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## Analysis on Pastoralists Financial Products and Models in Kenya

**Dr. Caren Ouma**

Assistant Professor, Department of Management, Chandaria School of Business,  
United States International University\_Africa, Nairobi, Kenya

### **Abstract:**

*The purpose of this paper is to evaluate the financial products that are available to the pastoralists and the models being used by the financial service providers to extend the financial products to the pastoralists. The motivation of this critical review is based on the fact that pastoralists are found to be unattractive for the financial institutions to extend financial products to them. The author's own critical evaluation on financial products which can be extended to the pastoralists and current financial models used to extend such financial products to the pastoralists in Kenya are captured in this research. The research is based on the author's own critical thinking and vast previous interactions with the financial service providers, various stakeholders and the beneficiaries (pastoralists). The paper starts with the definition of financial products which the pastoralists can enjoy. Types of financial services which pastoralists can benefit from are explained in this document from both the supply and demand side of the value chain (livestock and livestock products along the value chain). Models used in providing such financial products are postulated. The models can be used as theories by other researchers in the financial products provision field. In addition, the actual financial products provided and gaps are contained in this paper, and how the gaps can be filled up. Challenges/gaps and some enabling policies are captured in this paper.*

**Keywords:** Analysis, demand, financial, models, products, pastoralists, supply

### **1. Introduction**

Pastoralists require financial services which can help them in management of their finance related problems in a well-organized manner and therefore eliminating the worry in their lives. Pastoralists range from agro-pastoralists, who are largely sedentary, combining livestock and crop production to transhumant who maintain a home base and a satellite herd in search for water and pasture depending on the harshness of the environment and as need arises. Agro-pastoralists may be described as settled pastoralists who cultivate sufficient areas to feed their families from their own crop production. Both pastoral and agro-pastoral systems exist in the dry lands, often engaging similar opportunistic strategies to address similar constraints imposed by the risky environments that they share. While livestock is the valued property, their herds are on average smaller than other pastoral systems, possibly because they no longer solely rely on livestock and depend on a finite grazing area around their village which can be reached within a day.

A financial institution (FI) is a company engaged in the business of dealing with monetary transactions, such as deposits, loans, investments and currency exchange. Financial institutions encompass a broad range of business operations within the financial services sector, including banks, trust companies, insurance companies, and brokerage firms or investment dealers. Virtually everyone living in a developed economy has an ongoing or at least periodic need for the services of financial institutions.

### **2. Types of Financial Services**

Given below are the various types of financial services which pastoralists can expect to get from financial institutions:

#### *2.1. Savings Services*

This is done by commercial banks and deposit taking micro financial institutions. A commercial bank can provide various financial services, such as accepting deposits and issuing loans. Commercial bank customers can take advantage of a range of investment products at commercial banks offer like savings accounts and certificates of deposits. Under this type of financial service pastoralists can deposit their money and can get return in the form of interest and also can get loan by paying interest to bank periodically. The accounts which can be opened for the customers can vary from one financial institution to another, such as; Current Accounts, Savings Accounts, Fixed Deposit Accounts, Foreign Currency Accounts, Children Accounts, Student Accounts, etc.

#### *2.2. Loans/Credit*

Loans can be provided by financial institutions where pastoralists may have deficit in financial needs. Loans normally attract interests. Therefore, when applying for loans, the amount paid back to the financial institution will definitely be above what has been given because of interest charged. The loans that financial institutions issue can vary from business loans and auto loans to mortgages.

2.3. Credit Cards

These are financial services offered by financial institutions to customers who have opened bank accounts. Credit cards are used by customers to withdraw money from their accounts. A credit card allows account holder to borrow money from his bank to make purchases so long as the money is paid within the grace period and no extra is paid, but, penalty is charged if the grace period elapses. Below is an exhibit of a credit card.



Figure 1

2.4. Debit Cards

This is a card that can be used instead of cash when making purchases. The money comes directly from the user’s account when using a debit card. In this case the holder of the debit card does not need to withdraw money from the bank in order to do purchases but uses the card. This has widely replaced the use of cheques and cash when making transactions. The debit cards can also be used at ATMS. Below is an exhibit of a debit card



Figure 2

2.5. Automated Teller Machines (ATMS)

This is a pin based card. This means that one can make purchases by entering a pin if there is an electronic networks used by the seller/merchant. Below is an ATM machine where both credit and debit cards can be used using the pin numbers and if the ATM machine is electronically connected with internet services.



Figure 3

2.6. Insurance Services

Insurance services can range from; life, home, vehicle, travel, theft, weather, accident, medical, and many others which a person may consider as risk to be covered. By using this type of financial service pastoralist get peace of mind as one can buy insurance policies for their livestock, drought insurance, life insurance, fire, health and general insurance which ensures that pastoralists in the event of any mishap can get their money back from insurance company.

### 2.7. Stock Market

In this case, pastoralists can invest their funds into stock market where they can get dividends and also capital appreciation, if they make right investment decisions. Return from equity markets are much greater than that of fixed deposits parked in banks. This option can be used by the pastoralists when they sell their livestock and anticipating adding stock in future.

### 2.8. Treasury or Debt Instruments

Under this financial service, pastoralists can invest money into government bonds/treasury bills and also debt instruments of private and public firms.

### 2.9. Wealth Management

There are many firms where one can just park their money and then these companies invest money across different assets classes like commodity, derivatives, money market, currency etc... in order to generate superior returns for their clients. Pastoralists can also take advantage of this when they sell their livestock and livestock products.

### 2.10. Microfinance in the IGAD Region

Microfinance is defined as the supply of financial services to low-income people who normally do not have access to these services through the formal financial system. It covers a broad range of financial services including loans, savings, money transfers, insurance, and other financial services. Providing the poor with access to financial services is a means of exposing them to economic opportunities. Banks in developing countries typically serve no more than 20 percent of the population leaving the rest to semi-formal and informal financial alternatives especially pastoralists.

### 2.11. Informal Financial Services

The informal financial alternatives include loans from family and friends, moneylenders and traders. Such informal credits are often limited in amount and are rigidly administered, and involve very high interest costs. The provision of sustainable economic opportunities at the grass root level, especially provision of the required financial services at competitive rates, is offered through microfinance institutions.

### 2.12. Mobile Banking

When customers access a bank account via a mobile phone, they are able to initiate transactions. This includes a service in which the mobile phone is used to access financial services. Banks in connection with the mobile providers normally provide mobile banking transactions. This also includes the M-Pesa money transactions in Kenya and HelloCash in Ethiopia, and others within the region. (Anyasi, F. I. and Otubu, P.A.,2009).



Figure 4

### 2.13. Agent Banking

This is the delivery of financial services outside conventional bank branches, often using non-bank retail agents and relying on technology such as; card readers, Point Of Sale (POS) terminal or mobile phones for real time transaction processing. Agents process clients' transactions on behalf of the financial institution. Agents are contracted by licensed deposit taking financial institutions or mobile money operators to provide a range of financial services to the customers. It can be done under a valid agency agreement between the financial service provider and the agent. Agent banking provides an avenue for financial inclusion to the underserved such as the pastoralists who are found in remote rural areas. (Habane, A.D., 2012).

### 2.14. Foreign Exchange

A foreign currency exchange rate is a price that represents how much it costs to buy the currency of one country using the currency of another country. Therefore, foreign exchange is the exchange of one currency for another or the conversion of one currency into another currency. Financial institutions deal in exchanging foreign currencies. The Kenya Shilling should be easily exchange into

Ethiopian Birr at the borders of Moyale and also into Uganda shilling at the borders of Kenya and Uganda around Moroto area. This can only be made possible if there are financial institutions such as foreign exchange bureaus found within the border points.

### 2.15. Common Currency

A common currency involves two or more countries sharing the same currency. In this task, it would be expected that Ethiopia, Kenya and Uganda would have a common currency which would eliminate the issue of exchange rates requirements. This would make trade amongst the pastoralists smooth and easier at the border points. It is important to form unions/integrations of countries for this to happen.

### 3. Types of Financial Products Offered to Pastoralists-Supply Side

The supply side indicates that, banking, Micro financial institutions, informal banking, and mobile banking are found in the pastoralists' areas in Kenya. Insurance is also present within the pastoralists' areas, but few of the pastoralists are aware about the insurance services. There are no stock market, Treasury or Debt instruments, Wealth Management, Credit Cards financial products, Debit Cards financial products, and Automated Teller Machines (ATMS) financial products within the pastoralists regions in Kenya. The implication of this is that, there are financial product gaps amongst the pastoralists in Kenya. Investigations reveal that, livestock insurance pilots had been done in some areas such; as Isiolo, Marsabit, Moyale and other pastoralists' areas by the government of Kenya through International Livestock Research Institute (ILRI). (Aklilu, Y. 2008).

### 4. Types of Financial Products Offered to Pastoralists-Demand Side

Financial products found within the pastoralists areas are; banking, MFIs, informal banking and mobile. There were no insurance, stock market, Treasury or Debt instruments, Wealth Management, Credit Cards financial products, Debit Cards financial products, and Automated Teller Machines (ATMS) financial products found within the pastoralists regions in Kenya. This implies that, livestock insurance which had been piloted have not been made known to most pastoralists. Banking and mobile banking (M-Pesa) financial products are patronized by the traders and to a small extent by the herders within the region. The favored type of financial product is informal banking which is through formation of Village Savings and Lending Associations (VSLAs). Developments in mobile-phone services, which can now be used for cash transfer, has enabled pastoralists to receive money from relatives or contacts in the cities.

### 5. Financial Products Offered to Pastoralists by Commercial Banks

The main commercial banks which offer financial products to the pastoralists and have established branches in pastoralists regions/towns are; Equity bank, Cooperative bank of Kenya, Kenya commercial bank and National bank within some regions such as Lodwar, Marsabit and West Pokot. The following financial products are offered by commercial banks within the pastoralists regions; checking and savings accounts, retirement accounts, mortgages, credit cards, alternative investments such as mutual funds and other securities, financial management, safe deposit (a box inside a vault in a bank to keep important papers or valuables) services, and various types of consumer loans.

- **Savings services** are one of the products offered by commercial banks to the pastoralists. This is in terms of hard cash/cheque deposits and withdrawals. However, most of the pastoralists are not aware of such services. This is coupled with commercial banks proximity problem. Many commercial banks are very far away from the pastoralists. Moreover, the pastoralists only handle cash during the times that they sell their herds in the markets. The herders markets are very far away from the towns where commercial banks are established. In addition, the banks have not provided special savings products to the pastoralists and there is less effort to reach the pastoralists in the remote areas.
- **Credit/loan facilities** are available within the commercial banks. The pastoralists are very skeptical to securing loans from the commercial banks. The banks are also not very keen to market the loan products to the pastoralists because of; lack of collateral security and difficulty to follow the loan defaulters. This is because pastoralists are nomadic and keep on moving from one place to another. It is very difficult for the commercial banks to track the pastoralists after loan default has occurred.
- **Mobile banking through the use of M-Pesa** is also available within the pastoralists' areas. Mobile banking is the act of undertaking financial transactions on a **mobile** device (cell phone, tablet, etc.). The commercial banks offer this kind of service without any specialized consideration of the low level of literacy amongst the pastoralists. There is no initiative effort to educate the pastoralists about the use of mobile banking and M-Pesa banking services. The banks cite cases of high cost to train the pastoralists about the use of mobile banking and M-Pesa services. Most of the banks key informants interviewed indicated that, the Government should do something about the low level of literacy within the pastoralists' communities. In the pastoralists areas where bank branches have been established to be very far, mobile banking and M-Pesa have become powerful tool to allow people access financial services. (Al-Jabir, 2012).
- **Safe Boxes:** This is a kind of savings services found in some pastoralists rural areas of Turkana County, where there are no banks, but the communities have formed various VSLAS to mobilize their savings and use safe boxes as banks. The security of these safe boxes is that, the box has three padlocks and the keys to these padlocks are kept by different people (that is 3 people). Mobile network is also a problem and bank agents have never reached the pastoralists areas intensively. This type of safe custody is very insecure for the pastoralists.

There is also lack of collateral security that these financial institutions can rely on to mitigate risks of loan defaults by the pastoralists. Banks and MFIs cite lack of collateral as one reason not to lend to herders and traders within the pastoralist’s regions in Kenya. Experiments have been done to solve this problem. There are two main approaches which have been used by the commercial banks and MFIs to overcome the problem of collateral security. This is mainly the case of restocking schemes and use of guarantors. The explanations of the two are documented below.

1. **Restocking schemes:** In this case, there is no explicit group sanction, but a general sense that the group to which the restocked herder belongs will press the restocked herder to repay on time since other households will be waiting to be restocked will depend on the restocked herder to repay the loan. The very high repayment rates for restocking so far in countries like Ethiopia suggest this is a viable alternative to collateral. Such a system could be made more systematic if herder associations or NGOs undertook a formal role in credit, providing a group undertaking, and peer pressure to repay. It is also possible to find alternative forms of collateral. The number of animals stocked as collateral must not be more than half the total herd size of the group concerned.
2. **Guarantors can also be used as security amongst the herders groups.** All members of the community group managing the loan also have to sign the agreement. By signing the agreement, the members are guaranteeing the herder and imply that in case the herder does not repay the credit, they are responsible to settle the repayment defaulted. Some NGOs such as ADESO has adopted the use of guarantors as security when advancing loans to the groups.

Some commercial banks which have opened branches within the pastoralists regions are; Kenya Commercial Bank, Equity Bank Limited, Co-operative Bank Limited, and First Community Bank (FCB). Out of these commercial banks, it is only the FCB which follows Sharia compliant financial products, and has won recognition as the best Islamic Banker in East Africa. (Central Bank of Kenya, 2016).

The distance between one commercial bank outlets to the other is very far. For example, there are few commercial banks which are found where pastoralists dwell like in Isiolo town, but the other ones are found in Marsabit town which is around 270 kilometers apart and the next is Moyale town which is also close to 250 kilometers away from Marsabit town. Even though poor road conditions and insecurity have been cited to be the major challenges for the establishment of commercial banks within various towns, these conditions have improved in Kenya. It is therefore imperative that banks should be encouraged to establish as many branches as possible.(Fletschner, D., & Kenney, L.,2014). Research can be done to establish the income levels and population to warrant the establishment of commercial banks.

**6. Commercial Banks Financial Products Delivery Model in Kenya**

The model used by the commercial banks for the provision of financial products to pastoralists is not done directly but through cooperatives, MFIs, VSLAs and NGOs which have opened accounts with the banks. The services offered range from savings services, credit/loan services, mobile banking through Mpesa and agent network services to the pastoralists by these commercial banks intermediary institutions.

Individual pastoralists and traders can receive commercial banking products directly if they qualify. Banks can deliver such financial products to the individuals and traders through M-pesa and agent network, which had been confirmed, have challenges because of poor infrastructure and high level of illiteracy amongst the pastoralists as well as network problems. The figure below depicts the model being used in Kenya.

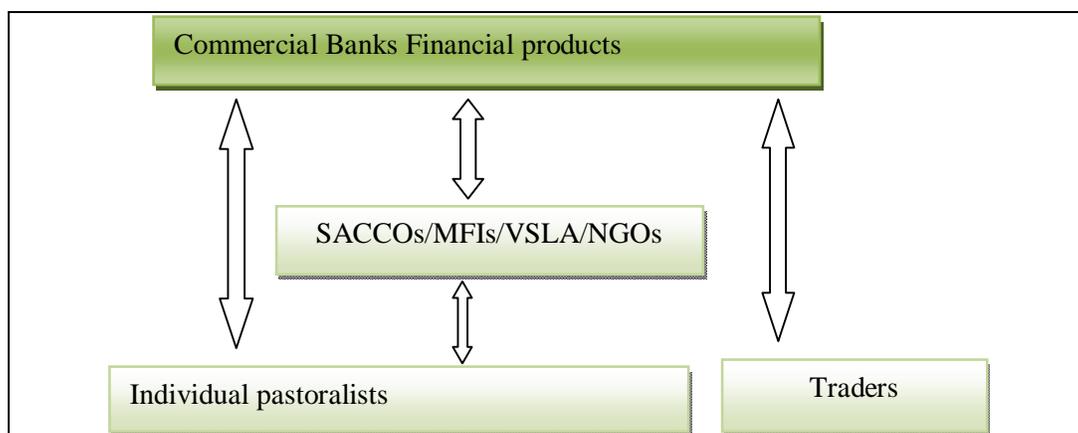


Figure 1: Financial model by commercial banks to pastoralists  
 Source: Author (2017)

## 7. Strengths and Weaknesses of the Commercial Banks Model in Kenya

There were strengths and weaknesses of the commercial banks model in Kenya. The table below presents the strengths and weaknesses.

	Strengths	Weaknesses	Suggested recommendations for sustainability of the commercial bank model
1.	Have opened branches within the pastoralists' towns and are able to still open up branches based on availability of good road network, security and population with adequate purchasing power.	In order to lend to the pastoralists, the commercial banks need collateral as security. Pastoralists land is communal and cannot be charged as collateral. In some cases, the banks require logbooks for vehicles and motorbikes (case in Lodwar)	Commercial banks should consider guarantor-ship and livestock value as security just like MFIs and SACCOs have done. One way to assure banks about the repayment when pastoralists move from one place to another is to have administrative chiefs to vet the herders and in case of default the chiefs can have mechanisms for follow up.
2.	Have started to operate agent and M-Pesa banking services to the pastoralists areas	Commercial banks do not have preferential treatment to the pastoralists. No tailor-made financial products to the pastoralists which take into account their unique characteristics	The commercial banks should have product differentiation and should have preferential treatments to the pastoralists. For example, KCB has an account which does not deduct interest on savings suitable for the pastoralists but pastoralists are not aware about this product. Other commercial banks within the project areas should also follow what KCB has done. However, a lot of awareness about such financial products should be done to the pastoralists.
3.	Have many clients of the pastoralists (See appendix 7 about photos of pastoralists lining up within KCB-Marsabit town to receive banking services)	They are profit oriented and therefore do not consider ventures which are non-profitable and marginalized areas. The reason was that the money had catered for service charges.	Government should come up with an act of Commercial Banks' Corporate Social Responsibility (CBCSR) to serve marginalized areas. This should be considered as mandatory philanthropic approach. Banks should provide products which are suitable to the pastoralists.
4.	Commercial banks have more experience in serving a wide range of clients.	Does not consider socio-cultural factors such as Sharia Laws which prohibits all interests charged and profits earned. Most pastoralists are Muslims	All commercial banks should adopt the Sharia Law within the regions that they have opened branches where there are Muslims such as Marsabit and Moyale regions. The only bank which has complied to the Sharia laws is First Community Bank (FCB) which has opened a branch in Moyale.
5.		High interest rates charged by banks is a deterrent to pastoralists to take up financial products	Need for banks to charge low interest rates to encourage pastoralists who may need loan services from the banks. This is because, the loan products do not go directly to the herders/traders, but pass through SACCOs/VSLAs hence attract double interest charges.
6.		Lack of adequate awareness to the pastoralists about the services offered.	Banks should aim at creating enough awareness about financial products to the pastoralists.

Table 1: Strengths and weaknesses of the commercial banks model in Kenya

Source: Author (2017)

## 8. Financial Products Offered by MFIS in Kenya

1. Savings services: Only MFIs registered under the Microfinance Act 2006 and Microfinance Regulations 2008 (deposit taking MFIs which are currently 13 in number) can legally mobilize deposits from the members of the public. Consequently, NGOs operating MFIs cannot offer savings as an independent product and it is only banks that offer savings products.
2. Loan products: Loans are provided by all Micro financial institutions to pastoralists through their SACCOs and VSLAs. Some of the loans provided include; biogas loan, renewable energy loan, business loan, water tank loan, consumer loan, asset financing loan, SME loan, emergency loan, etc.
3. Transfers: To avoid carrying cash for the purchase of goods or for relatives, the customers of many microfinance institutions are able to conduct transfers. This obviates the need to travel long distances to hand over money and the risk associated with cash payments. For example, Caritas Microfinance Limited and Kenya Women Microfinance Bank Limited are already undertaking this service.
4. Insurance: Some microfinance institutions also offer a form of insurance called "micro insurances". Even one's own account may be considered as insurance. For example, SMEP, Uwezo and Rafiki Microfinance banks are already considering this insurance undertaking. However, most herders/traders are not aware about insurance services.
5. M-Pesa services: This is a financial product which is already being used in some pastoralists regions within the project area. However, there are challenges with this service such as; network problem and float is limited. Pastoralists handle a lot of money but sometimes the float which one can deposit within the scanty M-Pesa shops available cannot exceed KES. 20,000 in a day. In addition, network is a problem to access M-Pesa services.

**9. MFIS Financial Provision Model in Kenya**

In the figure below, it is indicating that, the pastoralists can save and receive credit from their groups/associations/VSLAs and SACCOs. The groups/associations/VSLAs and SACCOs can save and receive loans from MFIs. Pastoralist traders can also save and receive loans directly from MFIs. In the case of M-pesa services from the MFI for example for KWFT, it is a requirement that the pastoralists will deposit some money with the MFI and there will be transaction of money in terms of cash or in kind. However, the money in cash or kind is not directly delivered to the individual pastoralist, but the groups/associations/VSLAs or SACCOs. The MFI model is presented in the figure below.

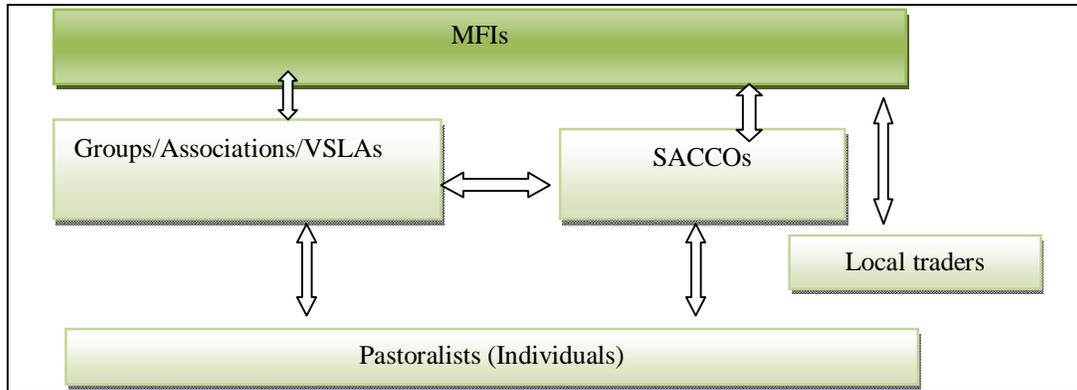


Figure 2: Financial model by MFIs to pastoralists

Source: Author (2017)

**10. Strengths and Weaknesses of the MFI Model in Kenya**

As shown in the table below, the MFIs in Kenya have several strengths as opposed to the weaknesses.

Strengths of the MFI model	Weaknesses of the MFI model	Suggested solutions for sustainability of the MFI model
The local traders are found in close proximity to the pastoralists.	VSLAs are not registered into SACCOs and they are not legal entities.	The line Ministries and all development partners should sensitize the pastoralists about the importance of SACCOs within the PRLRP areas and transform their VSLAs into SACCOs
Apart from the local trader the pastoralist could get financial resources from the group associations as an alternative, hence provision for loan options.	Sometimes the pastoralists cross the borders. There is risk of disappearing with loans or the loans may not be paid in time when they have crossed the borders.	The guarantor-ship amongst the pastoral community should be promoted to mitigate this mobility problem and consider administration such as the chiefs to vet loan applicants.
The local trader can easily receive loans from the MFIs.	The wealth of pastoralist which is livestock owned is not taken as collateral by the MFIs.	It is important to consider Livestock as one of the security because it is an asset. However, this can only happen if livestock owned is not communal and an agreement made between the pastoralists and the Financial institution that in case of default the livestock can be sold. The challenge with this suggestions connotes that there should be ready market for pastoralists
Most MFIs within the project area have scheduled community sensitizations meetings every month about the financial products being offered.	The pastoralists are subjected to pay additional service charges when they get loans from their VSLAs or SACCOs.	In the short run, the pastoralists are in a better position getting financial services from their VSLAs and SACCOs if these institutions are strong financially and do not get loans from the MFIs.
MFIs do not entertain individuals loans and this practice is a strength as the groups become collectively responsible for the loans advanced to the group		
The screening process done by line bureaus after proper feasibility study		
MFIs create job opportunities for the communities and therefore, they are highly preferred by the community.		
They train the MFIs staff who are capable to deliver financial service information to the pastoralists		
They are found in most Counties in Kenya		

Table 2: Strengths and weaknesses of the MFI model in Kenya

Source: Author (2017)

**11. National/County Government and NGOS Financial Grant Provision Model**

The model for the financial grant, credit and savings for pastoralists is presented in the figure below. In this case the National and County governments provide financial support to the pastoralist through major national programs, such as; Kenya National Agricultural Insurance Program (KNAIP), Kenya Livestock Insurance Program (KLIP).

The Government has the initiative to assist the pastoralists through its various departments. Ministry of Trade, Industry and Enterprise Development provides Trade Loan to Micro and Small Enterprises (MSEs). This has been done in the 14 ASAL counties in Kenya. It is a Revolving Loan Fund (RLF). The first application is given KES. 50,000. After full repayment, the person qualifies for KES. 100,000, then KES. 200,000 upto KES. 300,000. This fund is extended to all the MSEs so long as the enterprise is legally registered. There are few pastoralists who benefit from this loan because majority have got no enterprises which are legally registered. The loan attracts an interest of 8% per annum on reducing balance basis. However, the impact is not significant as connoted by the pastoralists who were interviewed in Merile Market, Marsabit County where they were not aware of any Government loan support.

Plans are underway within Marsabit County to establish Livestock Enterprises Development Fund (LEDF) to replace the trade loan. This fund is expected to look at County specific needs. This fund facility is already tailored for livestock keepers, Small Scale livestock traders, livestock led industry based investors and any other livestock based economic driven businesses opportunities in the County. Even though disbursement has not yet started, demand is already high and the take-off seed capital of KES. 500 Million is inadequate. The purposes of the fund will be: Livestock trade loan, Working capital loan, Credit to support MSEs trade, in livestock and livestock products, Livestock based community investment funds, Restocking and Destocking Fund, Credit to support fodder development and conservation, and Purchase of productivity enhancing inputs. This initiative should be emulated within other Counties where pastoralists are found (Republic of Kenya County Government of Marsabit, July, 2016).

The government has also come up with Kenya Livestock Insurance Project (KLIP) by National/County government. This is a potential financial service to the pastoralists which is still underway. The insurance scheme will be a financial instrument for the beneficiaries to use to purchase feeds or move herds to places with feed and water. The insurance product will contribute to increase feed availability during drought, protect livestock asset from death caused by malnutrition, stimulate fodder production and feed marketing. The pilot project is implemented in three Counties of northern Kenya, Marsabit, Turkana and Wajir. The product is similar to the new product supplied by IBLI/APA to clients in Marsabit County. The major difference is the payout period and target of using the pay to buy feeds for feeding livestock at the onset of a drought. The current demand for the IBLI/APA product is low among the livestock owners. The new product is promoted by the national and county governments' targets to protect 1,500 households holding 5 TLUs in Marsabit County. The national government will be the policy holder of the product and will negotiate affordable premium rates with the insurance companies through a tender process. In the event of a drought or severe dry season, the national government will compel the insurance company to make payouts to the beneficiaries at the rate of KES 14,000 per TLU (Moses Lengarite Director of Livestock Production June, 2016). The figure below depicts the grant model. The financial grant provision model in Kenya has weaknesses. The grant model is not sustainable amongst the pastoralists. This was because after the withdrawal of the grant, the projects/financial service extended to the pastoralists cannot be sustained by the community/herders/traders.

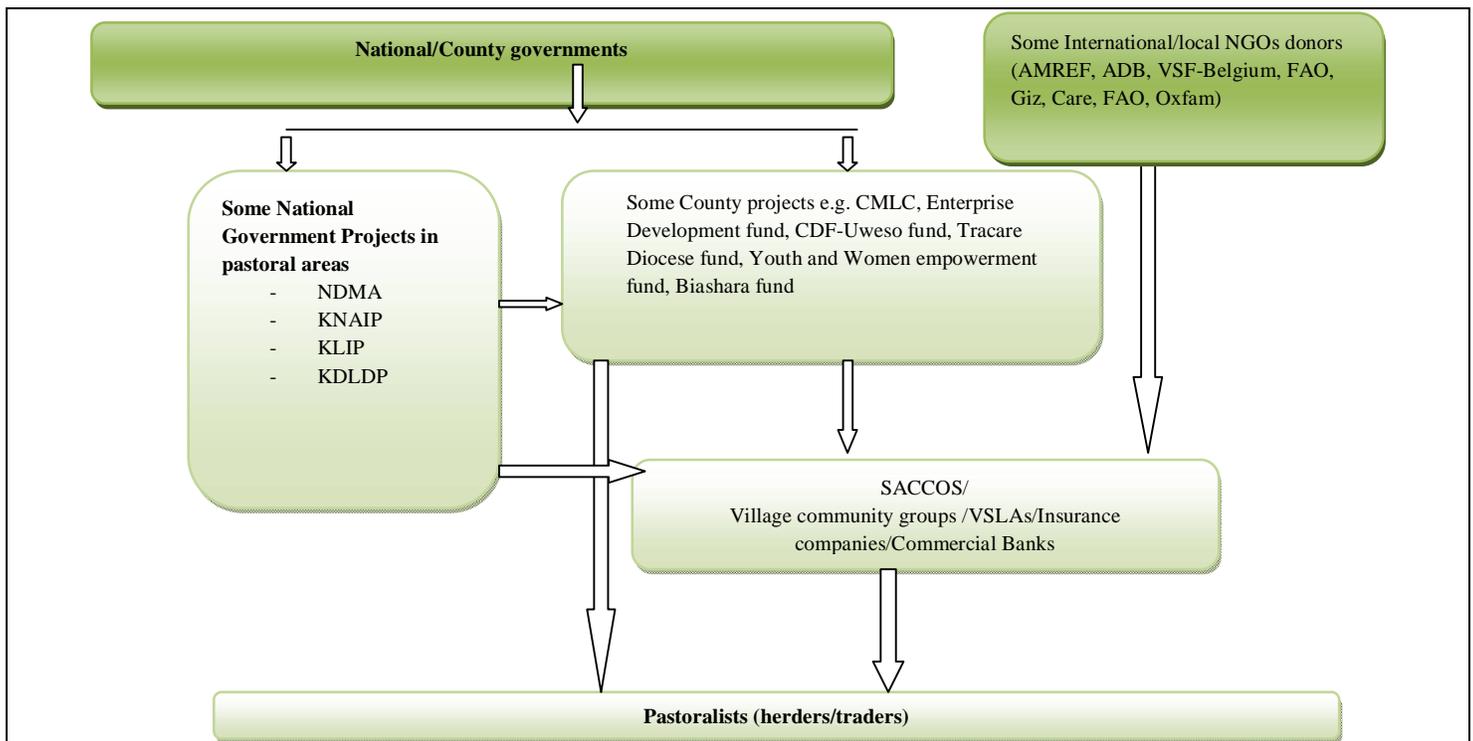


Figure 3: Financial model by National/County governments financial grant to pastoralists  
Source: Author (2017)

## 12. Insurance Financial Products Offered to the Pastoralists in Kenya

There are very many potential insurance financial products which are on pilot test to be offered to the pastoralists in Kenya, yet pastoralists are not aware of these insurance services.

### 12.1. Index Based Livestock Insurance (IBLI)

Index insurance is a variation on traditional insurance. This is based on the notion that, 'Do *not* insure individual losses, instead insure some "index" measure that is strongly correlated with individual losses'. For examples; rainfall, remotely sensed vegetation index, area average yield, area average herd mortality loss. IBLI uses satellite imagery to measuring the conditions of grazing lands that is fed into an algorithm that predicts livestock loses. Predictions beyond the 15-percent level trigger indemnity payments. This is a product which has been launch in Northern Kenya and Southern Ethiopia through the initiative of ILRI. Areas currently covered are Marsabit, Wajir and Isiolo in Kenya. APA insurance is underwriting in Isiolo and Marsabit with support from World Vision and CARE. Takaful Insurance of Africa underwriting in Wajir with support from Mercy Corps. The government of Kenya and the World Bank is also supporting this initiative. There is information that this initiative is quickly spreading to other ASAL areas in Kenya. In Ethiopia, this initiative is found in Borana Zone of South Ethiopia. OIC is the underwriter in Ethiopia. For both Kenya and Ethiopia, there is deliberate effort to engage Public Private Partnership (PPP). (McPeak, J., Chantarat, S. and Mude, A. ,2010).

This is a good initiative for the pastoralists' community. However, it requires objectively verifiable index which should be available at low costs in real time and free from manipulation. Sustainability of such initiative is the key issue within these countries. International experience shows that agricultural insurance programs that have scaled up have strong public and private sector pillars, as part of overall agriculture risk management strategy. There are men's trading groups, originally set up by the government and have federated into the national Kenya Livestock Marketing Council (KLMC) and have begun to act as a powerful lobby group for pastoralist interests. KLMC is able to negotiate bank credit to enable pastoralist traders to bring animals to the slaughterhouses in Nairobi, Kenya. (Chantarat, S., Mude, A. G., Barrett, C. B., & Carter, M. R., 2013).

Even though IBLI has been incorporated in the Kenyan Livestock Insurance Program (KLIP) for Kenya's pastoralists, there are several challenges aforementioned that must be tackled. In addition, critical to the success of the KLIP will be capacity building across the various key actors in the Livestock value chain and a comprehensive extension and sensitization campaign. Key characteristics of the Kenyan IBLI cases are presented below.

- Market-mediated insurance product; first pilot project introduced in 2010 in Marsabit County.
- Protection against livestock deaths resulting from drought, especially lack of water and pasture.
- IBLI uses livestock mortality data collected in Kenya for slightly over a decade. As opposed to the livestock insurance product in Mongolia, where 100 years of livestock mortality data are available, and the Kenya case lacks such data to calculate basis risk.

*Table 3: Key characteristics of the Kenyan IBLI cases*

*Source: Author (2017)*

### 12.2. Livestock Mortality Insurance (LMI)

Livestock Mortality Insurance (LMI) would be a form of index insurance where the average death rate for all animals except those born in the current year would be the basic loss indicator. Animals born during the year would be excluded because of their high loss rate and difficulties in getting accurate data. Herders (or anyone else) could buy standard insurance certificates against higher than average levels of mortality in the district concerned. District mortality rates above a chosen level (for example, the mortality rate occurring on average once every five years or less) would trigger payment of an indemnity to all who had bought standard insurance certificates, regardless of their own personal loss LMI covers against losses due to accidental death, diseases of terminal nature, emergency slaughter on advice of a recognized veterinary surgeon and theft of livestock in raising units or paddocks. Livestock Covered include Dairy cattle, beef cattle, poultry, pigs, sheep and goats. This is an insurance product offered by jubilee insurance in Kenya. However, fieldwork findings established that majority of the pastoralists do not know about the existence of this insurance product. Moreover, there was no mention of the name jubilee insurance as a service provider for such insurance services.

### 12.3. Weather-Based Insurance (WBI)

Weather-Based Insurance (WBI) would operate in the same way as IBI, except that a specified weather event, such as rainfall below a certain threshold, would be the trigger for payment of an indemnity. The only requirement for this would be accurate district rainfall data. The advantage of using mortality rates or weather as the index to trigger indemnity payment is that the data are readily available and simple to use, and that good behavior is rewarded. All herders in the affected area who have bought insurance certificates receive an indemnity. But herders who have lower mortality rates than their neighbors receive an insurance indemnity based on the average of the district, and are thus rewarded for their skill or hard work. There is little opportunity for adverse selection or moral hazard. Administrative costs are low, since there is a single standard contract to write, and rainfall data are already available with a long historical data set. Index insurance would be simple for the private sector to run and could be a stepping stone to targeted individual insurance contracts to cover more precise risks to individuals.

## 13. Some Financial Products Gaps on the Upper Side of the Value Chain

Meat processing value chain involves slaughter, processing and manufacturing and large retail selling. Slaughter involves sacrificing the animal and turning it into a carcass. Processing involves turning carcasses into primary and secondary cuts of meat, packaging

function and distribution functions. Manufacturing involves adding value to cut meats and other by-products to transform into more derivative products for consumption. Large retail marketing involves selling of meat in large volumes to major outlets to retailers and other end consumers.

### 13.1. Transporters Financial Gaps

- lack of refrigerators and cold facilities
- long distance animal trekking up to the market places and also animal fatigue (e.g. Moyale to Mombasa)

Most value chain actors express hardships in transport means for animals, meat and other livestock products. Live animal traders either truck or trek their animals from ranches and grazing zones to butcher points. The challenges and risks encountered are; bad credit terms/lack of loans, theft by customers/cattle rustling, perpetual harassment by police, many county charges (taxes and levies), impassable roads especially in the interior areas at primary market level, fatigue and death of animals and high cost of transport due to inflated fuel costs. Most of the animal carcasses are transported to selling points using unrefrigerated meat boxes. These are drawn to market using donkey carts, wheelbarrows, bicycles, motorcycles and motor vehicles for those who are able.

### 13.2. Slaughterhouses Operators, Processors and Manufacturers' Financial Gaps

- lack of stunning equipment
- lack of value addition on carcass
- poor waste management practices
- inefficient and obsolete equipment

Slaughterhouses can be classified in several ways. Ownership, (public, private), scale (large scale, medium or small scale) intended consumers (domestic, export), equipment (ultramodern, modern, or old) or based on the available capacity (slaughterhouse, slaughter slab or abattoirs). A slaughterhouse has least capacity with capacity to carry out basic slaughter activities. Abattoirs have highest capacity including chilling and freezing facilities.

Slaughterhouses are concentrated near the meat terminal markets especially in Nairobi. There are other major and ultramodern slaughterhouses being put up in other parts of the country including, Isiolo, Garissa and West Pokot. The major activities carried out in slaughter is sacrificing the animal and skinning to get carcasses as main product and blood, raw hides and skins and offal's as by-products. There are currently 374 licensed slaughter houses and abattoirs. About 60% of those are slaughter slabs, around 150 of the abattoirs are operational. Kenya has six export standard meat processors and there are 2 manufactures operating at full capacity. Most facilities are privately owned and operated. The national government still owns Kenya Meat Commission (KMC) the largest meat processor and exporter by capacity in Eastern Africa. County governments still run most of slaughterhouses, abattoirs and slaughter slabs.

Processors and manufacturers activities are involved in adding value to carcass and offal's to create more utility for desired consumers. Major distinction between processing and manufacturing is that; in processing no additional ingredients are added but carcass is cut, deboned, frozen, chilled etc. to get diversified meat products. Manufacturers on the other hand are involved in further processing of primal and secondary cuts to create more utility for consumers. The manufacturer's activities include canning, cooking, adding additives, packaging, branding etc. this last process is carried before meat and meat products are marketed and distributed to wholesalers, retailers, hotels, restaurants or an end market consumers.

Kenya has several processors and manufacturers producing for domestic and export markets. The major processors are also manufacturers, and in some cases own slaughterhouses like the KMC. Other major players are choice meats, QMP, alpha fine foods and Soko Sawa limited. According to (yellowpageskenya.com, meat1.com) there are approximately 100 licensed processors and manufacturers of meat in Kenya. Most processors are currently missing in modern equipment for slaughter, meat value addition, capture of fifth quarter and waste management. Processors distribution is seen to be affected by proximity to the market with major ones in Mombasa and Nairobi. Another determining factor is infrastructure development.

#### *Butchers financial gaps*

- lack of cold room facilities and refrigerators
- under exploitation of the whole animal carcass
- lack of sophisticated and a diversified cutting equipment
- Absence of live animal weighing machines

## 14. Hindrances on Financial Provision to the Pastoralists

1. Poor infrastructure, security and network problems
2. Financial institutions fear the risks of non repayment of loans advanced to pastoralists, especially the herders

3. Pastoralists' negative attitude towards formation of SACCOs which is favoured by financial institutions for credit advancing purposes
4. High employee turnover within pastoral areas because of hardship within such rural areas where herders live
5. Financial products are provided in highland areas because of high rate of repayment and low rate of defaults
6. Most pastoralists are financially illiterate and they cannot even have simple records of financial transactions.
7. Lack of appropriate market knowledge to fatten their livestock and to establish appropriate time to sell their livestock and get high prices which can enable them to repay the loans comfortably.
8. Cultural attachment to livestock, therefore cannot sell livestock to repay for the loans which may be advanced to them.
9. Geographical barriers and poor terrain coupled with far distances, therefore, financial institutions find it difficult to reach the unbankable pastoralists.
10. Communal ownership of land by the pastoralists, hence difficulty to have collateral to secure loans from financial institutions.
11. Sharia Law compliance financial services, yet financial institutions are in business and expect to treat customers in the same manner.
12. Pastoralists do not trust financial service providers because they feel that they can be exploited by such institutions.
13. There is no incentive provided by the governments to the financial service providers to offer financial services to the pastoralists at affordable terms.
14. There is also a lack of reliable information, making it very difficult to assess pastoralists creditworthiness;
15. The legal and judicial systems are poor to deal with cases of pastoralists complaints and settle disputes as fast as possible.
16. There is a lack of adequate human capital and expertise within the financial institutions to manage the pastoral financial products needs.
17. Pastoral communities often make use of informal forms of financial needs rather than using the services of formal financial institutions.

### 15. Recommendations

A part from bridging the financial gaps and implementing suggested ways in which each financial model should be strengthened to become sustainable, the following are some other recommendations for Kenya:

1. There is need to develop County cooperative Act/Policy to assist in strengthening cooperatives within the pastoral areas at County levels.
2. Intense Sensitization about financial products
3. Improved infrastructure such as good roads and communication network within pastoralists' areas.
4. Market days within cross borders should be harmonized so that it becomes easier for financial service providers to mobilize huge savings within the markets.
5. There should be alternative to collateral security for pastoralists such as guarantors
6. Access to market outside the local market for better prices
7. Update of 3Ws to establish financial support provision already extended to the pastoralists.
8. Financial grants support to cover the upper side of the livestock value chain
9. Financial support for capacity building on business management
10. There should be financial support for improved infrastructure
11. Establishment of Trade agreement between Kenya and Uganda.

### 16. Some Enabling Regulatory Measures in Kenya

1. The recent amendment banking Bill in Kenya which intends to provide mechanism for regulation of banks and financial institutions' interest rates through the introduction of ceilings. The Bill seeks to amend the Banking Act by introducing a new Section 31(a) that requires banks or financial institutions to disclose all charges and terms relating to a loan to a borrower.
2. The Public Financial Management Act 2012 was signed into law on July 23rd 2012. The PFM reforms in Kenya were aimed at making public financial management more efficient, effective, participatory and transparent resulting in improved accountability and better service delivery.
3. Public Finance Management Act Chapter 412c. Revised Edition 2015. This Act spells out how grants should be utilized from National government up to County Government. Pastoralists receive grants from government and other development partners, there, utilization of such grants is detailed in this Act
4. Kenya's Community Land Bill could herald a new and improved approach to securing the rights of pastoralists to land, grazing and water. Devolving the governance of these resources to the local level could provide pastoralists with greater influence over decisions affecting their livelihoods. In this way, the pastoralists could be found attractive to be provided with financial products by the financial institutions.
5. Establishment of ranches within the pastoralists' communities had been under the Kenya Reforms agenda under the dispensation of the new constitution. However, the fieldwork mission established that such ranches do not exist. The reforms agenda spelt out clear how such ranches could be operational and managed.
6. Marsabit County livestock enterprises development fund (MC-LDF) 2015. This Bill should be passed even-though the amount implicated in this Policy is very small (KES.500 Million). The objectives of the policy are; to increase financial opportunities

through availability of low interest rates loans to the livestock sector, to establish Marsabit County livestock loan service provider, to strengthen the livestock value chains, to enhance the competitiveness and commercialization of the livestock sector.

7. The SACCO Society Regulatory Authority (SASRA) has put stringent conditions within the deposit taking SACCOs on how the members' deposits should be managed. This has been aimed protecting the depositors' funds.
8. Permit of livestock movement in each and every county to ensure that the livestock is free from diseases such as foot and mouth. The permit is also a proof that the livestock is not stolen and it is free to move to be sold or graze within the cross borders.

### 17. List of Abbreviations

➤ ATM	Automated Teller machine
➤ CBK	Central Bank of Kenya
➤ CCK	Communication Commission of Kenya
➤ CLMC	County Livestock Marketing Council
➤ FDS	Financial Deepening Sector
➤ IBI	Index Based Insurance
➤ IBLI	Insurance Based Livestock Index
➤ ILRI	International <i>Livestock Research Institute</i>
➤ KCB	Kenya Commercial Bank
➤ KLIP	Kenya Livestock Insurance Program
➤ KWFT	Kenya Women Finance Trust
➤ LMA	Livestock Marketing Association
➤ MFI	Micro Financial Institution
➤ MLI	Livestock Mortality Insurance
➤ MoLF	Ministry of Livestock and Fisheries
➤ SACCOs	Savings and Credit Cooperative Organization
➤ TIA	Takful Insurance of Africa
➤ VSLAs	Village Savings and Lending Associations
➤ WBI	Weather Based Insurance

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