Market analysis for preparedness: the urban informal settlements of Nairobi

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A cash transfer beneficiary shows off the produce from an urban garden. The Karoi programme combined cash transfers with support to income generating activities.

Andy Hall
The changing face of Market Analysis

The last few years has seen a significant change in the way that humanitarian organisations approach response design. Partly spurred on by the growth in cash transfer programming, market based programming, “the practice of working through and supporting local markets, is now widely considered best practice in the humanitarian field. Where market based programmes are possible, such interventions favour economic recovery and livelihood development”.¹

To date, emergency market analysis has predominantly been undertaken following a crisis, to ensure that humanitarian interventions, at the very least, do no harm to market systems and can identify opportunities where relief can be delivered through these existing market systems. Emergency market analysis is now common. One such approach, the Emergency Market Mapping and Analysis toolkit – EMMA, has now been undertaken in more than 20 countries.

Yet, the role and potential of emergency market analysis has been evolving. The emergency response to the 2011 drought in the Horn of Africa has been heavily criticised. Reports such as, ‘A Dangerous Delay’ and ‘System Failure’, showed that it was the insufficiencies of emergency preparedness and alert mechanisms in the slow onset crises that caused delayed and inadequate humanitarian interventions.

One of the key issues in this failure to deliver timely and appropriate responses was the lack of market analysis in pre-crisis contexts, either in preparedness or contingency planning exercises. With sufficient understanding of context and critical market systems, country teams would be better prepared address slow onset crises.

Market Analysis to Improve Preparedness

Undertaking market analysis as part of preparedness and contingency planning, could significantly improve the readiness to respond to crises. Understanding how a market system functions under a variety of conditions – from less stressed to more stressed as a slow onset crisis evolves - allows the analysts to see how the market functions under ‘normal’ conditions, what components of the market system still function in an emergency, whether relief can be delivered through existing market structures and whether the market requires support of any kind (such as support to traders), to enable relief or early recovery. This will contribute to improving the preparedness of agencies to design appropriate and market sensitive responses in a timely fashion, with a minimum of delay.

However, undertaking market analysis before a crisis could do even more. By understanding the capacity and constraints of critical market systems, the market baseline assessments can not only improve preparedness, and feed into contingency planning exercises, but can also help design responses that could mitigate the effects of a crisis.

Market analysis can generate response interventions that range from immediate relief oriented activities to those that look at the underlying structural issues of the market and opportunities that exist that could enable the market to work better. Strengthening certain parts of the market system could lead to both better access to basic needs and support to livelihoods. This support to access and livelihoods will help to build the resilience of the targeted vulnerable populations to predicted or evolving shocks and can begin to address the long term, or ‘chronic’ nature of vulnerability and poverty.

The Urban Market Analysis

Oxfam has had an urban focus and presence in Kenya for several years. This has culminated in a number of projects, notably the ‘Nairobi Urban Social Protection Programme’. As a result, Oxfam and partners have well established relationships in the informal settlements and a well grounded understanding of the context.

In Kenya, Oxfam's contingency plan states that in case of humanitarian need, the organisation would respond to 10,000 households in urban areas. As part of developing the contingency plan and to improve the preparedness of the country team and other agencies, in responding to slow onset crises, Oxfam decided to conduct a market assessment, focusing on those market systems critical to the most vulnerable populations.

The market assessment was originally intended to feed directly into the development of the contingency plan in January 2013. However, the threat of election violence from the national elections in March 2013 and the resulting restraints on travel meant that the market assessment was delayed. While the market analysis was undertaken post contingency plan development, there was a clear expectation that the contingency plan would be updated with findings and recommendations from the analysis.

The market training and assessment were carried out from the 3rd to the 13th of June 2013 and focused on the informal settlement of Mukuru, an urban area that has current Oxfam programming.

The market assessment team was led by Oxfam GB, but included staff from three other international agencies together with three local partner organisations.
In this assessment, June 2013 was selected to represent the baseline year, with June 2011 used as the emergency year.

The Nairobi Informal Settlements

2011 saw one of the worst droughts of recent years hit Kenya. The failure of the short and the long rains led the Government of Kenya to declare a national emergency. Alongside the drought, Kenya’s economy was in crisis. High inflation, rising fuel prices and a weakened currency all contributed to rocketing food prices. FEWSNET found that by June of 2011, the staple food – maize - had increased in price by 112% in comparison to the beginning of the year. Rising food prices meant significantly larger proportions of income being spent on food, across the country. The Government of Kenya, together with most humanitarian organisations, focused their activities on the hard hit Arid and Semi Arid Lands (ASALs). Yet, analysis by UNICEF showed that the number of children experiencing food insecurity in urban areas was equal to the number of children affected in the ASALs. The urban population in Kenya is rapidly expanding and is currently estimated to be about 32% of the country as a whole. While urban populations were significantly affected by rising prices, they were largely overlooked in the emergency responses.

Nairobi’s urban populations are especially vulnerable to rising prices. Residents of Nairobi’s informal settlements are highly dependent on the market as the major source of all their household food and non-food needs (up to 90% for very poor households). Due to soaring prices, large numbers of residents from these settlements were unable to meet their food needs over an extended period. Large sections of the population were forced to adopt negative and corrosive coping strategies, such as: reducing the quantity, quality and diversity of the diet; reducing expenditure on health sanitation and education; scavenging; and increased criminal activity. As prices continued to rise, admissions for treatment of severe acute malnutrition increased by 62% between January and May 2011.

The Target Population

People living in the informal settlements of Nairobi constitute around 60% of the city’s population. They depend on precarious livelihood strategies, principally micro and small enterprises and casual employment. A recent Oxfam report has found that there are four distinct wealth groups in Nairobi’s informal settlements. These groups comprise the wealthy (10%), middle poor (20%), chronic poor (50%) and the very poor (10%). The breakdown of wealth groups has raised a number of key points. Firstly, it was observed that, during an emergency the number of people that can be categorised as being part of the wealthy group generally remains relatively stable. However, during crises and periods of economic stress, a significant number of people from the middle poor group slide down into the chronic poor wealth group. Similarly, significant numbers of the chronic poor also shift into the lower very poor wealth group. This indicates that livelihoods are precarious and that the majority of the inhabitants of the informal settlements lack any effective resilience to crises.

Secondly, and crucially, this wealth group breakdown clearly points out the disparity between minimum estimated food and rent needs, and actual income, in an average non-emergency year.

The ‘very poor’ wealth group typically has an annual average income of 20,000 to 40,000 Kenyan shillings (approx. $247 - $ 494 USD). In comparison, the income required to cover basic needs is about 60,000 Kenyan shillings (approx. $741 USD) leaving a deficit of 40,000 to 20,000 Kenyan shillings.

The effects of this deficit are many. As found in a typical informal settlement, the proportion of income spent on staple food can be as much as 75% of total expenditure, for the very poor groups in the community. With little disposable income left for other items of expenditure, families resort to a range of coping strategies including keeping their children away from school; using ‘flying toilets’ rather than ‘pay as you go’ public toilets; walking rather than using public transport; and limiting the amount of water purchased to a bare minimum. High rates of morbidity and mortality in urban slum dwellers can be attributed to the fact that 50% of slum dwellers have no access to clean water.

The Objectives of the Assessment were to:

- To identify through a rapid market analysis appropriate responses (cash/ in-kind/ market support/ advocacy) to meet emergency and early livelihood recovery needs.
- Strengthen Oxfam GB’s national capacity in market analysis and in its use in response analysis and design as well as Disaster Risk Reduction, preparedness and contingency planning;
- To build Oxfam’s understanding of existing coping mechanisms and to inform programming on ways of reinforcing these mechanisms.
Wealth groups in the informal settlements

<table>
<thead>
<tr>
<th>Category</th>
<th>1. Wealthy</th>
<th>2. Middle Poor</th>
<th>3. Chronic Poor</th>
<th>3. Chronic Poor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Income in Kenyan Shillings (Ksh)</td>
<td>200,000 – 300,000</td>
<td>100,000 – 200,000</td>
<td>40,000 - 100,000</td>
<td>20,000 - 40,000</td>
</tr>
<tr>
<td>Minimum food basket with rent 60,000</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Deficit</td>
<td>0</td>
<td>0</td>
<td>0-20,000</td>
<td>20,000 – 40,000</td>
</tr>
<tr>
<td>Population % in 2007</td>
<td>10</td>
<td>40</td>
<td>40</td>
<td>10</td>
</tr>
<tr>
<td>Population % in 2008</td>
<td>10</td>
<td>20</td>
<td>50</td>
<td>20</td>
</tr>
<tr>
<td>Livelihood Trends 2008</td>
<td>In some cases, business has expanded. More generally, incomes and productivity have reduced resulting in decreased unskilled labour opportunities for wealth group (WG) 3 and WG4.</td>
<td>Squeeze on formal employment (as some factories have closed. Tribalism has fractured the job market, reducing flexibility of employment. Reduced profits on medium enterprise by up to 50%.</td>
<td>There is no casual labour anymore’ Many micro-businesses have closed (up to 75%) “Laundry job fetches 30/- or even 10/-”. (Mukuru Focus Group Discussion). Increased competition due to influx of IDPs into urban areas. Police harassment has reduced hawking options Scavenging is estimated to have risen to 40% of young boys</td>
<td>Markets for scavenged metals have reduced due to squeeze on informal industries. This results in intense competition. Illegal brewing business has increased because of stress led demand, but criminal activity and lack of security means theft is common. Prostitution is estimated to have risen to 30% of in Korogocho</td>
</tr>
<tr>
<td>Safety Nets</td>
<td>Decreased capacity to support poorer kin &amp; neighbours</td>
<td>Less capacity to support poorer neighbours and friends</td>
<td>Less support from wealthier kin</td>
<td></td>
</tr>
</tbody>
</table>

to safe and affordable drinking water and 18% have no access to sanitation. For the target group of the ‘poor’ and ‘the very poor’ wealth groups, the persistence of these chronic needs became an important feature in the Nairobi Market Assessment.

Critical Markets

As a key part of the assessment process, a number of critical markets are selected. “Critical market systems are those that had, have, or could have a major role in ensuring the survival and/or livelihoods protection of the target population”.

In Nairobi, the assessment team selected three market systems critical to meeting needs in an emergency. These were maize and water (critical to survival needs) and the market systems that enabled access to credit (vital for livelihood protection and promotion).

The selection of the credit market system was interesting for a number of points. Firstly, understanding credit systems has not been a traditional humanitarian activity. Secondly, in the context of the informal settlements, characterised by income poverty and insecurity, a lack of social protection, a heavily market based economy - access to credit is vital. Indeed, the Kenya Food Security Steering Group of 2011 gauged that, in emergencies, 40% of the urban population is dependent on accessing credit to buy food.
The Credit Market System

In Nairobi, credit is available in a number of forms and the formal and informal credit market systems interact within the informal settlement.

Actors in the formal credit market system are those that are registered and have the legitimacy to operate businesses that officially offer credit. Formal credit markets are predominantly accessed by wealthier groups and people who have sufficient assets to offer as security on a loan.

The commercial banks are, to a large extent, governed by the terms and conditions determined by the Central Bank of Kenya (CBK) and are regulated by the law. These terms and conditions require the credit applicant to hold a National Identity card, proof of house address either of ownership or through rental contracts/agreements, or through telephone bill, electricity bill or water bill. These are documents that the target population do not have. Credit from banks is therefore inaccessible to the target population either during normal or emergency times.

In comparison to the commercial banks, micro finance institutions are more accessible to people living in the informal settlements as they do not require the same level of documentation as the commercial banks. They also ask for minimal security (usually a savings account with at least Ksh 300). Yet they remain out of reach because of the lending rates, which are determined by the Association for Micro Finance Institutions (AMFI) and often derived from the lending rates decided by the Central Bank of Kenya. At the time of the assessment, lending interest rates stood at 24%.

For inhabitants of the informal settlements, there are also a limited number of Savings and Credit Cooperatives (SACCOs), who can provide credit to its members at a 2% interest rate. To become a member of the SACCO, interested parties need to register (for a fee of Ksh 500) and then make a monthly saving of Ksh 300. To access credit, participants need to have saved for at least three months, and to have at least Ksh 3000 in savings. People requesting loans must present three guarantors, who are also members of the SACCO. For additional loan security, the SACCO requires that the combined savings of the individual requesting the loan and the guarantors must be more than the amount of the loan requested. The SACCO also requires the National ID card of the loan applicant. In the case of loan default, the guarantors have the right to sell all the assets of the household.
With these terms and conditions, SACCOs are not easily accessible to the target population. Many of the poor and very poor wealth groups do not have national ID cards. Moreover, they do not have enough to pay for the membership fees or make a monthly saving of Ksh 300. Despite the favourable lending rate, even households who are able to save a little prefer not to take loans from the SACCOs because of the restrictive requirements set.

Due to the stringent requirements, the majority of the target population are excluded from the formal credit and lending systems.

The informal credit market is much more vibrant in the informal settlements. This market is based on credit given, predominantly, by traders and money lenders.

The target population has access to informal sources of credit in kind and in cash from small traders, medium traders, big traders, savings and credit groups, and within their own wealth group.

**Middle Poor**

Small traders are a vital part of the credit market system. This group typically have some assets and are able to balance income and expenditure. This group is also able to save in multiple merry go round organisations (known locally as ‘chama’), savings and lending groups and in SACCOs. Typically, small traders only seek access to credit in certain circumstances such as health emergencies. However, the discussions with this group made clear that the small traders do want greater access to credit to secure and promote their businesses.

Small traders provide credit to a number of poorer households, ranging from Ksh 200-300 per person at any given time. To access credit from small traders, people need to be known and trusted by the trader, live locally and have a regular income source. While the small traders are an important part of the credit market system, on average, they only offer credit to 5-10 people per month.
**Chronic Poor (Poor)**

Mukuru's poor wealth group depends on casual jobs and petty trade for income. Those in casual jobs have a highly volatile income, while those engaged in petty trade have limited funds to secure sufficient business capital.

To address regular household needs, the majority of this group access credit either in kind (in the form of food from other petty traders), or, much less frequently, in cash from local chama. This type of credit serves to meet this group's survival needs – in that it allows for the poor to access enough food for the day, or to restock their shops on a very small scale.

The poor also have access to some larger, informal sources of lending from both big traders and small traders. This is mostly credit in kind. Accessing this type of credit requires a regular income.

In turn, the poor are also an essential part of the market system, in that they lend to the very poor. This is mostly in kind, through food credit, although food donations are also common.

**Very Poor**

The very poor lack any real access to credit. This is because, in order to access credit, whether in kind or cash, the lender needs some form of guarantee that they will be repaid. This guarantee could be as little as a promise that the borrower will find casual employment. However, many people fell into the very poor category as a result of loss of employment, or the incapacity to take up further employment, because of illness or care responsibilities.

This group does not have any regular source of income and mostly depends on gifts and donations from neighbours and friends. Although a very small amount of credit is available to those who are well known and trusted in the local vicinity, this is not widespread.

Local small traders occasionally make in kind donations to the very poor group, either through giving food, water,
or even by allowing them to access toilet facilities for free. The landlords of these households often allow the very poor to defer rent for several months, before eventually evicting them. Evictions have a significant impact on accessing in kind food donations, as it may lead to an enforced move to neighbourhoods where very poor individuals are not known or trusted. This group will also occasionally receive food aid from the local administration and religious institutions, if introduced by local health/social workers.

The Credit Market System in Emergencies

During emergencies, small traders are likely to be greatly affected. During non-crisis (chronic) periods, this group is just able to cover their expenditure. In an emergency this group is unlikely to be able to maintain their livelihoods and will move to the poor wealth group. This has severe implications for their ability to provide essential credit to the target group. Reaching out to this group with a response mechanism will help to keep the credit links alive. Moreover, supporting this group to protect their livelihoods will help to prevent them from slipping into the poor or very poor wealth groups in future crises.

In emergencies, the poor do not give credit to the very poor. During the annual hunger period, the poor cut down on the number of meals they consume per day as well as cutting down on other expenses such as education, health and water and sanitation. During these times this group generally try and adopt many livelihood strategies to boost their incomes sufficiently to meet their survival needs. Due to the small scale of their businesses, emergencies significantly increase the risk of falling into the very poor wealth category.

For the very poor, emergencies signal the drying up of their already meagre sources of both credit and in kind donations. Credit tends to only be available to the very poor, from the religious institutions which offer very small scale cash credit of Ksh100.

Credit Market Assessment Findings and Recommendations

1. The market analysis demonstrated that for the credit systems in Mukuru, the wealth groups are inextricably linked. This is exemplified by the fact that, although credit is important to address the needs of the very poor, this group does not have direct access to any readily available and reliable credit sources. To support the very poor to access the forms of in-kind credit and donations that they depend upon, programmes must actually look to sustain those operating in the groups above – the poor and middle poor wealth groups.

2. The market analysis also confirmed that the livelihoods of these wealth groups, particularly the middle poor and chronic poor are extremely fragile. Changes in the market system, such as price rises, massively inflates the risk that each group may slide into lower wealth brackets. This highlights the need to address precarious livelihoods by thinking of responses that support livelihood protection and promotion, rather than looking only at survival needs.

3. In analysing the needs of the poor and very poor wealth groups, it quickly became clear that it does not make sense to simply predict and prepare responses that address the target groups’ needs in emergencies. As the wealth group breakdown emphasised, the poor and very poor groups experience a chronic deficit between their needs and income, even in a non-emergency year.

To this end, the market assessment for accessing credit looked at the survival gap between both the chronic deficit between needs and income and the emergency deficit between needs and income. This revealed a number of interesting points. In order to meet the calorific requirement of Kcal 2100, a poor family of five would need Ksh 10,629 (as per August 2012 prices) per month to be able to buy an essential basket of goods. But in non-emergency situations, this typical poor family only have Ksh 5686 available. This shows a chronic gap of approximately Ksh 5000 per month. Moreover, this gap only shows the gap between income and survival needs – that is to say, this only looks at food, cooking fuel and water requirements for drinking and cooking only.
In order to meet the livelihood needs of this family, which includes rent, school fees, essential health services, the household would need another additional Ksh 4000, or a total of Ksh 9000 to reach the survival and livelihood threshold.

Both the fragility of livelihoods in different wealth groups and the chronic gaps between survival needs, livelihood promotion needs and incomes, points to a clear need to intervene in longer term livelihood programmes and to advocate for safety nets.

4. There is a great demand for credit by the target population. Although the credit market system has the capacity to meet this demand, it is currently falling short for a number of reasons.

• The requirements for documentation, secure credit, such as national identity cards means that formal credit is out of the question for the target population.
• The target population also do not have the assets required to meet loan security obligations. They cannot pay into savings accounts on a regular basis as they do not have regular income sources.
• Even if loans could be secure, often the conditions attached to loan repayments are prohibitive for the target group.

There are a wide range of actors already in the credit market system. The majority of these actors have the capacity to expand their services both in terms of accessing and lending credit and both in non-emergency and in crisis times, if some of the essential bottlenecks in the system were addressed.

These findings resulted in the generation of a variety of response options for non-crisis periods. These included:

• Advocacy with Government to implement safety nets for the very poor and poor. This would not only address the chronic deficit experienced by these groups, but would also provide the target groups with a regular source of money.
• Advocacy and lobbying with government and communities for identity card registration to enable
poor and very poor wealth groups access to wider sources of credit
• Linking with institutions that could provide grants for the poor (individual and groups)
• Promotion of Group Savings and Lending for the poor and very poor households
• Skills training for poor households for livelihood protection and promotion.

In slow onset emergencies, the market assessment recommended the following:
• Cash injection to poor households
• Cash grants for Protection of livelihoods for small traders

Key overall findings – “the emergency is now”.
Across the different critical markets teams, the same message was echoed - “the emergency is now”. Even in the non-emergency context in Mukuru, people are living far below the SPHERE standards. It is not sufficient to wait until there is a crisis to design responses to address both chronic and emergency needs. Designing responses that seek to support survival and protect livelihood needs now will strengthen the resilience of the targeted groups when there is a crisis.

A fundamental outcome of the market assessment in Nairobi is that market based thinking has become much more embedded in programme design. The understanding of the role and potential, of markets in addressing chronic and emergency needs is now seen as “part of a programmes’ DNA”.

Key successes
The market baseline assessment met the objectives that were set, as, for example, it produced response options that were designed to address a variety of contexts - including preparedness, contingency planning and Disaster Risk Reduction (through understanding and addressing vulnerability). This had both practical and conceptual repercussions.

The findings and response recommendations generated by the market analysis have already been used to help design concept notes for programmes, some of which are designed for immediate implementation. These range from looking at ways to engage the private sector in the development of the water market to bringing the understanding about key linkages in the credit market to help support small traders. Moreover, the findings from the market baseline assessment will feed in to the upcoming review of the contingency plan.

The assessment process itself, and the findings and responses, helped to build the capacity of all those involved in the assessment process. This is a key success in that the implications are wide, spanning other international NGOs and local partners.

Finally, for Oxfam, as with other NGOs, there has been a move away from direct service provision towards brokering and facilitation. The market assessment has underlined ways in which NGOs can do this in practical terms. As a result of the assessment, opportunities have been identified that directly tie facilitation and advocacy into the programme work of aid and development organisations.

Going forward
In any assessment, there is a process of learning and reflection. In Nairobi, the assessment process highlighted the need to be mindful about a couple of issues.

As in all questionnaires and assessments, it is vital to establish a sense of trust from all parties. There may be sensitivities that need to be considered, especially in areas where informal markets flourish. Agencies need to be very clear about communicating why they are doing this assessment, who they are, and who will have access to this information. Equally, it is important that answers to questions are scrutinised for the motivation behind them. In this sense, and as in other assessments, it is important that judgement is used.

Moreover, it is essential to keep the analysis alive. This means that, not only is it important to maintain programme focus on the findings of the analysis and pursue relevant response options, but also to keep thinking of different ways the thinking and learning regarding the links between relief and development can be applied to other contexts. This thinking must also be consolidated with programme stakeholders. Preserving a focus on facilitation and brokering can be difficult, in terms of changing mindsets, but it is important and vital in carrying out market based programming.

The urban market baseline assessment in Nairobi was interesting for a number of points. Not only did it look at understanding the urban context, but it selected the credit market – a market usually the preserve of development specialists. It also strongly demonstrated that, while it is necessary to be better prepared to understand and respond to emergency survival needs, market analysis can produce repose options that deal with the very real chronic needs faced by many populations. It showed that it is relevant, appropriate and necessary to look beyond survival needs to analyse what is necessary to support livelihood protection and promotion. The Kenya urban team embraced this learning fully and this, most certainly, can be considered a success.
Through the ECHO funded project ‘Building institutional capacity for timely food security emergency response to slow onset crises at scale’, Oxfam, Save the Children UK, Concern Worldwide and Intermon jointly delivered a project designed to improve preparedness and increase the speed and appropriateness of responses in slow onset food security crises. This was based on a comprehensive approach which combined the use of market analysis, the use of a context appropriate framework for contingency planning and response analysis; and through increased operational preparedness.

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