Microenterprise Development

best practices from FARM-Africa's

Pastoralist Development Project in Kenya

Booklets in this series

Animal health
Camel husbandry and production
Microenterprise development
The mobile outreach approach
Natural resource management

Much of the material for this series of booklets came out of a workshop held in Nanyuki, Kenya, 2002. It was attended by the following people, who had been part of the Pastoralist Development Project: Dima Bonaya, Chris Field, Brian Heath, Peter Ihuthia, Felix Kipchirchir, Prame Lesorogol, Robert Masibho, Dominic Mbuvi, Mary Miningwo, Ali Hassan Mohammed, Emmanuella Ole Sambu, Piers Simpkin, Chachu Tadicha, D'enge Tullu, John Waita, Isaac Wamugi.

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Contents

About FARM-Africa

FARM-Africa (Food and Agricultural Research Management) is a British-based non-governmental organization initiated in 1985 whose goal is to reduce poverty by enabling marginal African farmers and herders to make sustainable improvements to their well-being by managing their renewable natural resources more effectively. The Camel Improvement Project, which later became the Pastoralist Development Project (PDP), was its first undertaking. The project began in Kenya in 1988 and ran for 12 years. This booklet is one of a series documenting how the project progressed and the lessons it learned along the way. It presents the best practices that evolved from the work. FARM-Africa hopes that by recounting the good practices that came out of the project, by listing its points to consider of practices that worked and those that did not, it can be of aid to others who are planning to work with pastoralists in northern Kenya or in a similar environment.

The original PDP strategy

The Camel Improvement Project set out to promote the camel—its husbandry and production—because the camel was seen as being drought tolerant and environmentally friendly, well suited for conditions in northern Kenya. The camel had been neglected or at least underused, and the thought was that with a relatively small input a development project with the camel as its focus could render great benefits. Helping the communities improve this one resource could also act as an entry point for tackling broader development issues.

The project, built on 12 years of research by the UNESCO Integrated Project in Arid Lands (IPAL) in the 1970s and 1980s, was conceived at a time when nomadic pastoralism was considered an archaic form of life by many development agencies and administrators and the camel was considered an unimportant livestock species. Nomads had been encouraged to give up their lifestyle and settle near towns and centres so they would have access to basic services such as health and education. But these policies and uncontrolled water development had led to considerable degradation around settlements and exacerbated the effects of drought. Through education and creation of awareness, the project influenced change of those attitudes and it is now widely accepted that nomadic pastoralism is the most effective and efficient form of land use in arid pastoral areas. The challenge was, and still is, to provide sustainable services to a society that is constantly on the move.

The next step for the project was to decide how to reach the remote nomadic pastoralists and put in place sustainable means of broadening their management and development capability. FARM-Africa approached this through mobile outreach—taking the project to the nomads rather than establishing sedentary headquarters.

The project's start-up phase involved community dialogue and planning. Local community members agreed with project staff that the project would set up a mobile outreach camp. Staff then gathered information through household questionnaires, range transects and aerial surveys to determine the present situation and later, to record project impact. Initially the project provided its services directly to the selected contact farmers and at the same time it encouraged communities to form camel improvement groups. Gradually the project's scope broadened to undertake work in other major aspects of pastoralist life—natural resource management, microenterprise development, human health care. (See FARM-Africa booklets 'Animal health', 'Camel husbandry and production', 'Natural resource management' and 'The mobile outreach approach'.)

The area

The project area extended from Samburu to Marsabit and Moyale Districts, which are part of the arid and semi-arid lands (ASALs). These lands comprise approximately 80% of Kenya's land area and about 75% of its livestock.[1] Soils are characteristically low in fertility, shallow and highly erodable, often coupled with areas of high salinity. Climatic conditions for the districts vary between lowlands and highlands. Rainfall, generally below 200 to 300 mm per year, is usually erratic in season, duration and distribution. Productivity is dependent on rainfall and varies greatly between areas and seasons. The inherent production systems adopt strategies aimed at mutual coexistence between humans and the livestock they depend on, often as their sole means of livelihood.

The project worked with different ethnic groups—the Ariaal, Samburu and Turkana communities in Samburu District and the Gabra, Rendille, Borana, Somali and Sakuye communities in Marsabit and Moyale Districts. The Gabra, Rendille, Sakuye and Somali are primarily camel keepers; the

Borana and Samburu are traditional cattle owners who have increasingly adopted the camel in recent years.

The general problem and how to approach it

It has long been recognized that development interventions in the ASAL regions have often been inappropriate or unsustainable. Because pastoralist areas and issues had been marginalized, the project first needed to identify key priorities. Originally the project, with a fairly strong emphasis on research, had the following objectives:

- to demonstrate the true economic importance of the camel and improve its productivity in milk, meat and transport
- to improve long-term economic security of pastoral communities and their capacity to survive in harsh arid areas
- to bring together the Kenyan pastoral tribes to encourage a unified development strategy and to link this to the Kenyan scientific community and government policy
- to contribute to a more appropriate model of development among pastoral people, centring on camel productivity improvement and education tailored to survival in arid lands

Renamed the Pastoralist Development Project at the end of phase 1 (April 1992), the new name reflected that the project had now integrated education, range management and health components.

Principles

Establish networks

- Plan only after exhaustive discussion with all other organizations and agencies working in the area. Religious organizations have been long in some of these areas and have a wealth of knowledge, even if their philosophies, ideals and outcomes may be very different from those of a development organization.

Ensure sustainability

- Avoid creating dependency. Look for possible consequences of any intervention before implementing it.

- Make sure that communities buy into a project and pay full, unsubsidized costs for services. Alternative methods for dealing with emergencies or the poorest of the poor should be found, for example, vouchers for drugs.
- Build the capability of local personnel to deliver services rather than rely on direct project implementation.
- Help set action plans and review progress regularly with those who set the action plans—at all levels including the grassroots.
- Share training costs. This may slow down the implementation rate of the training, but it ensures better quality training because those attending demand good service.
- Remember that follow-up and refresher courses are as important as the initial training.
- Identify a realistic exit strategy right at the project planning stage.

Pastoral development takes a long time and the priorities of development agency, donor and implementer may change while the project is being implemented.

Use participatory methods

- Plan interventions with ministry officials and with the pastoralist groups themselves. Where possible use community-based planning, monitoring and evaluation.
- Build on the knowledge and experience of the local people.
- Include communities in quarterly project reporting and planning meetings.
- Set out a clear strategy for all project components and adopt a logical framework approach.
- Draw up a seasonal activity calendar with the community and the agencies involved and plan activities in accordance with that calendar.

Ensure equity

- Take into account differences in gender roles, wealth distribution, age sets, ethnicity, religion and cultural values.

Microenterprise development

The problem

When it became evident that with insecurity, drought and poor infrastructure, livestock alone could no longer sustain the growing human population in pastoralist areas, the Pastoralist Development Programme (PDP) widened its scope to take on other activities. One was social development of communities through education, promoting women and supporting the diversification of livelihoods and alternative incomes.

One problem was the lack of any commercial credit or financing organizations willing to operate in pastoralist areas because the risks involved in credit and commerce in these areas were high.

Risks and constraints to credit and commerce in pastoralist areas

- remoteness, which means high transport and overhead costs, poor infrastructure, and poor balance of trade
- insecurity
- lack of collateral or individual land ownership
- low levels of experience
- lack of market information flow
- traditional customs of communal ownership, sharing, gifting and credit
- high dependency on livestock and regular risk of climatic impact from drought and flood on livestock rearing

The approach

Initially the programme fostered the formation of such community-based organizations as camel improvement groups (CIGs), women's groups and youth groups among the livestock owners; later the work was with pastoralists who had no livestock and with the poor.

The project worked closely with 42 organized groups—13 CIGs, 13 women's groups, 4 youth groups and 12 adult functional literacy groups—each with about 20 to 40 members. The total membership was about 1640, 40% women. These groups were initially the entry point for delivering extension services and increasing the skills of the nomadic pastoralists. The groups undertook a range of activities on livestock production and enterprise development and increasingly provided services directly.

At first, the programme provided group leadership training to enable the groups to run smoothly. However, programme staff soon realized that illiteracy and the low level of capital hampered the growth of group enterprises. Limited access to financial capital and inadequate business management skills were major drawbacks, either to start up a business or to move from a microenterprise to larger enterprises. To address these constraints, the project introduced adult functional literacy classes, training participants in microenterprise[2] management and financial support to promote locally suitable enterprises and to sustain such group enterprises as selling veterinary drugs or marketing livestock.

The microfinance support operated under two major components: training and credit services.

Lessons learned

- It was better to work with groups that were already established and who knew their needs than to try to create new groups, who would have to undergo group formation, which in some cases led to conflicts and poor performance.
- New groups set up to achieve a specific project goal will often fail, but some will evolve and develop their own goals with a better chance of success.

Training

Initially, to build people's ability to become entrepreneurs, the project provided training in business management to community or group members and individual entrepreneurs. Their skills were to be used to start up a business or improve an existing enterprise. Later in the project, potential entrepreneurs were also trained in microenterprise management (MEM), and community-based enterprise trainers (CBETs) were identified and trained as trainers, able to sustainably deliver training services. By the end of the project, all areas it covered had at least one or two local resource persons trained as CBETs effectively providing MEM training to other community members.

Credit services

No access to financial services was and is still a major handicap facing the growth of enterprises in the project areas, where financial infrastructure is poor. The only formal banking institutions are the branches of Kenya Commercial Bank at district headquarters. Outside these towns, the only financing possibilities are the efforts of a few NGOs, but these have yet to reach the levels of outreach and sustainability achieved by microfinance institutions in other parts of the country. The project tried to fill this gap in financial services in northern Kenya through three types of microcredit support:

- credit to community-owned enterprises
- loans to individuals who belonged to a recognized group
- individual credit without the requirement of tangible collateral

Credit to community-owned enterprises

The earliest effort to promote enterprises was through a group-based model that focused on providing financial assistance to group-owned and group-managed enterprises. This was a model that emerged from grant-giving programmes of the 1970s and 1980s.

Between 1994 and 1997 the project disbursed interest-free, unsecured loans to 12 groups amounting to KES 2,571,685. The groups invested in livestock for marketing, honey production, marketing of hides and skins, wholesale and retail shops, and similar enterprises. Loans were made with a 2-month grace period, after which repayments were to be made monthly with 10% interest. In later groups, camels served as the collateral.

Only five groups completed repayment. By June 2000, KES 1,887,954 or 73.4% had been repaid.

Points to consider

- Members derived social benefits such as collective ownership and identification with a community enterprise; members felt they had contributed to development.
- With proper business planning a community-based enterprise can be successful.

BUT . . .

- Repayment rates were generally low. Cash recovery was low, and because of the need for the project to process and monitor loans, administrative costs were high.
- The returns individual members received were small, which was a disincentive for them to give the enterprise the time it needed to function well.

Some enterprising individuals, however, started their own businesses after receiving training and credit from the group and succeeded where group businesses failed.

In 1998 an internal review of group performance, in particular loan performance, strongly indicated that individual enterprises were performing better than group enterprises. Even for groups that completed their loan repayment, the rate was very poor, extending far beyond the period agreed upon.

It therefore became necessary to discontinue loans to groups and provide financial support to the increasing number of individual micro-entrepreneurs. This was done in two ways: 1) the project made credit available to individuals with the group as the project client or 2) it gave credit to independent entrepreneurs as the clients.

Lessons learned

- To promote enterprise growth in remotely located communities it is advisable to build capacity for business management training and mentoring by training local people as enterprise trainers and motivators.

- Individual enterprise growth was faster as the entrepreneurs devoted more time and resources to their businesses.
- Loan repayment was extremely poor, because the FARM-Africa project lacked business and credit experience and the groups lacked sound business plans.
- The groups, formed as a result of project activities, lacked cohesion among the members.

Savings and credit scheme

The PDP pilot individual savings and credit scheme started in September 1998 with the Woldagena Bati women's group in Dukana, Marsabit. The first lot of 12 women received KES 60,000—KES 5000 each—and the women repaid their loan 100% by September 1999. A second loan of KES 120,000—KES 10,000 each to the same 12 women—was disbursed on 19 January 2000. A second lot of 13 women received KES 65,000: KES 5000 each; their repayment rate was also good, although it was not complete at the time the project phased out. In 1999, the scheme was extended to five other groups of individual clients—the Nalingagor Self-Help Group KES 50,000; the Mao Ngurunit Self-Help Group KES 54,000; the Baragoi traders in Samburu KES 50,000; the Umoja Women's Group KES 45,000; and the Odda Women's Group in Moyale KES 45,000.

All the loans were at 10% interest with an agreement that the interest would be returned to the group after all clients repaid their loans fully. This scheme was meant to help the group of microtraders build a revolving loan fund.

Emmanuella Ole Sambu, PDP social development facilitator, Samburu

Loans to individuals in groups

The project promoted group-based individual credit based on an adaptation of the Grameen bank model by providing credit to individual members of existing groups. The model leaves the responsibility for administering the loan to the client group. Through peer pressure, repayment rates are high with this model, and regular ongoing 'savings' contributions by members are reinvested in the microenterprise, thus ensuring growth and sustainability.

PDP started a pilot of this project in September 1998, initially covering 12 women from one group, each receiving KES 5000 at an interest rate of 10% per annum.

Through this credit scheme, loans amounting to KES 524,000 were disbursed to 81 individual entrepreneurs. This scheme performed well with 100% repayment and proved very popular. The demand was great for

higher individual loan amounts. It also showed that interest rates were not a deterrent for clients with serious need to get credit for their micro and small enterprises (MSEs). Some groups even added extra interest on what the project was charging to build their group loan fund.

In Kenya's farthest north

Dukana, in a remote part of Marsabit District, is over 300 km from Marsabit town on the Ethiopian border. The road to it is rough and communication systems are poor. The community, cut off from a ready market for its livestock, felt that it needed to buy its own lorry. Community members formed a cooperative and started a wholesale business dealing in hides and skins. PDP helped with training in microenterprise management and loaned the cooperative an old lorry. The cooperative initially paid for half the repairs and paid off the entire loan within 2 years, as agreed. When the cooperative felt it needed a bigger lorry, FARM-Africa linked it with another donor, Community Development Trust Fund (CDTF), which was impressed with the group's management and planning. CDTF funded another lorry with the cooperative contributing 10% of the cost. By the time PDP left the area, the group had two lorries and was doing well in running its business. This illustrates the point that groups the community forms itself have high chances of succeeding.

The self-help Dukana Women's Group comprises 50 women whose aim is to improve and uplift the living standards of women in their location. The group, which had been dormant, became very active when PDP helped it carry out participatory rural appraisal and needs assessment, trained group members in group dynamics, leadership and business management, and arranged exchange visits.

In 1998, the project introduced a savings and credit system based on the Grameen model, which makes the group the guarantor for loans to individual members. Twenty-three of the women formed a pilot group to benefit from the credit system. Those identified to receive loans were single mothers or widows and women who were already engaged in a small business. The loans allowed them to build and expand their businesses, such as beading, processing and selling hides and skins, running butcheries and kiosks, and trading in livestock. This system benefited the women and built their confidence to seek money from other lending institutions. Women started contributing towards domestic family needs such as buying books, paying school fees and providing food for the family. After realizing its effectiveness, the project expanded the approach to other groups and districts.

One woman pointed out, 'I used to have to wait for my husband to do everything for the family, but now I also help in bringing up my family. This strengthens the family bond.'

Chachu Tadicha, PDP district coordinator, Marsabit and Moyale
Dima Bonaya, PDP social development facilitator, Marsabit and Moyale

Method

One of the core values of PDP was that its programmes must be sustainable. In financial services this means applying a financial markets approach, in which loans are given on the basis of economic consideration. The project tried as much as possible to reach the remotely located and lowest economic class of entrepreneurs and poor community members, especially women with few business assets. The potential recipients, however, had to demonstrate through sound and simple business plans their ability to use the services for their benefit and the benefit of the community.

Initial credit clients were identified and assessed from either members of the PDP contact groups or entrepreneurs trading or living in close proximity who linked up with five others to form a group of five (*watano*). Each of the watano then linked up with five others to form groups of 10, 15, 20 or 25, up to a maximum of 30. The project provided credit to the main groups, who guaranteed the loans made to their individual members, and they helped each other with common business problems.

The members were required to contribute KES 50 per week for 8 weeks to a joint account in the name of the group and to prepare simple business plans. The contributions served as a savings account for each member and also a loan guarantee fund in the event of default. The members' savings of KES 400 per client were then held by the group, after which the project disbursed the loans with very clear agreements between PDP and the client groups.

In the 9th week, individual members selected by the watano received loans in amounts appraised and agreed on within each group, based on individual business plans. After 4 months of uninterrupted loan repayment and continued monthly savings and loan guarantee funds by all members, the other members received their loans. Loan repayment periods ranged between 6 months to a year at interest rates of 10% per annum on initial capital.

After the initial loans were repaid, it was planned that members would either receive second and larger loans or withdraw from further loans and receive back their savings plus accrued interest minus losses from defaults. Members met monthly to make loan repayments and solve any problem that might have arisen. Weekly savings were collected at watano level and submitted to the group treasurer for recording and safekeeping.

The project through the social development coordinator at the project base in Nanyuki provided technical and management support to the facilitators in the field. The project facilitators collected repayment from the group once a month on agreed dates but the responsibility for collecting and recording fell solely on the group. Initial training in the process and procedures of the scheme was provided at minimal cost, which included meals and record ledger books.

Points to consider

- Peer pressure on members with loans to keep up with their payments kept repayment rates high. Responsibility for management, selection of individuals who were to receive loans, appraisal, approval and collection of repayments were all the responsibility of the group.
- The potential for establishing a successful, self-sustaining loan scheme was high because the time and cost to the lending organization were minimal. The low administrative costs to both the group and the lending agency enhanced sustainability.
- The scheme increased the capability of the women's groups and gave the individual clients economic power.
- The scheme is appropriate for microentrepreneurs, who can start up their enterprises on small initial amounts and when these are repaid, apply for larger ones.

BUT . . .

- The scheme does not reach marginalized entrepreneurs in remote areas as it is suitable only where micro and small enterprises are concentrated.

Individual credit without requirement for tangible collateral

PDP was also involved in promoting a sustainable community-based system for delivering animal health services. One way of ensuring it was to support commercial or privatized veterinary services and drug supply systems. Local animal health personnel were encouraged to set up veterinary and drug supply enterprises, but they too needed start-up capital and lacked access to credit.

To solve this problem, PDP chose to experiment with an innovative scheme of giving animal health assistants (AHAs) loans without tangible collateral. Two interest-free loans were given to boost the efforts towards assuring sustainable drug supplies in the PDP working areas. The first was given to an AHA in Baragoi, Samburu District. He excellently maintained a 100% repayment rate (see his story in the box). The other loan was given out in Marsabit District, again in the form of veterinary drugs worth KES 96,100, but this loan repayment was very poor as only KES 16,000 was repaid.

Applying skills and expertise

Akidong Sanget is a government-employed animal health assistant (AHA) who served on attachment to PDP at various times. He had proven his expertise in training and supervising community-based animal health workers (CAHWs) in Samburu District. So when PDP was looking for an AHA to support, he was among the first to be considered. With technical support from PDP staff, Sanget prepared a detailed business plan that was discussed and appraised by the project management. There was strong evidence that Sanget had a clear plan for the enterprise as he had rented premises and acquired the necessary licences. A loan of drugs worth KES 278,052.50 was therefore approved and Sanget signed an agreement with the project detailing the conditions and repayment schedule. His drug store was able to provide a nearby source for replenishing the drug kits of trained CAHWs, thus sustaining the supply to remotely located herders. Sanget adhered to the agreement by repaying promptly, sometimes paying double the expected amount, particularly during the wet months when drug sales were high. During the drier months when veterinary drug sales were low, the project agreed to a request from Sanget to pay less. The business grew tremendously, and Sanget expanded his stock to include other agro-veterinary drugs and supplies. This case was a learning experience for the project: for the benefit of the community, select clients who are most able to apply their skills and expertise but lack requisite formal security.

PDP Samburu team

The difference in the performance of the two loans was traced back to the initial preparation of the clients and to the individual commitment to repay. The first loan was processed very thoroughly, The client set out a sound business plan, which was appraised; the second loan was given despite the client having failed to present a good business plan and a demonstrated commitment to the enterprise.

This type of loan was special in that it was made more to promote animal health services in the project areas than to promote a business. It was also designed to satisfy NGO and government needs to ensure quality services, available only to trained AHAs. As the number of this type of loan was minimal, no significant recommendations can be made, but the following strengths and weaknesses of the model were identified.

Points to consider

- This type of loan is effective for reaching entrepreneurs without tangible collateral. It has potential for promoting commercial veterinary services in remote areas.

BUT . . .

- Such a loan is relatively expensive and its chances of achieving sustainability are limited. It is risky and subject to abuse by dishonest or incompetent clients.

Gender issues

The problems identified above for MSEs in pastoral areas affect both men and women, but differently, because of factors related to gender. For women, lack of collateral security is much more serious than it is for men, as women rarely own livestock or have other tangible resources. Therefore, microfinance for women is limited. To address this issue, PDP gave more individual credit without collateral to women. Four out of the six groups supported were women's groups.

Another factor affecting women in enterprise development in the pastoral areas was their low level of literacy and numeracy, both of which are necessary for good enterprise performance. Enterprises run by literate, numerate persons tend to perform better as record- and bookkeeping are easier. PDP supported adult functional literacy to improve the levels of literacy, particularly for women.

Many women hid from their husbands the fact that they got loans from the groups. They feared that their husbands would take the money or contribute less to the household needs if they knew.

Achievements

- The microenterprise support provided short-term microcredit for building the capital base of microenterprise clients, thereby helping them to diversify to non-livestock activities and alleviate poverty. It especially focuses on women, who are more disadvantaged in gaining access to material and financial resources.
- It promoted enterprise growth by providing microcredit at interest rates close to market rates to increase economic activities and at the same time clients learned to deal with financial services.
- The project was able to reach out to poor people, especially women, and make them better able to participate in the financial market. Four of the six groups that benefited from the scheme giving credit to individuals were women's groups.
- Credit schemes increased access to social services and basic necessities such as drugs and foodstuff. Because of the remoteness of the areas in which PDP operated, some services or commodities had not been available until the microenterprises brought them in. For instance, during phase 2 of the project, 16 groups traded in veterinary drugs, thus improving the availability of animal health services in their remotely located communities. The group and individual enterprises also improved the supply and availability of food and other groceries within their localities, thus saving time spent travelling to distant centres and markets.

Group enterprise
The Kisima camel improvement group, which had received a loan of KES 200,000, started the Kisima Butchery as an enterprise in 1994. The butchery provides a market outlet for an average of 12 camels per month, generating KES 12,000 for the group and over KES 400,000 for pastoralists who slaughter their camels for sale in the butchery. From the butchery proceeds, Kisima group members benefited from dividends and the assets of the group rose from KES 200,000 in 1994 to KES 851,784 at the beginning of 1999.

PDP Samburu team

- Marketing of local products, particularly livestock, was improved, providing extra disposal income for group and community members. The various enterprises led to increased disposable income for groups and individual entrepreneurs and community members through the sale of the commodities and local produce, in particular livestock. A case in point is Kisima Butchery in Maralal, Samburu District.
- Women increased their participation in pastoralist development. The microcredit support enabled a significant number of women in the communities and more group members to attain leadership roles in the community. The contact groups alone involved some 656 women, some of whom went to training sessions to acquire leadership roles in environmental, school and other community management committees.

How households spent their newly generated income

Expenditure	Responses (*n* = 29)	%
Foodstuffs and other groceries	12	41
Clothing	10	34
School fees and materials	7	24
Wedding ceremonies	4	13
Ornaments	2	6
Animal health services	2	6
Transport	1	3
Contribution to group activities	1	3

- New employment opportunities were generated either directly or indirectly by the enterprises in both communities where they were undertaken and where the traders purchased their merchandise. Enterprises such as livestock trade provided employment to people in the transport sector (vehicle drivers, loaders or those trekking the animals) and catering services. Other businesses such as wholesale and or retail shops provide similar employment.
- The number of individual micro- and small enterprises grew, until by January 1999 among PDP contact groups, 95 women and 170 men

were operating individual enterprises with capital holdings ranging from KES 1000 to 1 million. Most of these were new businesses, not running before the PDP intervention. These members were able to earn incomes for reinvesting in their individual enterprises and to meet their personal needs. For instance, a simple survey conducted with 29 individual entrepreneurs revealed that they spent the income gained from enterprise activities mainly on household expenses such as food, clothing and education-related items. In the PDP working area, it is estimated that about 10% of the microenterprise traders benefited from loans and 40% from microenterprise management training.

Challenges

In the MSE sector access to credit is one of the main hindrances to enterprise growth, and microfinance can play a major role in promoting microenterprises in pastoral areas. The group and individual enterprises that PDP supported contributed significantly to productivity in pastoral areas.

Relatively few MSEs in pastoral areas benefit from credit for a number of reasons. First, commercial banks and microfinance institutions do not cover these areas and even when they do, the MSEs are unable to meet marketable collateral and personal guarantee requirements, which leave many potential entrepreneurs with credit needs unmet. Second, the sustainability of the credit programmes has been poor as most are dependent on donor funds. In addition, the pastoral areas are characterized by insecurity because of cattle rustling and banditry, drought, limited productive resources, and poor physical and financial infrastructure, all of which make transactions risky. Pastoral areas, therefore, continue to be unreached or underserved by microfinance services. For PDP the biggest challenge in microfinancing was gaining access to substantial seed capital for loans. To overcome this problem, the project operated a small revolving fund. Initially, that did not work well because of the high default rates but later, with the change in models for giving individuals credit, the revolving fund grew enough to allow the project to initiate a successful microfinance scheme.

Lessons learned

PDP was not a microfinance institution and its efforts in microcredit were aimed at orienting the project beneficiaries to credit, hence the small amounts involved. But project experience with microfinance showed that the demand for microcredit far exceeds the supply. The following were the lessons learned.

- Businesses that benefit from credit have a higher growth rate than those that have had no access to credit.
- To meet the increasing demand for substantial credit to micro-entrepreneurs in pastoral areas, it is necessary to plan a special project suitable for these areas.
- Specifically designed credit models can provide a vital means of reaching remotely located pastoralists and building the capacity of communities to manage credit.
- A sound business plan and proper screening of applicants are key to a successful microcredit programme.
- To promote microfinance in pastoral areas it is necessary to apply a commercial principle that discourages subsidies and orients borrowers to interest rates.
- Individual enterprises perform better than group enterprises, as individuals are more committed and determined to maximize profit growth for their own benefit.
- To promote microenterprise growth in pastoral areas, programme staff can combine community development activities with simple business training for individuals or groups of credit beneficiaries.
- Traditional pastoralist systems in general are communal rather than oriented towards enterprise. The concept of sharing in pastoral areas makes it difficult for groups and individuals to engage in enterprise in communal societies, but they can succeed.
- Investment opportunities are limited, and too many similar micro-enterprise initiatives in one area can compromise success.
- Nomads move, and group enterprises are difficult to maintain when members are widespread.
- Potential entrepreneurs may lack the basic education necessary to run a business, and functional adult literacy plays an important role.
- For groups to support individuals is a viable option in setting up MSEs.
- Women can gain economic independence through operating a micro-enterprise.

Abbreviations

AHA	animal health assistant
KES	Kenya shilling, valued at about 75 to 1 US dollar
MSE	micro and small enterprises
NGO	non-governmental organization
PDP	Pastoralist Development Project

Notes

1 Kenya Ministry of Agriculture and Rural Development, 'Policies and strategies for the delivery of veterinary services in Kenya', draft paper, February 2002.

2 Microenterprise in this context is considered a small business undertaking with a capital investment of less than 1 million shillings.