discussion is presented in Annex 3. Reflecting the prevalence of pastoral zones in northern Kenya and consequently the central role that livestock play in its economy, most value chain analyses on northern Kenya have focused on livestock and derivative related value chains. These are discussed in the first section, while non-livestock value chains are discussed in the second. The authors recognise that the districts of northern Kenya are quite heterogeneous, and thus the opportunities and constraints facing particular value chains vary in some cases. This has been noted where identified.

### 3.2.1 Livestock-related value chains

Though economic diversification is steadily occurring in northern Kenya, livestock remain central to the economy, particularly in Turkana district. Key livestock-related value chains include:

- Cattle and camel meat
- Shoats meat
- Cow milk
- Camel milk
- Fodder
- Hides and skins

Camel and cattle meat is in strong demand and has reasonable potential for scale given the size of the sector. However, very poor households do not own these assets and therefore can only benefit indirectly through growth elsewhere in these value chains (e.g. herding, trading). Moreover, the minimum TLUs necessary to withstand drought are sufficiently high that no restocking or asset transfer program could affordably return ex-pastoralists into camel and cattle ownership. The sector also faces several constraints that are mentioned above including insecurity and poor transport infrastructure. This value chain has relatively little potential to directly create significant benefits for the very poor, though labour provision for herd owners and producing dried camel and cow meat (nyiri nyiri) are both functions that are favourable to this group (Otieno and Odera, interview 24.02.12).

In comparison, shoat meat is also in strong demand and households are more willing to sell shoats than larger livestock. In contrast to camels and cattle, very poor households often own shoats (though the very poorest households do not). The shoat sector therefore has more potential than larger livestock, though is still limited in its ability to benefit the very poor directly. Interventions that would improve the functioning of the camel, cattle and shoat meat value chains include supporting a realignment of the marketing system through auctions, interior markets and market hubs (more details are included below in section C) and their institutionalisation.

Cow milk is currently the fastest-growing agricultural sector in Kenya and powdered milk is currently consumed through much of the north, indicating a potential market for local production. However, harsh conditions contribute to the virtual absence of dairy cattle in northern Kenya, and poor transport infrastructure poses challenges to milk preservation: cow milk (more so than camel milk) spoils quickly when unrefrigerated. Without a source of supply, the cow milk value chain lacks the potential to benefit large numbers and engage the very poor in northern Kenya. Interventions are not recommended.

In contrast, camels are better adapted to arid conditions. Camel milk markets are growing in southern Kenya, and there are increasing opportunities in the north, particularly in areas with Somali populations. The very poor do not own camels, though poor women face low barriers to entry to engaging in milk trade. Overall the camel milk sector is a promising one for FSD support. It can do so by demand-creation activities (e.g marketing, retail operations) among populations that traditionally do not consume camel milk in urban areas in relatively close proximity to camel populations (such as Pokot). Improving the capacity of the sector to meet this demand can be achieved by supporting interventions that increase productivity, improve quality and lower transport costs to improve competitiveness. These can include partnerships...
with entities encouraging direct links between producers and purchasers, supporting training to improve production practices and improving access to finance to purchase or rent transport.

With rising incidence of settlement and growth in peri-urban settlements in the north, the demand for fodder for sedentary herds is growing quickly. The key constraint currently facing the expansion of the sector is a lack of large pockets of irrigable land that can be used for fodder production in northern Kenya. This limits the potential to engage large numbers of the very poor. Where they exist, growing fodder represents a new potential cash crop. There may be opportunities for drying fodder, which could potentially extend fodder markets beyond areas where irrigated farming is possible. FSD can support expansion of this value chain by facilitating improved access to services – extension, inputs, finance – by existing and potential fodder producers.

The hides and skins sector represents a potential opportunity, though little is available on its market prospects or the price competitiveness of hides from northern Kenya vis-à-vis producers elsewhere. The size and quality of hides from the north is quite low. This is partly due to the difficult terrain animals must traverse, but also to the antiquated drying techniques used. As with the other livestock value chains, the very poor will not benefit from selling the hide itself, but could engage in primary processing (e.g. drying) and trade. FSD can contribute to this by supporting services that upgrade the quality of hide management and drying technologies. This might include curing practices such as wet salt curing, effective flaying and branding, avoiding skin diseases and providing access to animal health services. A summary of the livestock-related value chains and their suitability for consideration by FSD is presented in Table 2 below. Shoat meat, camel milk and fodder demonstrate the greatest potential for pro-poor development.

3.2.2 Non-livestock value chains

With increased diversification, non-livestock value chains are assuming increasing economic prominence. The value chains reviewed included:

- Tourism
- Fish
- Poultry
- Honey
- Handicrafts
- Gum resins
- Herbal and medicinal products
- Irrigated agriculture
- Charcoal

Tourism is a fast-growing sector in Kenya, though it remains underdeveloped in the north. There is growing market demand, though this is tempered by the distance from southern Kenya, perceived insecurity and a lack of facilities. Tourism generates a lot of employment opportunities in the service sector that are suitable to the very poor, though the potential benefits for tourism will naturally be limited to those communities that are accessible with appropriate attractions (Kenya Land Conservation Trust, undated: 3). Attention first needs to focus on advocating for improved infrastructure to draw tourists from central and coastal Kenya. However, the amount of investment required to develop the tourism industry makes this a medium-term to long-term opportunity. As it is also outside of FSD’s remit, it would need to be accomplished by other public or private bodies.
The fish sector is limited to just a few areas of northern Kenya including particularly Lake Turkana, the world’s largest desert lake. Nevertheless, the fishing population in north-east Turkana alone is 8-10,000 (Levine and Crosskey, 2006a: 20), indicating that the sector contributes to livelihoods for a large number of people. Interventions have the potential to reach sizeable scale. Shore-based fishing has relatively low barriers to entry, though access to boats is limited to those who have received them through NGO initiatives or are able to pay a small ‘membership’ fee to private boat owners (ibid: 2). Constraints to the sector include declining water levels, which impede onshore-based fishing. FSD could support the fish sector by improving access to capital among fisher-folk so that they can upgrade their equipment. Supporting initiatives to include dried fish in food aid (such as the ECFF project (see Annex 4), which has seen fishermen sustainably meeting boosted demand for dried fish will also help.

In spite of the potential opportunities to increase income and household nutrition in the poultry sector, attempts to encourage poultry raising in Turkana district have largely failed. This is due to susceptibility to disease and the questionable economics of purchasing poultry feed (Watson and Binsbergen, 2008: 7). Before investments are considered in this value chain, the commercial viability of poultry rearing would need to be established.

The honey market is traditionally male dominated in northern Kenya. The market for Kenyan honey is growing quickly, and production in the north is unable to meet local, let alone national demand. Productivity is impeded by the harsh climate, and a lack of finance for beekeepers to upgrade traditional beehives. Beekeeping is a potentially pro-poor activity with relatively low-intensity though regular labour requirements. Honey production is a subsector that FSD should consider supporting. Opportunities exist for increasing the availability of tailored financial products and access to technical skills to bolster economies of scale through coordination among producers.

Many handicrafts are produced in the north, including baskets, jewellery, wooden products, mats and beads. While there are market opportunities for quality Kenyan goods, handicrafts from the north have poor and inconsistent access to markets and often do not meet buyer specifications. Market links tend to flounder once external assistance has been removed. The profitability of handicraft production for producers is low, while the long period of waiting required between production and sale, together with the need to invest in tools, inhibits engagement of the very poor. While there is significant local demand for beads and jewellery, it is widely perceived that these are exchanged on a gift rather than commodity basis (Otieno and Odera, interview, 24.02.12). This area requires further investigation, however, as rapidly changing social and economic landscapes have been shown elsewhere that previously non-commodified goods can be successfully introduced to the market (cf. Anderson et al, forthcoming; Willis, 1999).

Gum resins such as gum Arabic, myrrh and frankincense are widespread in northern Kenya, although they are not widely commercialised. They thrive in and environments and cannot be grown on large-scale plantations, making them best suited for collection and production by smallholders. The low barriers to entry favour the very poor, though the competitiveness of gum resins from northern Kenya versus those from Sudan and Ethiopia is unclear. Global demand is flat at 2500 tons per year. Drought and inadequate tree tenure are also risks (CARE Kenya, 2010: 7-8). Better understanding of this market is important in order to identify the most appropriate interventions.

There is growing demand for herbal and medicinal plants in Kenya, including aloe, neem and Artemisia. These plants grow naturally in many places and thus there are low barriers to entry for the very poor to collect and sell. Constraints to northern Kenyan suppliers meeting this need include high prices, poor quality and an uncertain policy environment. Additional information is needed to ascertain how widespread these plants are, and therefore how profitable their cultivation might be. If northern Kenyans are able to compete with other suppliers and adequate supplies exist, interventions should focus particularly on linking producers to Nairobi-based purchasers and facilitating access to support services (e.g. quality control).

The authors found limited information on irrigated agriculture value chains in northern Kenya, including staple foods (e.g. maize), tobacco and khat. High food prices indicate clear opportunities for local production, but poor access to water and the harsh climate significantly limit the potential for increasing scale. Existing producers face difficulty accessing support services: transport, inputs and storage facilities. The small number of households which currently own agricultural land (estimated at less than 10 per cent) together with the limits on expansion, impede the opportunity to incorporate the very poor as casual labourers. FSD should therefore focus attention elsewhere.

Charcoal has extremely strong and growing market demand in the north due to the increasing incidence of settlement. Due to widespread availability and low cost, it is extremely competitive relative to other fuels. There is high potential for scale particularly in Turkana district: 46 per cent of households there are engaged in charcoal burning, compared to 5 per cent in Marsabit, 8 per cent in Mandera and 11 per cent in Wajir (OPM and IDS, 2011: 61). Charcoal is particularly beneficial for very poor households, who use harvesting as a survival strategy when times are particularly tough. The weak policy environment and environmental consequences are however, significant constraints. There are several areas for potential intervention. One is to advocate for improved knowledge and enforcement of existing policies, which would increase the sustainability of charcoal harvesting. Organising charcoal producers and introducing more efficient kiln technologies may also be appropriate, though further research is needed. FSD should only select the charcoal sector if it is confident its strategies will lessen rather than worsen the environmental damage currently being inflicted. This may involve partnering...
with organisations striving to improve policies around charcoal production while supporting financial markets to support investment in environmentally-friendly options.

A summary of the non-livestock-related value chains and their suitability for consideration by FSD is presented in Table 3 above. Gum resins, herbal and medicinal plants, honey, fish and charcoal demonstrate the greatest potential for pro-poor development.

### 3.3 POTENTIAL MARKET DEVELOPMENT STRATEGIES AND INTERVENTIONS

This section draws from an understanding of experiences elsewhere with financial graduation models, the livelihood context in northern Kenya and an understanding of the value chains with the greatest potential to support financial graduation. The authors recommend FSD consider six interventions as described below.

1. **Supporting interventions that address poor market functioning**

As noted above, dysfunctional markets in northern Kenya that are prone to wide price fluctuations and vulnerable to shocks create significant risks for very poor households. Reducing these risks is a critical pre-condition to effective market engagement for the very poor, and is something FSD should prioritise as a foundation for its financial graduation model programming.

One effective strategy for improving market functionality is through the market for food aid, which has been a feature of donor support in northern Kenya for decades. With drought occurring increasingly frequently and many households chronically food insecure, food aid is a significant market in its own right. Although cash payments are an increasingly favoured form of social transfer in the north, led by the HSNP and others, the risk of inflation means that a combination of cash transfers and food aid are often favourable in northern Kenyan market contexts. HSNP advocate for cash transfers over food aid as it increases beneficiaries’ choices and freedom to use the money as they choose. However, in some areas, where markets are particularly weak and remote, (e.g. Wajir East) beneficiaries advocate for food transfers or food vouchers (De Matteis, 2012).

<table>
<thead>
<tr>
<th>Value chain</th>
<th>Potential for scale</th>
<th>Market opportunities</th>
<th>Constraints</th>
<th>Pro-poor potential</th>
<th>Overall suitability</th>
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</thead>
<tbody>
<tr>
<td>Tourism</td>
<td>+</td>
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<td>+</td>
<td>+++++</td>
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</tr>
<tr>
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<td>+</td>
<td>+++</td>
<td>+</td>
<td>Low / Med</td>
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<tr>
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<td>+</td>
<td>+++</td>
<td>+</td>
<td>+</td>
<td>Med</td>
</tr>
<tr>
<td>Handicrafts</td>
<td>+</td>
<td></td>
<td>+</td>
<td>+</td>
<td>Low</td>
</tr>
<tr>
<td>Gum resins</td>
<td>+++</td>
<td>+</td>
<td>+++</td>
<td>+++</td>
<td>Low / Med</td>
</tr>
<tr>
<td>Herbal and medicinal products</td>
<td>+++</td>
<td>+++</td>
<td>+</td>
<td>+++</td>
<td>Med</td>
</tr>
<tr>
<td>Irrigated Agriculture</td>
<td>+</td>
<td>+++</td>
<td>+</td>
<td>+</td>
<td>Low</td>
</tr>
<tr>
<td>Charcoal</td>
<td>+++</td>
<td>+++</td>
<td>+</td>
<td>+++</td>
<td>Med</td>
</tr>
</tbody>
</table>

Figure 8: Food aid voucher model

Source: the authors
One programme which has addressed weak market functioning through ongoing investment in food aid is the EC Food Facility pilot, outlined in Annex 4, and depicted in Figure 9 below. The ECFF model uses a voucher system that recipients redeem with local traders/shop owners. This has boosted demand for specific foodstuffs – specifically meat and milk in Wajir and dried fish in Turkana – while the grain-based element of the food aid basket continues to be supplied by WFP through local traders. The capacity of traders to meet this new demand is bolstered through training in handling and hygiene, business management, links to financial services and food suppliers. FSD should work with an initiative like the ECFF as a foundation for its financial graduation programme. This would reduce risk for very poor households engaging with markets and leverage improved trading infrastructures that the ECFF programme has created. While the ECFF has introduced new opportunities for the very poor as producers and traders, no ‘push’ interventions have been introduced to ensure that they are able to access these opportunities. This is where FSD’s financial graduation programme could be very effective.

ii. Developing market ‘hubs’

Given the predominance of livestock in the northern Kenyan economy, markets in the north tend to be oriented around trade in livestock. These markets are often poorly managed and bring poor outcomes for pastoralists. A pilot by SNV in selected markets suggests a model for overcoming these challenges. The formal inclusion of a livestock marketing association in the management structures of markets has generated increased revenues for the traditional managers (county councils), while raising the prices earned by pastoralists. A more dynamic market that attracts a greater number of buyers and sellers can become a market hub attracting traders who offer important services (e.g. animal medicine, agricultural inputs). Such services have traditionally been lacking in the north but support the development of the livestock subsector and the economy more generally. Though the markets’ primary function would likely remain focused on livestock, these market hubs would naturally encompass services for other value chains of relevance to their surrounding areas and households.

SNV’s pilot programme has found that the close proximity of market hubs to remote camps has opened up opportunities for women and youth who are often unable to access more distant markets. Women, for example, have found new opportunities as food vendors and petty traders in market hubs (Were, 2009). FSD should look to support the intensification of this model by encouraging financial service providers to establish branches in these hubs and develop supportive financial products. This will create new opportunities for businesses in northern Kenya while strengthening the market hub model and encouraging its expansion.

iii. Promoting savings groups

As noted above, very few HSNP recipients have savings. This is a critical barrier to the development of effective financial graduation programming, as it implies households lack the liquid assets to invest in few business opportunities. As already noted, savings groups (SGs) have formed the basis of nearly all graduation models to date. In addition to their advantages in supporting asset accumulation, they are a cost-effective platform for introducing complementary products and services that support graduation. There is potential to expand the numbers of SGs in northern Kenya, of which there are currently only a few. The authors therefore recommend that FSD

Figure 9: Market hub model (grey boxes represent new actors in the market)
expand its funding for SGs in northern Kenya. It will be important to consider how the traditional SG model could be adapted to accommodate the large Muslim population in the region and to avoid some of the early challenges faced by CARE in promoting lending within the SG. In some areas the fears have dissipated once members become more familiar with the SG model, while in others members have made more fundamental changes to the nature of the SG.

iv. Promoting income-generating activities

Small-scale income-generating activities (e.g. petty trading) are typically critical for very poor households to diversify their income, reduce their vulnerability and establish more regular income flows. Though profit margins from these income generating activities are often small, low barriers to entry and their contribution to creating a more even income mean they can be a useful intermediate step on the path to economic empowerment for many households. Participation in SGs can support households to make these investments. Trade in consumables such as foodstuffs (maize, sugar, salt, tea leaves), drugs (tobacco, khat) as well as new and used clothing is very important for many of the region’s inhabitants. There are also opportunities for redistributive trade in these commodities, which while more lucrative, requires more significant capital. Experience elsewhere suggests SG members frequently launch IGAs spontaneously once they have pooled liquid capital and their tolerance for risk increases.

There is little benefit to be gained by FSD focusing on selecting and promoting specific IGAs as the barriers to entry are so low. In addition to improving access to finance through initiatives such as savings groups, FSD may add value by establishing links between SG members and providers of business development services. These might include business planning and opportunity identification that households can use to select and develop IGAs. SG-facilitating agencies including CARE have their own business training modules that they provide to SGs during their formation. While the evidence for the effectiveness of generic BDS is generally weak, its application with SG members may be an exception.

v. Investing in promoting promising value chains

As households become more economically stable, their capacity to entry or to upgrade their engagement in value chains begins to grow. FSD can contribute by supporting strategic investment in the high potential value chains highlighted above in section (v). Experience from other financial graduation initiatives highlights the importance of focusing on multiple, complementary value chains. This ‘portfolio approach’ has the advantage of reducing household risk, generating opportunities that cater to both genders, simultaneously supporting income generation and food security, and contributing to income smoothing (Development Alternatives Inc., 2011; Fowler and Endalamaw, 2011: 5). The appropriate development strategies will vary for each value chain, as they will be tailored to addressing the specific constraints preventing access to market opportunities. Value chain development requires significant facilitation skills and thus needs to be undertaken by agencies with specialised skills and experienced staff.

vi. Encouraging appropriate credit products

Limited access to credit in northern Kenya is a constraint to business investment and value chain upgrading. Although credit is generally inappropriate for the very poor in the initial stages of a financial graduation strategy, its importance grows as households gain increasing confidence and willingness to invest. Although SGs play an important role in assisting households to mobilise liquid assets, their financial products are less well suited to supporting investment in larger assets. Complementary sources of credit for investment are therefore needed. FSD’s role in supporting financial sector development makes it ideally suited to contributing in this area. Working with banks, MFIs and other financial institutions to develop loan products that meet the investment needs of dynamic value chains (e.g. beehives, fishing boats, milk chillers), supports households to enter and expand their engagement in high-return economic opportunities. In doing so, it is important that FSD looks for models that do not unnecessarily increase risk. For instance, in some cases the provision of credit to SGs that is guaranteed by the whole group has been found to lead to member drop-out and group dissolution (Rippey and Fowler, 2011: 22–25).
Based on the review of available value chain analyses together with work to date on financial graduation programming, the authors recommend FSD consider the following in the design of its own financial graduation initiative:

- The HSNP provides a promising basis on which to structure additional support towards graduation. Its significant outreach — 60,000 people across the four northern districts so far, with the expectation of ultimately reaching 300,000 — offers the opportunity to benefit significant numbers of very poor Kenyans.

- However, cash transfers alone do not provide a sufficient foundation for FSD’s financial graduation programme. FSD will need to support or partner with initiatives that improve fundamental market functioning, such as the EC Food Facility, and launch its financial graduation interventions from the basis of a more stable market.

- Given that northern Kenyans rely upon the market for a substantial portion of their total food intake, look for opportunities to lower staple food prices. Reducing food costs provides a low-risk benefit for the very poor. FSD may need to link with partners advocating at the macro-level to address some of the factors contributing to high food prices (e.g. government investment in road infrastructure). It can also invest directly in more meso-level interventions such as providing traders with appropriate financial products. This will increase a general willingness to trade and raise the volume of goods flowing into the region.

- Northern Kenya is not a homogeneous entity. The economic opportunities vary significantly according to access to infrastructure, proximity to markets, cross-border trade and the state of security. FSD will need to tailor its interventions according to the different market contexts across and within districts. The authors recommend that market spatiality and seasonality are two variables requiring particular attention.

- FSD should concentrate on parts of the north where there are more favourable conditions to economic development. It may be advisable to pilot the financial graduation programme in a market context with higher potential (such as Wajir or Mandera), applying wisdom from lessons learned in these contexts before tackling the more challenging environment of a district like Turkana.

- FSD must clearly define the term “graduation” and how it will be measured. Ideally it will retain control over the graduation evaluation process, to avoid political interference. Given the challenges of economic development in northern Kenya, it would be prudent to consider aiming at intermediate objectives (e.g. reducing households’ vulnerability to shocks) rather than only at graduation from poverty.

- Additional information is needed for several of the value chains that have been identified to help inform the selection of most opportune growth sectors. The geographic selection process recommended above should inform the selection of the value chains that are most viable within that area.

- Given the proven potential of SGs as a base to support graduation, FSD should support continued SG mobilisation. It must, however, be aware of the contextual factors in northern Kenya that may limit the success of the model (e.g. a reluctance to take loans). It should also assess how SGs have been modified in other contexts such as Northern Ethiopia by PSNP Plus to address these issues. FSD will need to be aware that SGs have typically been mobilised through the church, and that a model that accommodates a predominantly Muslim population should be developed (e.g. sharia-compliant) in order to improve outreach.

- Many households in northern Kenya experience asset poverty and face major barriers to rejoining livestock value chains as owners. A financial graduation model should therefore consider appropriate labour and trade opportunities for those opting out of pastoralism.
Chapter 4

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Thampy, R. 2011 ‘Pastoral women challenging drought and chronic food insecurity through dairy production and marketing’ Draft proposal submitted to Practical Action.

Tolat, M. Forthcoming, ‘Myth, Misconceptions, and the Emerging Truth in Serving Very Poor Households: Grameen Foundation’s Experience to Date.’

Tura, I. S. Amboga, and G. Tuke, undated, ‘Sheep and goat marketing in Marsabit county: A case study of North Hor, Kakacha, Tarbi, Marsabit, Kor, and Merille markets’.

United Nations Convention to Combat Desertification and International Fund for Agricultural Development. Women Pastoralists: Preserving traditional knowledge, Facing modern challenges’


Were, T., 2009, ‘Rewards From Twisted Roles: Case Study On Revitalised Livestock Marketing In Samburu, Northern Kenya,’ SNV.


LIST OF INTERVIEWS CITED

Otieno and Odera: Nelly Otieno, Sector Manager, and Allan Odera, COSALO Marsabit Programme Manager, CARE Kenya, Nairobi, 24 February 2012.


Crosskey: Alex Crosskey, Independent Food Security and Livelihoods Consultant, Nairobi, 7 February 2012.

Fisher: Keith Fisher, ASALs Secretariat, Nairobi, 17 February 2012.

Chacha: Lucas Chacha, Livelihoods and Food Security, Oxfam, Nairobi, 15 February 2012.

Siloma: Morgan Siloma, Advisor on agriculture (livestock), SNV, Nairobi, 13 February 2012.

Thampy: Ramesh Thampy, Independent Consultant, Nairobi, 8 February 2012.


Ndungu: Jane Ndungu, Project Officer, SITE Enterprise Promotion, Nairobi, 10 February 2012.
Annex 1

ANALYTICAL REVIEW OF MARKETS AND POVERTY IN NORTHERN KENYA

1.0 BACKGROUND

FSD Kenya is in the process of developing a financial graduation project to expand outreach further towards the extreme poor. It is now acknowledged that, in most cases, traditional microfinance programs do not reach the destitute and the extreme poor but rather the moderate poor and vulnerable non-poor. The graduation model is based on the premise that effective poverty reduction requires an approach that increases incomes, productivity or employment opportunities for the moderate poor and vulnerable while at the same time protecting the extreme poor by reducing their vulnerability. Financial graduation, as envisioned by FSD Kenya, seeks to develop a market-oriented sustainable model that can empower the extreme poor.

In order to reach the extreme poor, the financial graduation project will target the social transfer beneficiaries of the DFID-funded Hunger Safety Net (HSNP) programme in Northern Kenya. The objective of the HSNP is to deliver long-term guaranteed social transfers to chronically food-insecure households. The pilot programme is aimed at 60,000 households in four northern districts, Turkana, Marsabit, Mandera, and Wajir. These districts are arid lands areas where settlements are widely dispersed and populations are often nomadic or semi nomadic and/or mobile due to conflict. The very poor in these contexts are more likely to be semi-settled around relief distribution points, towns and other facilities, and depend heavily on relief for their survival. FSD’s involvement in the programme was concerned with supporting a financial service provider to distribute the payments through a “store-of-value” (as opposed to cash) in order to use these as a basis for expanding financial services to target groups. The purpose was to provide beneficiaries with the opportunity to manage their benefit more carefully and begin to engage financial institutions which could help them build the human and financial assets necessary to overcome their chronic food insecurity. In February 2010, Equity Bank established a network of agents in settlements throughout the HSNP districts, who currently distribute KSh2150 every two months to 28,000 beneficiaries of the Hunger Safety Net Programme (HSNP).

One example of a financial graduation model is being pioneered by C-GAP in xxx countries. The C-GAP model is a multi-intervention livelihoods and social protection approach designed to uplift the extreme poor and destitute out of poverty. The purpose of the model is to create sustainable livelihoods along with improving quality of life for the extreme poor so that they can graduate into one or two paths which will ensure continued and sustained progress out of poverty. It consists of three main components:

- **Economic:** this includes the transfer of an asset, a livelihood cash transfer/grant/allowance, a savings and financial/asset management training which also includes basic entrepreneurship skills;

- **Social Development:** intended to build social safety nets through awareness training and confidence building during weekly group meetings; and

- **Health:** provides free consultations and addresses prevalent health concerns such as iron deficiencies, infections and pre-natal care. In emergency situations, referral arrangements are made with local government hospitals.

The model as it stands is costly, as it is targeted and delivered to beneficiaries conditional on individually designed graduation programmes and milestones. It also assumes a poverty scenario where individuals lack not only assets, but also the skills and knowledge to develop their livelihoods. This may not be applicable in the Northern Kenyan context, where extreme poverty is linked to dependence on natural resources subject to climatic and market shocks and political instability as well as a sustained process of under-development which is founded in politico-economic relations with the Kenyan state. Erosion of the livestock economy has also contributed to the collapse of traditional social safety nets where the transfer of livestock based on reciprocal relations between households is no longer feasible. Additionally, coping with reduced livelihood possibilities has led to diversification of income sources within households, including split household units. In a context where livestock equals social capital, the very poor often face barriers to participation in the social and economic life of the community. Therefore, interventions which focus on the integration of the very poor may be necessary.

Prior to developing its approach in Northern Kenya, therefore, FSD would like to consider alternative financial graduation models and their applicability to the Northern Kenyan context. For example, the PSNP Plus’ graduation model which leverages on savings groups to graduate very poor clients. FSD’s recent collaboration with CARE-Kenya in Northern Kenya to develop Savings Groups in marginalised communities, would merit specific attention to the PSNP model.

Additionally, FSD is committed to a market-driven approach which seeks to address poverty through facilitating the expansion of markets for populations that face substantial barriers to access. It is therefore likely that the approach to financial graduation pursued by FSD will focus on the meso rather than micro level, leveraging on newly developed financial infrastructures and social transfers to facilitate access to markets for target populations. Prior to developing the project therefore, FSD would like to understand more about the constraints and opportunities for market development in Northern Kenya, drawing on a value-chain approach where appropriate.

A separate study on changes in financial behaviour resulting from social payments and usage of new financial infrastructures in target communities will complement the current study, and will also inform the way forward for our financial graduation project which seeks to leverage on financial services in strengthening livelihoods.
2.0 OBJECTIVES

Undertake an analytical literature review of markets and poverty in selected areas of Northern Kenya.

3.0 SCOPE OF WORK

The purpose of this assignment is to undertake a literature review of market development in Northern Kenya and its relationship to poverty, with a focus on social payments recipients. The review is expected to inform the development of a new financial graduation project, leveraging on social payments and financial market infrastructures in Northern Kenya. The review should include an analysis of value chains in the North, and recommend how these might be exploited to graduate social payments recipients out of an extreme poverty/vulnerability scenario, with an emphasis on the role of financial services/infrastructures (including savings groups) in achieving this.

The review should conclude with a series of clear recommendations to inform the development of a financial graduation strategy for social payments recipients, leveraging on a market-led approach. The recommendations should be developed with an emphasis on sustainability and cost effectiveness, and include recommendations on the role of financial markets in delivering the strategy. Where appropriate, innovative approaches in similar contexts should be cited.

It is anticipated that the review will include the following:

- an overview of market development and value chains in Northern Kenya, including an analysis of the constraints and opportunities for social payments recipients in engaging with new and existing markets
- an analysis of the livelihood context in areas where there are a large number of social payments recipients under the HSNP programme (including intra household dynamics, gender, age and ethnic/clan-related dynamics, conflict, social networks, market participation and coping strategies) and the implications of this for improved participation in markets
- an overview of innovative approaches to financial graduation/livelihood strengthening in similar contexts

Activities will include:

- Initial consultation with FSD team to clarify FSD’s financial graduation objectives, involvement in the HSNP programme and desired outcomes from the study (0.25 days)
- Review of HSNP materials and consultation with the HSNP team and OPM to select geographic areas on which to focus for the review and gain an overview of the HSNP programme (1 day)
- Consultation with experts and literature review on markets and poverty in selected regions of Northern Kenya (6 days)
- Review of innovative market-led/value chain approaches to financial graduation and poverty alleviation in similar contexts (e.g. areas of under-developed volatile markets and conflict) (2 days)
- Analysis and write up (7 days)
- Development of recommendations (1 day)
- Report finalisation (2 days)
- Powerpoint development and presentation (1.5 days)

4.0 CONDUCT OF THE WORK

The study will consist of desk review and interviews with relevant experts. The lead consultant will report directly to the Senior Research Specialist at FSD Kenya.

5.0 OUTCOMES AND DELIVERABLES

The outcome of the study is to improve our understanding of the livelihoods and market context of target communities in Northern Kenya in order to develop a market led financial graduation strategy which leverages on social transfers and financial infrastructure development to reduce household vulnerability for target groups.

Deliverables:

- Powerpoint presentation of main arguments and recommendations;
- Dissemination of the presentation for key stakeholders to be selected by FSD

The copyright for all material prepared under this terms of reference will pass to FSD Kenya. It is FSD’s practice to publish the reports it commissions in its own house style. There is therefore no requirement for material to be extensively formatted beyond that required to indicate how material should be logically presented in the final report. All final reports should be presented in an electronic format allowing the text and graphics to be manipulated in
preparation for publication. Where a final report is presented in a portable
document format (pdf) generated from another format (such as Microsoft
Word) it should be accompanied by the original file from which it is
generated. All representations of graphic material (tables, figures, drawings,
charts, graphs and photographs) must be able to be reproduced at high print
resolution. Tables, figures, drawings, charts, graphs should be provided in
Microsoft Excel or Adobe Illustrator format. Photographs must be provided
in high-resolution JPG images set to minimum of 300 dots per inch (dpi).
Any technical questions regarding these requirements should be addressed to
FSD’s Communications Officer.

6.0 REQUIREMENTS

The LOE for this assignment is expected to be no more than 23 person days.
The consulting team is expected to meet the following requirements

Table 4: Mandatory requirements

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<tr>
<td>Research experience in Northern Kenya</td>
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<tr>
<td>Research experience in market development and value</td>
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<tr>
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<td>Minimum masters level qualification</td>
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7.0 TIMETABLE

A first draft of the report is due four weeks from the signing of a contract, with
a final draft due two weeks after submission of the first draft.

Table 5: Assessment criteria

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Annex 2

SELECTED GRADUATION MODELS

Figure 10: PSNP Plus

- Productivity training and support
- Microleasing (MFI loan)
- Farmers’ association
- Saving and lending groups (VSLA)

- Linkages with MFIs and markets
- Business
- Financial literacy training

- Linking to credit & business services markets
- Linking to other food services

- Food secure stable household economy

- Vulnerable to food insecurity

- Chronically food insecure

- PSNP households

- PSNP + Target Households

- Graduation FS programs

- PSNP support

- PUSH

- PULL
Figure 11: Grameen Foundation, India
Figure 12: The graduation model
3.0 LIVESTOCK-RELATED VALUE CHAINS

Large livestock meat value chain

Background: the livestock sub-sector in Kenya contributes 10 per cent of total GDP and 30 per cent of agricultural GDP. Livestock is the dominant economic activity in northern Kenya; 90 per cent of the workforce in the arid and semi-arid land (ASALs) are engaged in livestock and 95 per cent of household income originates from livestock (Were, 2009: 1). In Turkana district, the percentage of the population who rely to some extent on a pastoral economy reaches 80 per cent (Juma, undated: 2). Though there are four animals that predominate in the livestock sector (camels, cattle, goats and sheep), these are typically analysed as a group in northern Kenya given the interrelationships in the livestock market system. Among these animals, the most commonly commercialised is the goat: 97 per cent of slaughtered livestock in Turkana district are goats with goats making up the majority (Watson and van Binsbergen, 2008: 3). There are seven supply routes that connect the northern districts to southern markets, interspersed with very small primary markets, slightly larger secondary markets and terminal markets in the major urban areas, as follow (Muthee, 2010: 45-46):

- Mandera (Somali/Ethiopian border) – Garissa – Tana River – Lamu – Mombasa.
- Turkana (Lokichogio (Sudanese border), Lodwar) – Kitale – Nakuru – Nairobi.

These routes are illustrated in the Figure 13 below.

The Moyale-Marsabit-Nairobi route tends to be dominated by Burji livestock traders, who rely heavily on social networks of trust to mitigate the many risks facing them as a minority ethnic group (Mahmoud, 2008). Contrary to common perceptions, the profits earned by primary and secondary traders are low relative to their opportunity costs, suggesting that the power within the livestock market rests with the buyers at the terminal markets in Nairobi and Kenya’s other major cities (Juma, undated: 6-10).

Figure 13: Map of supply routes for livestock connecting northern Kenya with southern markets

Source: Muthee, 2010: 45
Opportunities and constraints: Kenya is a net livestock importer, with an estimated 22 per cent of its consumption supplied by neighbouring countries (Behnke and Muthami, 2011: 7), indicating opportunities for import substitution. More than 80 per cent of this market is already supplied by its pastoralist-dominated regions (Behnke and Muthami, 2011: 7), suggesting these communities have a significant competitive advantage. However, there are numerous constraints facing the large livestock meat market system in northern Kenya. An overriding constraint is environmental; some districts such as Turkana are heavily overstocked with livestock, putting pressure on resources (Watson and van Binsbergen, 2008: 1), which suggests that there are few opportunities for pastoralists to expand their herds sustainably. Furthermore, pastoralists are generally reluctant to sell their large livestock, particularly cattle and camels, since they play important roles in facilitating social relations, and tend to be considered unalienable assets. Consequently, off-take rates are low and correlate with herd size (i.e. pastoralists with larger herds are more likely to sell) (Osterloh et al, 2003: 10). This is particularly the case following drought, when poorer pastoralists are attempting to restock (Thampy, interview, 08.02.12). Low sales volumes imply that increasing the price earned by pastoralists on their sales will not create significant, immediate economic gains for many pastoral households (Osterloh et al, 2003: 14). Inadequate infrastructure is widely identified as a barrier. Poor roads raise transport costs, while insecurity (e.g. livestock theft and raiding, banditry (locally known as shifaa) and cash theft) raises risk levels. Taxes and bribes along trade routes add to the costs of doing business. Traders lack access to capital to increase their volume of purchases, which limits economies of scale and results in a market system characterised by large numbers of intermediaries. This, combined with long distances to markets, significantly increases transaction costs while lowering returns for pastoralists (Were, 2009:1). Animal health services are very limited — it is estimated that there are 15,000 cattle for every vet in the north — which impedes herd management. A major reason behind this is the high qualification requirements of veterinarians — only vets with 2 to 3 years’ experience are legally allowed to practice — which limits entry of northeners into the profession. Qualified vets tend to be reluctant to work in the north. As a result, animal health services are inadequately met by unqualified voluntary community animal health workers (Practical Action, interview 27.01.12; Thampy, interview 08.02.12). Perhaps the most serious challenge is that the cost of restocking is a significant barrier to entry or growth among the poor. The minimum herd size required to withstand drought and other shocks and to allow natural animal reproduction is significant: an expert interviewed by the authors estimated that a minimum of 40 TLU are needed to regularly sell at markets (Thampy, interview, 08.02.12). NGO-led restocking initiatives have typically not given sufficient livestock to impoverished pastoralists to reach minimum sustainable herd levels, and thus simply prolong their eventual exit from pastoralism (Levine and Crosskey, 2006: 7). Most households that lose their herds resort to settling, moving to urban areas in the north. In addition to providing labour for herd owners, the very poor could also engage in drying and trading of camel and cattle meat (nyiri nyiri) for sale to markets in northern and southern Kenya, and particularly the Eastleigh market in Nairobi (Otieno and Odera, interview 24.02.12).

Potential areas of intervention: improving market coordination could address the regulatory issues faced by producers; market rules and regulations are often not enforced while corruption is present. Revitalising livestock market management committees is one possible approach to achieving this (Tura et al,

Table 6: Camel, cattle and shoat meat value chain

<table>
<thead>
<tr>
<th>Value Chain</th>
<th>Opportunities</th>
<th>Challenges</th>
<th>Pro-poor potential</th>
<th>Overall assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Camel and cattle meat</td>
<td>Import substitution in southern Kenya.</td>
<td>Overstocking relative to carrying capacity.</td>
<td>The very poor do not own camels and cattle and barriers to entry are too high.</td>
<td>Low</td>
</tr>
<tr>
<td></td>
<td>Competitive advantage in production.</td>
<td>Insecurity.</td>
<td>Potential opportunities for service provision, labour.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Poor infrastructure.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>High costs.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Poor access to finance.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Rarely sold.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shoat meat</td>
<td>Import substitution in southern Kenya.</td>
<td>Overstocking relative to carrying capacity.</td>
<td>The very poor own some shoats, though relatively few and sales are intermittent.</td>
<td>Low – Medium.</td>
</tr>
<tr>
<td></td>
<td>Commonly sold</td>
<td>Insecurity.</td>
<td>Shoats often sold during drought when food security situation is critical, thus are often thin and in poor condition.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Poor infrastructure.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>High costs.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Poor access to finance.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Camel population

172,400 camels are drought-tolerant, which provides them with significant advantages in the arid conditions of the north versus other livestock. Further, there is significant unmet demand for camel milk in Kenya, estimated at KSH 600 million annually. A significant portion of this demand is driven by ethnic Somalis, both in north eastern Kenya and in parts of southern Kenya with significant Somali populations, especially Nairobi’s Eastleigh estate. This market is likely to grow further as the health and medicinal benefits of camel milk become more widely known. Despite this, at least 50 per cent of milk production is currently neither sold nor consumed (Musinga et al, 2008: iii-iv). While production and trade is developing rapidly in north eastern Kenya among the mainly Somali community, producers in Turkana and Marsabit are believed to have the lowest camel milk productivity levels in Kenya, suggesting the potential to expand production to meet this unmet demand (Musinga et al, 2008: 22). These opportunities indicate that camel milk is one of the most promising opportunities for pastoralists in Kenya’s and north. However, camels are expensive and mostly owned by wealthier households: whereas rich and middle-income households in the north-western pastoral zone that covers most of Turkana district have 50 to 100 and 0 to 10 camels respectively, poor, very poor and sedentary households generally have none (FEWS Net, 2010: 3). Similarly, households in the northern pastoral zone covering almost all of Marsabit have between 0 and 5 camels, though these figures are not disaggregated among different wealth levels. This creates high barriers to entry into the business for the very poor as producers, though other roles as traders and transporters are more easily accessed. Poor women, for instance, can enter the camel milk trade easily given low start-up capital requirements. Transport is a significant issue preventing commercialisation of this value chain: whereas the camel herd in Isiolo represents less than 4 per cent of the national total, its geographic location closer to Kenya’s urban markets means it supplies over 90 per cent of the milk to those markets (Siloma and Were, undated: 2). Even from Isiolo, transport was found to be the largest cost within the value chain (Siloma and Were, ibid: 3); this would undoubtedly cost even more from more northern districts. This is reflected in the market prices for camel milk in the north, which fall far below the national level, particularly in Turkana (Musinga et al., 2008: 22). There may be opportunities to meet unmet demand in urban areas of northern Kenya, where northern producers will be more competitive.

**Potential areas of intervention:** the market system for camel milk currently generates sub-optimal results for all of its stakeholders, including producers, traders and consumers. Reducing the cost of transport is critical for camel milk.

### Table 7: Camel population

<table>
<thead>
<tr>
<th>District</th>
<th>Camel population</th>
<th>Percent of national total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wajir</td>
<td>335,000</td>
<td>33.1</td>
</tr>
<tr>
<td>Mandera</td>
<td>183,000</td>
<td>18.1</td>
</tr>
<tr>
<td>Turkana</td>
<td>172,400</td>
<td>17.0</td>
</tr>
<tr>
<td>Marsabit</td>
<td>84,300</td>
<td>8.3</td>
</tr>
</tbody>
</table>

21 The camel milk market grew significantly in response to the influx of Somali refugees to Nairobi since the collapse of the Siad Barre state (Anderson et al, forthcoming).
from the more northern districts in Kenya to reach urban markets effectively. This may be accomplished through producer ownership of transport as well as by physically improving the quality and extent of the road network. Given the long distances that milk needs to travel, another important intervention area is improving milk quality. Training those involved in this value chain in effective milk handling procedures, using more sanitary containers (i.e. aluminium) and undertaking milk sampling and testing can all improve the acceptability and safety of camel milk within national markets (Siloma and Were, undated: 4). Another potential opportunity is to build consumer demand for camel milk in non-traditional markets (e.g. Pokot, Kitale) — promoting the purported nutritional and medicinal benefits of camel milk — and to focus on strengthening supply to markets in urban areas of northern Kenya, where producers have a competitive advantage. This will increase aggregate demand and could also bolster opportunities to sell closer to the source of supply. Promoting business models such as milk bars could increase consumer interest in purchasing milk while also generating employment. Finally, organising those involved within the value chain and strengthening the commercial orientation of camel milk producers will be important for camel milk from northern Kenya to overcome the various constraints it faces.

**Cow milk value chain**

**Background:** While dried milk used to be processed and consumed in Turkana, this industry is now in decline. Herders in Turkana sell fresh milk for cash during the rainy season, which is traded throughout the district. It is rarely traded when it is more scarce during the dry season, as the majority is used for households and herds (Watson and van Binsbergen, 2008: 7). However, although 53 per cent of dairy cows are located in the Rift Valley (TechnoServe, 2008), the number of dairy cows in northern Kenya is insignificant (Muriuki, 2011). Nearly all dairy production takes place in southern Kenya. Milk is sold locally in northern Kenya though, and usually by women. In Marsabit, milk trade is associated with the Rendille ethnic group, since they live on a side of Marsabit Mountain with good access to pasture, allowing cattle herds to remain closer to the market in Marsabit town. Boran women rarely sell milk, as grazing is poorer quality around the Boran side of the mountain and herds tend to graze far away from Marsabit town. Milk trade in Marsabit has failed to develop as it has in other northern towns however, since most pastoralist settlements are situated far from the market, and there is a lack of transport to bring the milk to town. Town inhabitants thus tend to buy milk in packets supplied from southern Kenya (author’s previous research, July 2010; personal communication). One value-added activity is ghee production and trade for consumption in cities, and ghee is found in the Eastleigh market, though nothing has been written on this particular value chain.

**Opportunities and constraints:** Milk already generates four times the economic value of meat in Kenya (Behnke and Muthami, 2011: 6), and there are significant economic opportunities emerging for dairy producers in Kenya; the commercial milk chain is the fastest growing agricultural sector in the country (TechnoServe, 2008: 2). Further, women tend to control the proceeds, suggesting the development of dairy milk value chains would have particularly beneficial developmental and nutritional impacts for households. However, outdated policies prevent pastoralists from accessing southern markets, and inadequate infrastructure (e.g. cooling stations, chilling trucks) increases spoilage levels and further reduces opportunities in this sector (cow milk, more so than camel milk, spoils quickly unrefrigerated). Given the lack of dairy cattle in the north, the development of the dairy milk value chain would require significant, long-term investments and may not be suited to the ecological and social patterns currently in place. Pastoralists are increasingly turning to camel husbandry in the face of increasingly frequent and severe drought (Anderson et al, forthcoming)

**Hides, skins and leather value chain**

**Background:** There are multiple markets for hides and skins in northern Kenya. Some are used within the household for rope-making, house building, milk storage, drumming, seat coverings and prayer mats (Kagunyu et al, 2010: 811). A second important market is the Kenyan processing industry, which converts the hides into leather, shoes and other goods. Whereas hides originate from the major pastoral areas of Kenya, traders and the processing industry are based in the major urban centres: Nairobi, Sagana, Thika, Milolongo and Athi River. The industry altogether represents an estimated 4 per cent of Kenya’s total gross domestic product (Kagunyu et al, 2010: 809). While figures on the size of the trade in hides in northern Kenya are not available, it is reportedly low in Turkana District where there is limited access to market information.

<table>
<thead>
<tr>
<th>Value Chain</th>
<th>Market opportunities</th>
<th>Constraints</th>
<th>Pro-poor potential</th>
<th>Overall assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Camel milk</td>
<td>Significant unmet demand in southern Kenya; potential to increase markets in northern Kenya. High drought tolerance. Strong involvement of women.</td>
<td>Distance to southern markets</td>
<td>Low as producers; the very poor lack camel herds and acquisition costs are too high. Opportunities in service roles within the value chain (e.g. herders, fodder suppliers) or as traders.</td>
<td>Medium.</td>
</tr>
</tbody>
</table>

Table 8: Camel milk value chain
Opportunities and constraints: limited information on the market prospects for hides and skins in Kenya makes it difficult to ascertain the potential additional benefits that could accrue to northern Kenyan pastoralists. While Kenyan processing industries that relied upon skins and hides suffered following the withdrawal of protection after liberalisation (CARE International Kenya, 2010: 14) exports of semi-processed and processed products (e.g. leather, shoes) are now on the ascendency. This suggests the industry is becoming increasingly competitive and may ultimately mean growing demand for skin producers. However, the distribution of the benefits from this trend is not clear, nor is the ability of producers in northern Kenya to benefit versus other hides producers. A significant constraint for producers in northern Kenya is the very poor quality of their skins. There are several causes. The environment poses challenges: the many thorns in the ASALs grazing lands cause significant damage to the skins. Poor branding and flaying practices exacerbate the damage to the skin. Drying practices also lower quality: while wet dried skins are strongly preferred by buyers and garner higher prices, most producers sun-dry their skins and sell them for approximately half of the wet dried price (Kagunyu et al, 2010: 814). Most pastoralists are not aware of the grading system that rewards proper skin management. Other quality deficiencies include small sized hides - given the poor health of many animals - and the many defects in the hides (CARE International Kenya, 2010: 14).

Potential areas of intervention: additional research is required into the potential benefits of the hides and skins value chains for people in northern Kenya to assess whether the investments required in upgrading the quality of skins would derive adequate benefits for producers, as significant investment is required for hides and skins from the region to compete effectively. Improving knowledge on hide management and drying practices (e.g. curing practices such as wet salt curing, effective flaying and branding and avoiding skin diseases) is clearly important. Just 12 to 30 per cent of pastoralists in Marsabit, for instance, are aware of wet salt curing despite the relative ease with which it can be adopted. Improving the availability and quality of animal health services would help to address some of the most common problems, including parasites and diseases (Kagunyu et al, 2010: 815). Improving producers’ market knowledge would also help to increase the incentives for skin management. Advocating to the government to lower cess taxes would improve the competitive position of producers in the north. However, the ability to address some constraints (e.g. poor animal nutrition and health) may be very difficult and the return on those investments needs to be more effectively assessed.

Fodder value chain

Background: the vast majority of livestock in northern Kenya graze on rain-fed pasture. However, around well-watered and urban areas such as in Mandera on the border with Somalia and Ethiopia, fodder is produced and sold. (Nyangaga, 2009: 6). In that area, approximately 2,000 agro-pastoralists sell fodder to as many as 30,000 urban and peri-urban livestock holders (ibid.).

Opportunities and constraints: the increasing variability of rainfall is causing some pastoralists to settle closer to irrigated fodder producers to better manage risk (ibid: 7). This is increasing the demand for fodder where it is produced and encouraging other farmers to increase their own production of fodder. Though there are areas that can support production, the availability of water is a critical limitation to the expansion and sustainability of this activity across most of northern Kenya. In the Mandera area, farmers complain that rivers are becoming shallower, threatening continued fodder production. The opportunity for expansion of the fodder value chain in northern Kenya is therefore limited to areas with adequate water availability.

Potential areas of intervention: identify areas of northern Kenya with the potential to produce fodder. Link farmers to needed services (e.g. technical knowledge, inputs, finance) that support production.

<table>
<thead>
<tr>
<th>Value Chain</th>
<th>Market opportunities</th>
<th>Constraints</th>
<th>Pro-poor potential</th>
<th>Overall assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fodder</td>
<td>Growing market in the north due to urbanisation.</td>
<td>Limited water</td>
<td>Casual labour on farms.</td>
<td>Low / Medium</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Sale of fodder.</td>
<td></td>
</tr>
</tbody>
</table>

Table 9: Hides and skins value chain
Non-livestock value chains

The majority of northern Kenya’s livelihood zones are pastoral. Arid conditions favour livestock-related subsectors and limit other activities. There are however, some non-livestock value chains in the north. Pastoralists’ decision to concentrate their wealth in their herd, even just prior to a drought, is usually economically rational (McPeak, 2005: 2). Entry into these value chains is often done by those pushed out of pastoralism.

Tourism value chain

Background: tourism contributes 10 per cent of total Kenyan GDP, employs 9 per cent of the formal workforce and generates significant foreign exchange (Kenya Land Conservation Trust, undated, 2010: 2). The tourism industry is still relatively underdeveloped in northern Kenya, though increasing investments are being made. A variety of tourism models exist in parts of northern Kenya not under the HSNP programme, such as Laikipia and Isiolo. In some cases these are managed by private firms in collaboration with local communities, while in others the community itself takes full responsibility for management.

Opportunities and constraints: with rising incomes among Kenyans and growing international tourism, there is an increasingly large market for tourism in Kenya. However, distance, poor road infrastructure and a perception of insecurity all damage the prospects for tourism in northern Kenya (CARE Kenya, 2010: 33).

Potential areas of intervention: infrastructure is a critical first step to the development of the tourism industry in northern Kenya. Improving accessibility for tourists from the coast or Nairobi will greatly increase growth opportunities. Nevertheless, tourism development must be considered a long-term process, and will not generate immediate, significant gains for producers in Kenya’s north.

Fish value chain

Background: fishing is limited to just a few areas of northern Kenya including particularly Lake Turkana, the world’s largest desert lake. Very few households living on Lake Turkana have boats, limiting fishing activities for most to the areas around the shores. Further, fishing is seasonal and thus provides intermittent income to households. Most fish is dried prior to sale, with the majority transported by traders to final consumers in Lokichoggio, Kakuma, Laikipia, Busia, Kisumu and Nairobi (Watson and van Binsbergen, 2008:14). With the dissolution of a cooperative that previously comprised 3,000 members, fishers now have much poorer bargaining power with buyers (Watson and van Binsbergen, 2008: 12).

Opportunities and constraints: unlike larger livestock, households in the north view fish as a saleable commodity and do not face cultural constraints to commercialisation. Fish has been incorporated into food aid baskets under the EC Food Facility Programme, offering new market opportunities for fishers. Furthermore, the investment required to engage in shore-based fishing is quite low, meaning that fishing is a pro-poor activity. A potential constraint is the climatic changes affecting Lake Turkana, including particularly a drop in water levels that is making it more difficult for shore-based fishers to earn a livelihood. The solution to this, investing in boats and other more expensive fishing technology, is too expensive for most households.

### Table 11: Tourism value chain

<table>
<thead>
<tr>
<th>Value Chain</th>
<th>Market opportunities</th>
<th>Constraints</th>
<th>Pro-poor potential</th>
<th>Overall assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tourism</td>
<td>Fast-growing sector with international and domestic demand</td>
<td>Distance from southern Kenya. Undeveloped infrastructure. Perceived insecurity. Long-term investment.</td>
<td>Many entry-level employment opportunities in accommodation, entertainment and related industries.</td>
<td>Low</td>
</tr>
</tbody>
</table>

### Table 12: Fish value chain

<table>
<thead>
<tr>
<th>Value chain</th>
<th>Opportunities</th>
<th>Challenges</th>
<th>Pro-poor potential</th>
<th>Overall assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fish</td>
<td>Increase harvest quantity. Increase local demand for fish.</td>
<td>Declining stocks. Fishing available in a small area of northern Kenya. Low bargaining power.</td>
<td>Low barriers to entry for shore-based fishing, fish drying or trading. Boat-based fishing requires significant investments.</td>
<td>Med</td>
</tr>
</tbody>
</table>
Value chain | Opportunities | Challenges | Pro-poor potential | Overall assessment
--- | --- | --- | --- | ---

Potential areas of intervention: the EC Food Facility (described in Annex 4) has promoted the fish value chain in northern Kenya by replacing the pulses in food aid baskets with dried fish. FSD could support the development and scale-up of this model. Another intervention is to improve access by fishers to capital to purchase boats and related equipment to increase their harvests and enable them to generate income from fishing all year round.

Poultry value chain

Background: given its low start-up costs and positive nutritional aspects, poultry rearing has been promoted by many development agencies in northern Kenya. However, susceptibility to disease and a lack of financial viability due to the cost of purchased feed ultimately caused these businesses to fail in Turkana district. (Watson and Binsbergen, 2008: 7). Before investments are considered in this value chain, commercial viability would need to be proven.

Honey value chain

Background: beekeeping is a traditional activity in areas of northern Kenya, practiced particularly by men. Few beekeepers used improved technologies and the productivity of hives is just low relative to other parts of Kenya.

Opportunities and constraints: there is strong demand in Kenya for honey and the industry is becoming increasingly organised as firms (e.g. Honey Care Africa) invest in developing their brands. These firms and larger brokers are signing purchasing arrangements with honey production groups in which they will agree to purchase all of the production while offering embedded services (e.g. technical assistance on honey production). The demand for honey is the north is not currently being met, which offers an opportunity for local honey producers. Moreover, Equity Bank is willing in some areas to finance the acquisition of beehives (Ndungu, interview 10.02.12). Although beekeeping is somewhat suitable to dry conditions, very arid conditions do threaten the viability of production and thus site selection is an important factor to consider in northern Kenya. Beekeeping has traditionally been a male activity, though some women are also adopting the practice.

Potential areas of intervention: developing the honey value chain in northern Kenya requires linking interested beekeepers to credit and inputs, while facilitating market links to southern honey buyers and local markets. Reaching southern markets will require beekeepers to organise to achieve economies of scale. The skills required to produce honey are frequently underestimated, so when working with new beekeepers, attention to building technical skills will also be required.

Handicrafts value chain

Background: handicrafts produced in the north include baskets, jewellery, wooden products, mats and beads. Many of these derive from the doum palm, which has at least fourteen economic uses (Amwatta, 2004: 189).

Opportunities and constraints: markets are currently limited for handicrafts from northern Kenya and have declined over time. Buyers are few and the organisations that represent producers are very weak. Although beads have high cultural and social capital, this is not always translatable to economic value, and producers often rely on visitors and tourists as buyers. There is however a need to verify the extent to which beads and other body ornaments are commodified and the trends towards their sale, as this could

<table>
<thead>
<tr>
<th>Value chain</th>
<th>Opportunities ---</th>
<th>Challenges ---</th>
<th>Pro-poor potential ---</th>
<th>Overall assessment ---</th>
</tr>
</thead>
<tbody>
<tr>
<td>Honey</td>
<td>Strong and growing demand. Firms are willing to sign purchase contracts. Availability of finance for hive acquisition.</td>
<td>Availability of water. Low economies of scale.</td>
<td>Bee keeping has relatively low investment costs and credit may be available.</td>
<td>Medium.</td>
</tr>
</tbody>
</table>
provide a significant local market opportunity. While external assistance from NGOs and the government has helped producers to reach markets in the past, cooperatives have regularly dissolved or reduced their activities following the end of support. This has been exacerbated by poor security, which has shut down export markets to Uganda. The profitability of handicraft production is limited, particularly for producers (Watson and van Binsbergen, 2008: 24). While raw materials are generally not limited, the doum palm in particular is threatened due to a shortage of planting. With increasing settlement of pastoralists, the risks of deforestation of the doum palm have increased. (Amwatta, 2004: 189). The very poor struggle to raise the money to purchase the tools needed to produce handicrafts and to cope with the very slow turnover of their crafts.

There may be more potential for mats and baskets, which are widely produced by Turkana women. Opportunities for selling mats and baskets increase around markets close to the lake, where markets are a little more developed because of fish sales. Furthermore, the doum palm tree grows in abundance near the lake, rendering basket and mat making an activity with low barriers to access for poor women (IFRA, 2010; Levine and Crosskey, 2006: 25-6).

**Gum resins value chain**

**Background:** gum Arabic, myrrh and frankincense are widespread in northern Kenya yet not widely commercialised. The three products have multiple purposes. Gum Arabic is an additive to a range of products, including soda and alcoholic beverages, medicines, paints, ceramics and glues. No substitute has been identified for many of these uses, thus boosting its market demand. Myrrh has a number of medicinal properties in addition to be used as incense. Frankincense is employed in cosmetics, soaps and other products for its aroma. It also is used to reduce swelling and for fumigation (CARE Kenya, 2010: 5).

**Opportunities and constraints:** the total world demand for these gum resins is stable at 2,500 tons per year (Chikamai and Casadei, 2005: 5). The products cannot be grown on plantations and thrive in the arid environments of northern Kenya. While Ethiopia and Sudan are large suppliers of these products, it is unclear whether Kenya has any competitive advantages in terms of cost or quality. Further, the value chains are threatened by tree loss due to drought, insufficient protection of remaining tree stands, and inadequate tree tenure to ensure gains accrue to investors. (CARE Kenya, 2010: 7-8).

**Potential areas of intervention:** investment opportunities must be predicated on first understanding the competitive advantages of Kenya relative to its neighbours, so that the specific value chains of greatest potential can be selected and interventions designed to address the dominant constraints.

**Herbal and medicinal plants value chain**

**Background:** there is increasing demand for herbal and medicinal products among consumers in Kenya, of which aloe, neem and artemisia are among the more heavily traded. Although research into aloe has been ongoing by NGOs such as Practical Action for years (Watson and van Binsbergen, 2008: 3), overall progress has been relatively slow. Currently, the majority of the aloe and artemisia originate from southern districts: artemisia from Laikipia, Nyahururu, Nyeri, Eldoret, Nakuru and Kajiado in Kenya and Tanzania and Uganda and aloe from Taveta, Laikipia, Mwingi, Kajiado as well as Uganda and Tanzania (Farm Concern International, undated b: 15). Nevertheless, some aloe does grow in the north, including at sites near Lodwar in Turkana district. (Farm Concern International, undated c: 2). In total, there are a total of 21 aloe plantations and two processing centres in Turkana. (United Nations Convention to Combat Desertification, 2007: 27). Practical Action has supported some groups to produce processed aloe products, including aloe soaps, body lotions, body

### Table 15: Handicrafts value chain

<table>
<thead>
<tr>
<th>Value chain</th>
<th>Opportunities</th>
<th>Challenges</th>
<th>Pro-poor potential</th>
<th>Overall assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Handicrafts</td>
<td></td>
<td>Insecurity</td>
<td>Limited markets</td>
<td>Start-up investment costs (i.e. tools) are high and turnover is slow, limiting the ability of the very poor to engage</td>
</tr>
</tbody>
</table>

### Table 16: Gum resins value chain

<table>
<thead>
<tr>
<th>Value chain</th>
<th>Opportunities</th>
<th>Challenges</th>
<th>Pro-poor potential</th>
<th>Overall assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gum resins</td>
<td>Thrive in arid environments</td>
<td>Flat global demand.</td>
<td>Collection ideally suited to the very poor. (Self-employment in initial processing)</td>
<td>Low / Medium.</td>
</tr>
</tbody>
</table>

---

23 There is some trade in gum Arabic in Wajir East, though little is published on this activity (Mercy Corps, 2011: 7).
Table 17: Herbal and medicinal plants value chain

<table>
<thead>
<tr>
<th>Value chain</th>
<th>Opportunities</th>
<th>Challenges</th>
<th>Pro-poor potential</th>
<th>Overall assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Herbal and medicinal plants</td>
<td>Strong demand</td>
<td>Uncompetitive vs. imports.</td>
<td>Low barriers to entry in collection and primary processing.</td>
<td>Medium.</td>
</tr>
<tr>
<td></td>
<td>Thrive in arid environments</td>
<td>Low economies of scale.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Low quality of production.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Opportunities and challenges: there is strong demand in Nairobi among processors for raw artemisia and semi-processed aloe (Farm Concern International, undated b: 9). However, there are also significant constraints on the development of these products. Significantly, the inability of suppliers to reliably provide quality product causes many processors to import raw materials from other countries. Asian aloe, for instance, is cheaper though perceived to be of lower quality. Supplying these products at an affordable price to processors is critical to market success, though it will be a challenge for producers from northern Kenya who face higher transportation costs and the risks of deterioration during transport. Sorting and grading of the products could significantly address this gap. A perceived (though not actually instituted) government ban on the export of aloe for environmental reasons put in place by former President Daniel arap Moi has frustrated efforts to commercialise the crop. Other constraints include poor horizontal links among producers, which are necessary to achieve the levels of production that would make the crop commercially viable. In terms of community-based processing, consumer research indicates there are significant quality gaps that need to be addressed before products can complete in urban Kenyan markets (Farm Concern International, undated c: 24–25).

Potential areas of intervention: further information is first needed on the medicinal plant value chains to assess the competitiveness of producers in northern Kenya versus imported product and also the availability of raw product to harvest. If it is possible to achieve competitiveness and there is adequate supply, there will likely be opportunities to develop a lead firm model that partners with Kenyan processing demanding the raw product and willing to invest in their suppliers to achieve the right quality and prices.

Irrigated agriculture value chains

Background: there is extremely limited published information on agricultural crops grown in northern Kenya’s few agro-pastoral zones. The aridity of northern Kenya significantly limits any existing irrigated agriculture; that which exists is clustered around the major lakes. Farmers produce grains and a few cash crops, including khat.

Opportunities and constraints: given the very high prices of food in northern Kenyan markets, local food production has a large potential market. While producers tend to be wealthy, there are significant trading opportunities by the very poor for locally-consumed crops such as khat (FEWS Net, 2010: 14). A primary constraint is inadequate water for expansion; limiting opportunities for the very poor to engage in irrigated agriculture as producers or labourers. As a result, much of the production is consumed by the farmers themselves (Watson and van Binsbergen, 2008: 17). The limited area does not offer opportunities for the incorporation of large numbers of HSNP-recipient households. For existing producers, challenges include unavailability of transport and inputs and the inability to wait to sell when prices rise following harvest (OPM and IDS, 2011: 78). Women, who are often in control of growing crops, are often unable to travel to markets, and are thus forced to sell their produce locally (OPM and IDS, 2011: 78).

Charcoal value chain

Background: charcoal is a critical source of energy for Kenyans: 82 per cent of urban households and 34 per cent of rural households use charcoal for cooking and it also feeds many cottage industries (Practical Action Consulting East Africa, 2011: 7). Its demand is driven by its easy availability and low cost relative to other options. An estimated KSH 32 billion in economic activity is generated from the charcoal industry in Kenya, just slightly less than the contribution of the tea industry (Mutimba et al, 2005: 16). Approximately 500,000 Kenyans are involved in supplying this demand, 200,000 of them as producers and the remainder operating elsewhere in the value chain (e.g. transporters, wholesalers, retailers) (Mutimba et al, ibid: 4). Many of those involved in the charcoal value chain are situated in northern Kenya. This activity is most significant in Turkana, where 46 per cent of households are engaged in cream and shampoo (Farm Concern International, undated c: 8). Aside from a few isolated cases of contract farming schemes in central Kenya, most trade in these products is informal. Kenya’s only aloe processing factor, built in 2004 with donor funds in Baringo, is sitting idle, though the reasons are unknown (Kay, undated). Jojoba is another product with potential for cultivation in Kenya’s ASALs, though it is unclear whether the extremely arid and climates in the north are suitable (Farm Concern International, undated a).

Opportunities and challenges: there is extremely limited published information on agricultural crops grown in northern Kenya’s few agro-pastoral zones. The aridity of northern Kenya significantly limits any existing irrigated agriculture; that which exists is clustered around the major lakes. Farmers produce grains and a few cash crops, including khat. 42 • MARKETS AND POVERTY IN NORTHERN KENYA: TOWARDS A FINANCIAL GRADUATION MODEL
Charcoal burning, compared to 5 per cent in Marsabit, 8 per cent in Mandera and 11 per cent in Wajir. Charcoal fetches low prices — 100-150 KSH for a large bag, and increased charcoal production is seeing reduction of tree cover. Charcoal burning and firewood collection have been described as ‘distress activities’ or ‘coping strategies’ in Turkana, (OPM and IDS, 2011: 61). Analysis from elsewhere in Kenya suggests traders earn the most in the charcoal value chain, while retailers and producers earn less (Fowler, 2005: 11).

Opportunities and challenges: continuing urbanisation and population growth in Kenya are continuing to increase demand for charcoal, including in the towns and refugee camps of northern Kenya. As imported hydrocarbons become more expensive, charcoal is increasingly attractive as a fuel source. Charcoal production is conducted particularly by the poor, given that wood can often be obtained for free and thus costs are low. It is often practiced as a coping strategy during times of stress (OPM and IDS, 2011: 61). However, these opportunities are balanced by the economic damage created by uncontrolled harvesting, which contributes to deforestation. The policy environment impedes charcoal production, as unclear policies, weak enforcement and regular bribe-taking are all present.

Potential areas of intervention: the kilns currently used to produce charcoal are very inefficient, creating a high rate of loss in the conversion from wood. Upgrading kiln technology would increase efficiency, though this might encourage more rather than less production as profit levels rise. Improving the knowledge and enforcement of policies would help to reduce uncertainty and increase the sustainability of charcoal harvesting activities, (e.g. advocating for the use of portions of a tree rather than the entire tree). Improved organisation of charcoal producers could increase producer earnings relative to other actors in the value chain, though this would require further analysis to confirm. Overall, the environmental risks make promoting the charcoal value chain questionable.

### Table 18: Charcoal value chain

<table>
<thead>
<tr>
<th>Value chain</th>
<th>Opportunities</th>
<th>Challenges</th>
<th>Pro-poor potential</th>
<th>Overall assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charcoal</td>
<td>Major and growing demand due to urbanisation and population growth.</td>
<td>Contributes to deforestation as currently practiced</td>
<td>Strongly pro-poor: very low barriers to entry and an important livelihood strategy for the most vulnerable.</td>
<td>Medium. Only viable if environmental concerns can be addressed.</td>
</tr>
</tbody>
</table>
The EC Food Facility (ECFF) was an initiative that used food aid to stimulate local markets, led by Save the Children and implemented in Wajir East and South and Turkana North and West between March 2010 and October 2011. The programme’s overall objective was to stimulate market functioning and food production through food aid delivery, by not only delivering food aid through local traders and markets, but also sourcing part of the food aid locally by exchanging the protein component of the World Food Programme food basket (beans) with local produce — meat and milk in Wajir and dried fish in Turkana. Beneficiaries redeemed their food entitlements with vouchers for each food commodity. The programme’s specific objective was to increase the incomes of local food producers and traders as well as the food security of consumers.

55 general traders were selected to distribute the grain component of the food basket in Turkana, and 51 in Wajir. Traders selected were required to have been operating as traders for at least two years. Traders were supported through training, provision of storage facilities, donation of scoops, and were continuously monitored. Traders were paid a handling fee by the programme for every voucher redeemed — two per cent per kilogram of food. The evaluation found that traders’ incomes increased significantly during the pilot project — and not exclusively from handling fees. Traders’ sales to non-beneficiaries also increased by 30 per cent.

In Wajir, ECFF traders’ net income was 30 per cent higher than that of control traders, and 28 per cent higher in Turkana. Traders in Wajir were also able to stock up their shops with new commodities that had not previously been available on the market, such as juices, yoghurts and bottled water (Fitzgibbon, 2012), and in Turkana, traders reported purchasing and selling significantly more stock (Chacha, interview 15.02.12).

Traders in meat and milk in Wajir and dried fish in Turkana were reportedly recruited afresh (not all had traded in these commodities before since there...
was little demand for the goods) and generally came from poor backgrounds. 155 meat traders and 155 milk traders in Wajir were trained in milk and meat handling and hygiene and business management. In addition, 302 milk traders were provided with equipment (e.g. stainless steel milk cans and buckets) while 151 meat traders were provided with knives, aprons, gum boots and buckets. All participating meat and milk traders in Wajir and fish traders in Turkana have opened bank accounts (Fitzgibbon, 2012).

In Wajir, 70 per cent of pastoralist suppliers were food aid recipients, highlighting the opportunities that the programme brought for poor households. 3,315 pastoralist meat producers were trained on improved livestock production practices and 3,420 were provided with stainless steel milk cans. The programme also constructed 55 basic slaughtering facilities across the area of implementation including slaughtering slabs, as well as rehabilitating three slaughterhouses in Habaswein, Kutulo, and Khorof Haran and building four milk sheds in Darbaj, Kutulo, Abakore and Diff (Fitzgibbon, 2012). In Turkana, around 800 fishermen were linked up with traders (Chacha, interview 15.02.12). Traders were supplied with materials such as solar driers, knives, gum boots and packaging. Sales to customers who were not food aid recipients also increased during the project (Fitzgibbon, 2012):

Meat producers in Wajir sold an average of eight to ten shoats and three to four camels to the project (cattle were not in good enough condition to be sold for meat). The price received for the meat was 35-40 per cent higher than received in standard destocking programmes and 10-15 per cent higher than if animals had been trekked long distances to markets. In Wajir, numbers of livestock suppliers sourced increased with distance from urban areas; rural traders sourced meat from an average of 55.3 suppliers, while traders in peri-urban and urban areas traded sourced meat from an average of just nine and seven suppliers respectively.

The programme’s innovative approach to supporting local economies differed
dramatically from other NGO strategies, such as destocking programmes.
While destocking programmes create demand by providing a reliable market
for emaciated animals which would otherwise die, they have tended to give
low prices for animals and effectively created a false economy by rewarding
failure through buying livestock not fit for consumption which are often
ultimately wasted. The ECFF initiative, on the other hand, by stimulating
both supply and demand, was able to kick-start a genuine economy. Meat,
milk and fish supplies flowed consistently even through the dry seasons,
and a minimum standard was maintained. The programme highlighted that
with sufficient and consistent demand, suppliers and traders will deliver.
The programme’s particular success in Wajir was attributed to the market-
savvy nature of the Somali community, and yet it should also be noted that
demand was consistently met in Turkana by its more market-naïve population
(Fitzgibbon, 2012).

Crucially, the ECFF also developed trade and market infrastructures which are
hoped to prove sustainable for supplying non-food goods to markets. Local
markets in both districts were revitalised; in Wajir, for example, establishment
of butcheries in remote locations prompted the formation of new informal
markets in those areas, resulting in reduced transaction costs (Services for
Sustainable Community Development East Africa, undated: 27). However, due
to the relatively small scale of the project, no significant changes were seen in
terms of prices of foodstuffs; prices of meat, milk and fish remained stable, but
grain prices saw general inflation (in Wajir as a result of insecurity and reduced
trade with Somalia) (Fitzgibbon, 2012).