

FSD Reviews

GRADUATION PILOT: MARKET ASSESSMENT AND IGA MODELING



Since the successful development and rollout of BRAC's 'targeting the ultra-poor' (TUP) graduation programme in Bangladesh, graduation programmes have been expanded across the world, notably by CGAP and the Ford Foundation. Rigorous randomised control trials (RCTs) of the CGAP/Ford pilots have demonstrated a positive impact on incomes, not only immediately following the period of support but when follow ups were made two and three years later. This is a notable contrast to the findings from a recent synthesis of RCTs on pure microcredit programmes which have shown limited impacts across most borrowers. FSD Kenya and CARE Kenya has jointly designed a project for implementation in Laisamis sub-county of Marsabit county, north of Kenya, applying the graduation approach. The objective of the project is to test use of market based approaches to building the livelihoods of poor households.

In 2015 an assessment used an existing HEA livelihood baseline to model the impact of a moderate drought and quantify households cash requirements to enable them to maintain essential expenditure. The assessment then modelled the impact of nine potential IGAs to determine whether they were profitable enough to enabled households to meet this cash deficit and therefore become resilience to moderate drought. Three IGAs were identified as viable and four as borderline (*Goat Trade, Irrigated Vegetable Production, Poultry, Urea Multi Blocks, Hay Production, Honey Production and Honey Trade*). This "technical viability" provided a long-list of potential IGAs to be considered by the graduation pilot. The study also revealed the need for broad market-support across all market-systems and the need for donors and NGOs in Marsabit to move away from a dependence on in-kind grants and adopted a market-systems approach to their livelihood programming.

In 2016 a series of focus group discussions was conducted in Laisamis sub-County in order to understand households' own preferences; this provided an understanding of the "social feasibility" of potential IGAs identified in 2015. 62% of the participants in the FGDs preferring to pursue livestock related IGAs, while 38% were interested in engaging in petty trade IGAs. 86% of the respondents in the FGDs are willing to take loans to enable them engage in the IGAs of their choice. However, they are requesting for education and sensitization on loans before they can take loans.

Based on a review of the broad characteristics of the potential market-systems identified as both "technical viable" and "socially feasible", the Goat market-system was prioritized for a more detailed assessment in 2016. The results of that assessment are outlined in this briefing paper. Trade in small livestock

Figure 1: Using market based approach to build the livelihoods of poor households

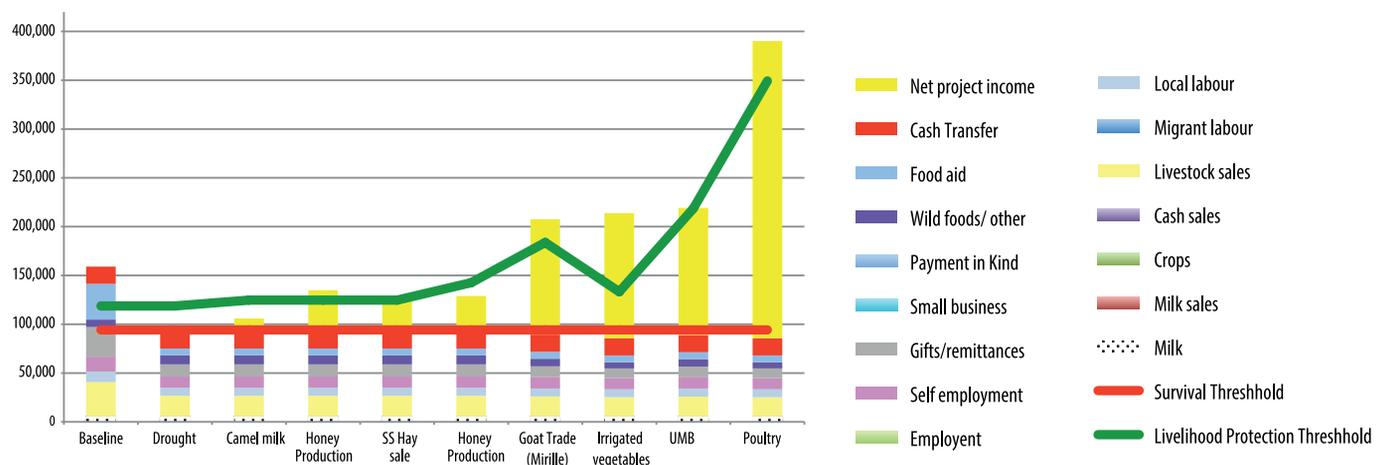
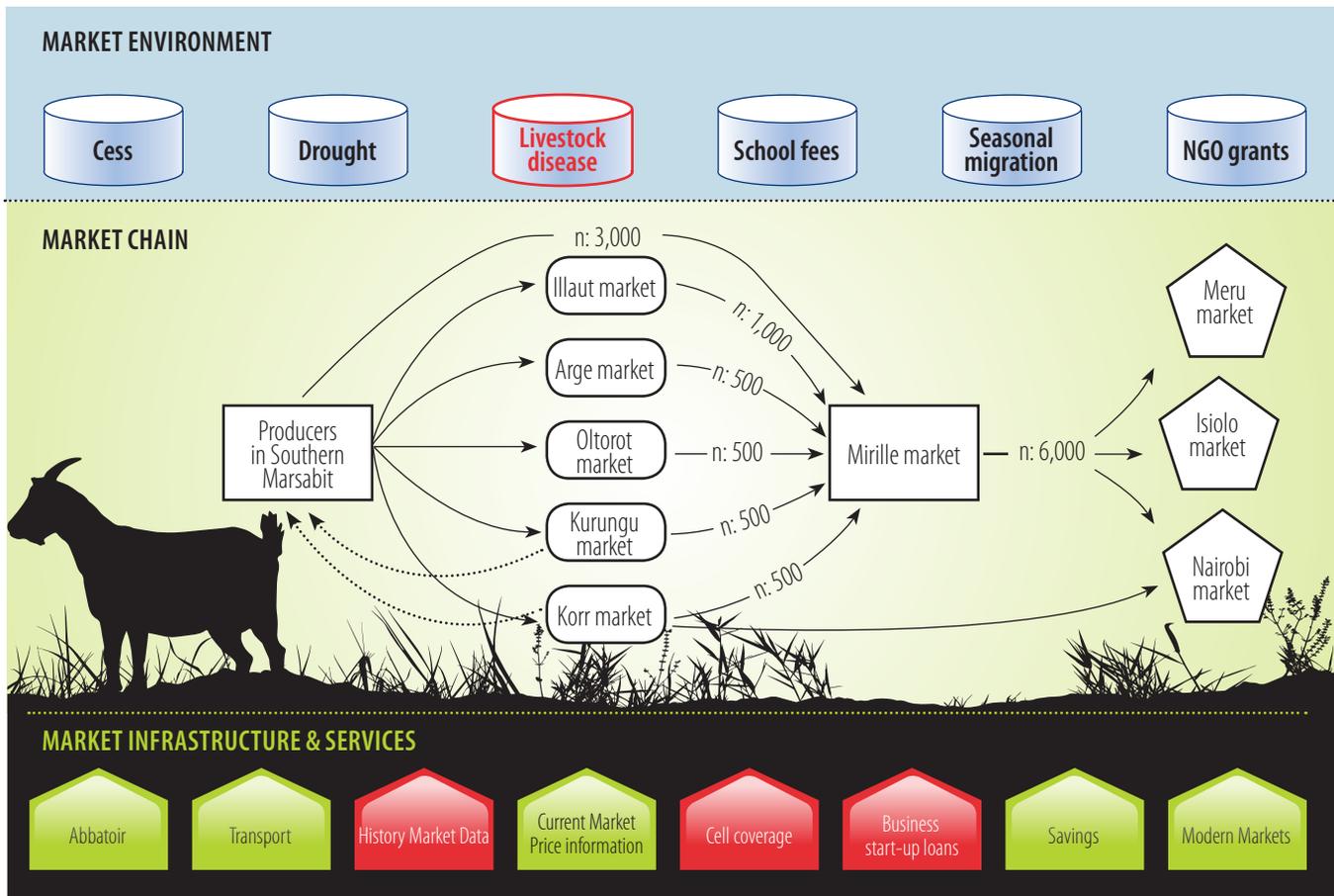


Figure 2: Goat Market System



was characterized by local supply and minimal technical, input and capital equipment requirements all making it an ideal IGA for households taking the step up from relatively small loans from savings groups to larger commercial loans to establish individual enterprises. Crucially, livestock trade is linked to strong and growing national markets. This offers the potential for the markets systems to absorb significant increases in supply without adverse impacts.

The goat market-system in Laisamis sub-county is characterized by five local markets that ‘feed’ the secondary market in Merille and ultimately supply terminal markets in Nairobi, Isiolo and Meru. Markets are functional but the market environment is affected by regular outbreaks of livestock disease and periodic droughts. There are critical weaknesses in the market services linked to the absence of start-up loans, lack of effective financial services in Merille, weak systems for aggregating and analyzing historical market data and poor cell phone coverage particularly in the key markets of Merille and Illaut.

Volumes of trade currently average ~6,700 goats / month in Merille market. It is estimated that the total volume of trade in the five local markets that supply Merille is in the region of 3,500 goats / month. It would therefore appear that

there is a significant volume of livestock (3,000/month) that are sold directly to Merille market without first passing through one of the local markets. Contrary to expectations, data from Merille and Illaut do not appear to show significant intra-annual seasonality of supply associated with wet and dry seasons. Prices have also been relatively stable over the past 18 months. There do not appear to be significant seasonal variations in prices, nor long term trends. Prices in local feeder markets have averaged KSH 720 – 1,100 lower than the price in the secondary market in Merille. There was however a short period when prices in local feeder markets were higher than in Merille. Similar price differences in the future would clearly undermine the viability of a goat trading IGA. This highlights the importance of good market information for the success of goat trading IGAs.

The available data shows that while average monthly volumes of trade are relatively constant there is significant variation within any given month. It is also apparent that there is occasional over-supply of goats. Interestingly there does not appear to be a strong correlation between the volume of trade and unsold goats. It can be inferred that over-supply of goats is not associated with trader capacity

IGA MODELLING

In Laisamis a goat trading IGA offers the potential for profits of KSh 22,500 per year based on purchasing 30 goats from local markets such as Ilaut and Korr and trekking them to Merille market for sale. Goat trading is profitable enough to support a commercial loan which could be repaid within the first year and is also resilient enough to maintain a profit of KSh 20,500 during a moderate drought. When combined with households' existing sources of food and income the KSh 20,500 IGA income is enough to ensure that a poor household is able to maintain their minimum food expenditure and invest in health, education and livelihoods.

It is assumed that in 2016 approximately 100 households would be in a position to access a loan to start a goat trading IGA. These households would induce a supply increase at Merille market of 3,000 goats (equivalent to 250 goats / month). The average volume of goats sold in Merille market is 6,700 / month. The induced supply response would therefore represent an increase of ~4% in the regular volumes of trade, which is less than normal monthly variation and significantly less than the 90% increase in volumes of trade experienced in 2014. It is therefore assumed that the market could absorb an annual +4% increase in trade with minimal effect.

Part of the components of the project aims to design and test the use of appropriate commercial credit solutions in asset acquisition and accumulation for poor households, a market based solution, to replicate the successes of the BRAC graduation approach which relies on giving households direct in-kind grants. It is therefore important to consider not only whether the business loans are viable at the household level but also whether it would be viable for a commercial service provider to supply these loans. The loan facility required to support an initial 100 households to invest in goat trading IGAs in 2016



would therefore be KSh3,700,000 (\$37,000). At 20% interest the loan facility could expect to generate a return of KSh740,000 (\$7,400) for the financial service provider. After the initial phase an annual loan facility of KSh 18.5 million (\$185,000) would be able to provide loans to 500 households per year which could be expected to generate an annual profit of KSh3.7 million (\$37,000) for the financial service provider.

Livestock trade was by far the most popular potential IGA and this market assessment confirms that the combination of strong local supply and effective links to strong and growing national markets makes goat trading an ideal IGA for households transitioning from group saving to more commercial individual enterprises. This is reinforced by the minimal technical, input and capital equipment requirements.

Income	Income/Goat 4,700	No. of units 30	KShs/Year 141,000
			Cash from sale of goats
			141,000
Recurrent costs	Cost per trade		Yearly
Less: Buying goats	37,000		111,000
Less: Warrior	1,500		4,500
Less: Cess	50		1,500
Less: Transport	500		1,500
		Total recurring costs	118,500
		Working Profit	22,500

Loan repayments	Monthly	Total
Less: Startup interest (on 10 goats)	617	7,400
Less: Total loan repayment	617	7,400
	Profit after loan repayment	15,100

RECOMMENDATIONS

The recommendations outlined below would support the effective scale-up of goat trading IGAs:

- **Essential: Prioritize the development of business start-up loan solution**

Financial capital was consistently identified as the key constraint to scaling-up goat trading IGAs. The capital that households can access through a VSLA is insufficient to enable them to start an enterprise that would enable them to be resilient to moderate drought. Crucially, commercial loans are not available to new business start-ups. There is therefore a critical “missing middle” between the small-scale loans provided by VSLAs and larger commercial loans.

Immediately:

- **Support comprehensive market monitoring**

Accurate price data is essential for effective business planning, but systems for collecting market data are weak. Immediate support for comprehensive market monitoring is therefore recommended. The process should be developed and managed in close collaboration with the County Government.

- **Advocate investment in improved cell coverage:**

There is poor cell phone coverage in Merille, the largest livestock market in southern Marsabit, and no cell phone coverage in Illaut, one of the largest local markets. It is therefore recommended that advocating for investment in improved cell coverage in Merille and Illaut is taken up.

- **Advocate establishment of financial services in Merille**

Merille livestock market generates an annual turnover of ~\$3million. The fact that there is neither a formal bank branch nor fully functional bank agent in Merille appears to be a critical weakness in the market-systems – and a missed business opportunity. It is therefore recommended that there is advocacy towards the establishment of formal bank branches in Merille.

- **Advocate investment in effective disease control**

Given the value of the livestock economy in Marsabit and the economic losses associated with livestock diseases, it is recommended that agencies/ organisations in this space advocate Government investment in disease control to provide comprehensive disease control through mass vaccinations and outreach of government animal health personnel.

	livestock trade	Irrigated vegetable production	Poultry	Urea multi purpose blocks	Hay	Honey	Petty trade	Bread making
Technically viable	Viable		Borderline					
Technically viable	✓	✓	✗	✗	✗	✗	✓	✓
Demand	National	Local	Local	Local	Local	National	Local	International
Supply	Local	Local	National	National	Local	Local	Local	Local
Technical skills	Minimal	Medium: no commercial provider	High: no commercial provider	Medium: no commercial provider	Medium: no commercial provider	Medium: no commercial provider	Minimal	Existing
Inputs	Minimal	Medium	High	Medium	Medium	Low	Minimal	Commercial provider available
Capital equipment	Low	High: no commercial provider	Medium: no commercial provider	Medium: no commercial provider	Low	Low	Low	Low
Financing	Start-up loan	Commercial loan	Commercial loan	Commercial loan	Commercial loan	Start-up loan	Start-up loan	None: inputs are provided by commercial provider
Priority	Immediate	Secondary	Low	Low	Low	Low	Immediate	Immediate