TEGEMEO INSTITUTE

Policy Brief

Market Participation among Poor Rural Households in Kenya

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SUMMARY: *Kenya's smallholder agriculture remains a major engine of rural growth and livelihood improvement, yet it is largely semi-subsistence. Therefore, any pathway that can lift large numbers of the rural poor out of poverty will require some form of transformation of smallholder agriculture into a more commercialized production system. Unfortunately, the many poor smallholder farmers are constrained by several factors in their quest to be more commercial oriented in farming. To promote market oriented production by poor smallholder farmers, policy actions are needed to help them expand their production through improving productivity and access to land. Input subsidy programs targeting poor smallholders is one way in which productivity can be improved. Actions to address challenges along the value chains for agricultural commodities also need to be emphasized. Promotion of collective action among poor smallholder farmers would be one area in which investments need to be channelled.*

BACKGROUND: About 80% of Kenya's population live in rural areas, with half of this proportion being poor. The rural population depends mainly on small scale agriculture for food and income, suggesting that smallholder agriculture remains the major engine of rural growth and livelihood improvement for any pathway that can lift large numbers of the rural poor out of poverty. Meeting the challenge of reducing poverty and improving rural incomes will require some form of transformation out of the semi-subsistence production systems that currently characterize much of rural Africa, Kenya included, to a more commercialized agriculture.

Increased market participation by the poor has been found to be important as a means of breaking from the traditional semi-subsistence farming. It has been argued that market-oriented production can achieve welfare gains through specialization and comparative advantage, economies of scale and regular interaction and exchange of ideas. Unfortunately, the poor who need this kind of welfare boost may be constrained by several factors in their quest to participate in markets.

OBJECTIVES: This study aimed to assess the extent of market participation among poor smallholder farmers in Kenya with a view to identifying constraints to market participation and potential market opportunities to inform policy. Critical questions under the study relate to the levels of participation in markets by the poor, key constraints to output market participation and the relationship between market participation and transition out of poverty.

DATA AND METHODS: Changes The study used a three-year panel data on 1275 households collected in 2000, 2004 and 2007 across various agro-regional zones of Kenya under the Tegemeo Agricultural Policy Research and Analysis (TAPRA) project. Analysis mainly focused on characteristics of the poor households and their participation in different input and output markets. Factors that affect the likelihood and intensity of participation in different output markets among the poor were examined.

MAIN FINDINGS: The proportion of poor households decreased from 42% to 37% between 2000 and 2007, a scenario that is well consistent with the general reduction in the national poverty figures reported across that period. The proportion of poor households was highest in the Western and Coastal Lowlands and Western Highlands and lowest in the Central Highlands, and 47% of the poor were in the agriculturally low potential areas, mainly the Lowlands.

In terms of socio-economic characteristics, the study revealed that the poor households were headed by persons with low literacy levels and were larger in size than the non-poor households. Dependency level was also higher in the poor relative to the non-poor households. The poor's income levels were about five times lower than those of the non-poor households. The farm (both crops and livestock) was the most important livelihood source for the households, contributing to over 68% and 66% to the poor and non-poor households' income respectively. After agriculture, the poor relied more on businesses and informal labour activities, which comprise essentially the informal rural sector, while their non-poor counterparts relied more on income from formal employment. The poor households had smaller land sizes and were less endowed with assets, suggesting that their agricultural productive capacity was lower. A higher proportion of non-poor than poor households used credit; about 68% versus 41% in 2007, suggesting more limited access to credit by the poor. Also, a higher proportion of non-poor than poor households had membership in groups, indicating less collective action among the poor than non-poor households.

Results on market participation across selected commodity groups (maize, vegetables, fruits and dairy) showed that poor households had significantly lower production volumes and lower market participation compared to their non-poor counterparts. The poor also lagged behind in adoption of productivity enhancing inputs such as fertilizers and improved seeds. The low adoption levels of technology coupled with low literacy levels, small land sizes, low asset endowment and low access to credit limited the capacity of the poor to produce surpluses for the market. Yet, among the households that exited poverty there were tremendous increases in market participation for the various commodities. Among the households that descended into poverty, market participation either declined or increased marginally. These results point to a strong relationship between market participation and exiting poverty, and indicate the role that access to productive assets, which improves a household's capacity to produce marketable surplus, can play in poverty reduction. In terms of market concentration, results showed that the top 20% of the selling households accounted for over 70% of the marketed volume for maize, vegetables and fruits and about 60% of the marketed volume of milk, suggesting that the commodity markets are generally very highly concentrated and majority of the smallholders are essentially subsistent. Improving production levels for these households is therefore critical, and need to be considered alongside any measures that are aimed at reducing transaction costs that hinder access to markets.

With regard to factors that could enhance market participation for the poor, land size played a significant role, suggesting that any hope for the poor to make any meaningful gains from agriculture lies in improving productivity of their land as well as improving their access to land. Collective action was also important in enhancing market participation. Collective action facilitates access to information and, in some instances, credit. Both credit and information are critical in accessing market opportunities. Therefore, increasing social capital among the poor can be of great value in enhancing the households' access to markets.

POLICY IMPLICATIONS: This study revealed that low adoption levels of technology coupled with low literacy levels, small land sizes, low asset endowment and low access to credit limited the capacity of the poor to produce surpluses for the market. In terms of factors that could enhance market participation for the poor, the study found land size and membership in farmer organizations to be playing a significant role. These results suggest that: (1) any hope for the poor to participate in markets and make any meaningful gains from agriculture lies in improving productivity of their land as well as improving their access to land. Input subsidy schemes targeting this group would be an intervention for consideration in efforts aimed at improving productivity of land; (2) collective action is important. It facilitates access to information and, in some instances, credit. Both credit and information are critical in accessing market opportunities. Therefore, increasing social capital through promotion of collective action among the poor can be of great value in enhancing the poor's access to markets.

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