



**SPARC**

Supporting Pastoralism  
and Agriculture in Recurrent  
and Protracted Crises

# TRANSFORMING PASTORAL LIVELIHOODS THROUGH MARKET INTERVENTIONS: DOES THE IMPACT MATCH EXPECTATIONS?

Lessons from a decade of investments in Somali Region, Ethiopia

Claire Bedelian and Simon Levine



## Acknowledgements

This technical report is published through the Supporting Pastoralism and Agriculture in Recurrent and Protracted Crises (SPARC) programme, which is supported by the United Kingdom's Foreign, Commonwealth & Development Office (FCDO).

We are grateful to the team at Mercy Corps Ethiopia for all their support during the study – from helping with fieldwork to sharing background, context, and insights into the programmes and interventions covered in this report. Many thanks to Kemal Hashi for his help on the ground, and special thanks to the respondents who gave their time to share their experiences with us.

Thanks to Dr Saverio Krätli (Institute of Development Studies) and Carmen Jaquez (Mercy Corps/SPARC) for their comments on an earlier draft of the report, and Mauricio Vazquez (ODI) for signing off on this brief.

The authors would like to thank Julie Grady Thomas and the SPARC Communications Team, along with Nina Behrman for copyediting, Lucy Peers for layout and design, and Becky Owens for proofreading this report.

## About SPARC

Climate change, armed conflict, environmental fragility and weak governance, and the impact these have on natural resource-based livelihoods, are among the key drivers of both crisis and poverty for communities in some of the world's most vulnerable and conflict-affected countries.

Supporting Pastoralism and Agriculture in Recurrent and Protracted Crises (SPARC) aims to generate evidence and address knowledge gaps to build the resilience of millions of pastoralists, agro-pastoralists and farmers in these communities in sub-Saharan Africa and the Middle East.

We strive to create impact by using research and evidence to develop knowledge that improves how the UK Foreign, Commonwealth & Development Office (FCDO), donors, non-governmental organisations, local and national governments, and civil society can empower these communities in the context of climate change.

**How to cite:** Bedelian, C. and Levine, S. (2025) *Transforming pastoral livelihoods through market interventions: does the impact match expectations? Lessons from a decade of investments in Somali Region, Ethiopia*. Technical report. London: Supporting Pastoralism and Agriculture in Recurrent and Protracted Crises (SPARC) (<https://www.sparc-knowledge.org/publications-resources/transforming-pastoral-livelihoods>).

# TABLE OF CONTENTS

|  |    |
|--|----|
| <b>Boxes and figures</b>   | 5  |
| <b>Executive summary</b>   | 6  |
| Why conduct this study?  | 6  |
| Transforming pastoralism by supporting livestock trading enterprises   | 6  |
| Transforming pastoral productivity by creating a source of investment capital                                | 7  |
| Transforming the pastoral economy through a mobile money service   | 8  |
| Conclusions: drawing wider lessons   | 9  |
| <b>1. Introduction</b>   | 11 |
| 1.1 Why conduct this study?  | 11 |
| 1.2 A strategy for achieving pastoral resilience in Ethiopia   | 12 |
| 1.3 Methodological approach  | 13 |
| <b>2. Transforming pastoralism by supporting livestock trading enterprises</b>                               | 14 |
| 2.1 The transformation logic   | 14 |
| 2.2 How well did investments with large formal traders change their market network dynamics?                 | 14 |
| 2.3 How far did this create a price incentive for informal smaller traders to source higher-quality animals? | 14 |
| 2.4 Was there any increase in demand for quality livestock from the region?                                  | 17 |
| 2.5 Was there any impact on animal pricing and profits?  | 18 |
| 2.6 Have there been changes in livestock productivity?   | 19 |
| 2.7 Has this helped improve household resilience?  | 19 |
| <b>3. Transforming pastoral productivity by creating a source of investment capital</b>                      | 20 |
| 3.1 The transformation logic   | 20 |
| 3.2 Did poor households have new opportunities to take loans?  | 20 |
| 3.3 Were loans used for productive investment?   | 21 |
| 3.4 Have investments increased incomes?  | 22 |
| 3.5 Has this helped improve household resilience?  | 23 |

|   |    |
|---|----|
| <b>4. Transforming the pastoral economy through a mobile money service</b>              | 24 |
| 4.1 Did a mobile banking service improve access to mobile money for remote communities? | 24 |
| 4.2 Has the mobile service increased income?  | 24 |
| 4.3 Has the mobile service led to improved household resilience?                        | 25 |
| <b>5. Conclusions: drawing wider lessons</b>  | 26 |
| 5.1 Asking the necessary questions  | 26 |
| 5.2 Using theories of change actively   | 26 |
| 5.3 Dealing with informality  | 27 |
| 5.4 Is resilience about transformation?   | 28 |
| 5.5 Market-based approaches to development  | 29 |
| 5.6 Understanding the basics of pastoral economics                                      | 30 |
| 5.7 Elite capture as a gift   | 31 |
| <b>References</b>   | 32 |

# BOXES AND FIGURES

|                 |   |    |
|-----------------|---|----|
| <b>Box 1</b>    | The two parallel export markets for livestock                                 | 16 |
| <b>Box 2</b>    | Does profit maximisation always drive production strategies?                  | 18 |
| <b>Figure 1</b> | Theory of change of the layered approach to transforming the pastoral economy | 15 |

# EXECUTIVE SUMMARY

## Why conduct this study?

In many countries with high poverty and where markets are considered under-developed, efforts to transform rural economies have adopted market-centred approaches. According to theory, market forces drive efficiencies and enable price signals to encourage investment where returns are highest, leading to raised incomes. Some proponents of this approach have attributed poverty in pastoral areas in Africa to a lack of market orientation in the production system, which suggests that market approaches would be appropriate for development.

The underlying theory of change is that more efficient markets will lead to better prices for higher-quality animals, incentivising pastoralists to invest more in fewer, higher-quality animals, bringing higher incomes and improving the environmental sustainability of the rangelands. To achieve this, pastoralists must also have access to an investment infrastructure: capital, inputs and services such as veterinary care and technical knowledge. For over a decade in Somali Regional State, Ethiopia, efforts have been made by international aid actors to change livestock market functioning by working directly with traders, while supporting this complementary investment infrastructure.

Evaluations show that implementation has been successful – but little is known about its impact on pastoral production systems or pastoral livelihoods. This gap in evidence is widespread in the aid sector. Evaluation and learning are resourced from project budgets and rarely take place outside the project timeframe. Impact on resilience, though, can be seen only in the years after the end of external support. As part of a series of studies by SPARC, returning to resilience-building investments several years after they ended, this report reviews the findings of an unpublished impact assessment of market-based projects in Somali Regional State, Ethiopia, focusing on three project components:

- efforts to change the livestock market by working with traders to find new market opportunities
- the establishment of a microfinance institution, to make investment capital available
- the establishment of a mobile money service.

This report does not repeat the detailed examination of specific successes or failures, but instead takes three project components as case studies of a particular kind of market-based approach to rural development. It is not concerned with evaluating particular projects but rather with drawing lessons about a programmatic model and how best to invest in resilience-building in the pastoral economy.

## Transforming pastoralism by supporting livestock trading enterprises

The projects helped around 16 large-scale traders to expand trade networks nationally and internationally, to increase their connections to formal financial institutions, and with financial support to establish a capacity to fatten animals. The aim was to create a year-round demand



Pastoralist walking his shoats in Kebribeyah. © S. Sheridan/Mercy Corps

for higher-quality animals from the pastoral areas, leading to higher prices for producers and thus to greater investment by herders in producing higher-quality animals for market. The support helped traders to expand their enterprises but this did not drive subsequent change in the value chain. Local traders did not report changes in demand for animals of better quality. The supply of animals did not change, because supply was determined by the pastoralists' need to sell animals, not by price. The development model also ignored the huge, informal cross-border trade in animals to Somalia, Somaliland and Djibouti, where market demand is more consistently high (Aklilu and Catley, 2009).

Supply does not meet market demand for high-quality animals because of a combination of conditions, such as recurring droughts, together with the pastoralists' need to keep younger, productive animals to rebuild their herds. This results in the sale of thinner, older animals that are less attractive to buyers and difficult to sell. Livestock in good condition always command high prices but this has not stimulated an intensification of production precisely because the high prices are caused by the inability of most producers to produce the required animals. Herders cannot prioritise investments in animals for offtake without risking the survival or the size of the herd as a whole, and with it their future livelihood. The lack of any change in production strategies and market behaviour of pastoralists as a result of the intervention was confirmed by pastoralists and by local traders.

## **Transforming pastoral productivity by creating a source of investment capital**

The project sought to create a source of investment capital by supporting the establishment of the first microfinance institution (MFI) in Ethiopia to provide financial services based on Islamic Sharia principles. The MFI has proved financially successful and is now operating as a formal bank, with over 40,000 active loan clients. Small solidarity group loans (up to \$2,775) are the most popular, especially among women's savings groups. The overall value of the institution is

not in question; neither is the role of international aid in setting it up. This report uses the bank's development as a case study to look specifically at the underlying model of driving livelihood transformation by the improvement of access to credit.

The bank operates over 50 branches targeting both urban and rural residents but the vast majority of loans are taken by urban people involved in retail, petty trade and small-business activities. There is limited access, and even more limited uptake, by those in remote rural areas. Many traders and small-business owners preferred to rely on family loans: pre-existing informal credit networks might have been under-appreciated by the project logic, which interpreted the lack of a formal MFI as a constraint to business investment and entrepreneurship.

Loans clients use borrowed funds for various investments, including businesses, productive activities and the acquisition of assets such as purchases of land. Few borrowers had taken loans to finance production-based livelihoods (agriculture or herding), a sector that is largely financed by informal credit networks. There is little evidence to show that 'layering' a source of investment capital over other interventions, including market development and promoting input supply, could support the transformation of rural livelihoods.

Those who had borrowed successfully, largely peri-urban residents engaging in small businesses, had increased their incomes, but modestly. Reported profits of around \$100 per month are useful additional income, although not a route out of poverty. Their contribution to resilience has been in allowing households to accumulate some economic buffer. Livelihood diversification has proved less of a contribution to resilience, because droughts (the main shock) bring a collapse in demand for other goods and services, and many small businesses cease trading. Livelihood diversification has thus not always helped people diversify risk.

## **Transforming the pastoral economy through a mobile money service**

The project supported the establishment of the first agent-based mobile money service in Somali Region, with the aim of extending banking services to hard-to-reach areas. The service has undoubtedly been successful, with an estimated 1 million users. Other mobile money services now also operate in the region.

Access to the network exists even in some remote areas. Urban traders use the mobile service for transactions with rural traders, and herders rely on it for fund transfers when migrating in search of water and pasture. Cultural restrictions have limited women's willingness to visit agents when men are present, and use is more pronounced among the younger generation.

The service is widely used for both personal and business transactions. People use mobile transfers to pay for goods and services, receive salaries, and send and receive remittances. Humanitarian agencies also sent transfers through mobile money during the drought crisis. Money can be stored in mobile wallets, providing a secure way of saving. Business owners, from petty traders to wholesalers, find that it has increased efficiency and brought new business opportunities, connections with new partners and an ability to expand their customer reach. This study was not designed to quantify the impact on the economy but there were many testimonies that mobile money transactions had improved profitability and business growth. This is felt strongly in remote regions, where it has facilitated pastoral livelihoods, allowing those migrating with livestock to purchase essentials such as feed or water without travelling to town.

According to users, the greatest contribution of a mobile money transfer service to resilience has been facilitating remittances during crises such as drought, enabling help to arrive from the diaspora and for urban relatives to assist those in rural areas. It has also supported emergency cash transfers. Interviewees described long queues at mobile agents during the recent droughts.

## **Conclusions: drawing wider lessons**

### **Asking the necessary questions**

Although the projects had detailed monitoring and information systems, little was known about what had happened to the lives of the ultimate intended beneficiaries. However, some of the fundamental flaws in the underlying programme model were not hard to expose. It is relatively easy to change the standard approaches to monitoring information systems but, without the change, millions of dollars will continue to be invested in models that may not be delivering the intended impact because of underlying false assumptions. Agreement is needed between those financing and those implementing projects; as well as on investments in the design of monitoring frameworks that will deliver better understanding of which approaches are working and how to adapt programmes where underlying assumptions prove not to hold true.

### **Using theories of change actively**

The project was working on economic theories to predict how people would change their behaviour. Economic theory alone can never be enough. Expecting pastoralists to abandon their approach to livestock-keeping in order to embrace market-oriented production also requires a convincing and evidenced social theory: there was simply no reason to expect it to occur. Theories of change should be less aspirational and instead engage with the perspectives and motivations of every stakeholder to understand how they are likely to react in different circumstances. Theories of change should be used actively, so that underlying assumptions are continually identified. Their feasibility should be tested before and during implementation.

### **Dealing with informality**

In many countries, interpersonal economic and credit relations, export markets and the normative codes that govern behaviour, lie in what is called 'informality', grounded in social relations rather than formal institutions or legal codes. Aid agencies often struggle with the informal in all its dimensions – economic, moral, legal and institutional. However, if informality is ignored by a theory of change, then its appropriateness for the real world – for 'the context' – must be in doubt. A good test in assessing the merits of any proposed programme and its theory of change is to see how well it recognises, understands and engages with informality.

### **Is resilience about transformation?**

Changes took root when they were closest to what people were already doing or wanted to do. Credit helped people already living in a business environment but did not succeed in stimulating productive investment in livestock-keeping. The mobile money transfer system was economically transformational because it did not seek to be transformative – it just made it easier for people to do what they were already doing.

It seems likely that resilience can be built more quickly by taking 'shorter steps', which demand less change culturally, psychologically, economically, institutionally and/or politically. Each change will bring other potential changes closer, becoming what is called 'the adjacent possible'. This requires a cultural shift, especially in the aid sector, because agencies have to make fewer promises – and donors have to demand less. This is incompatible with the current set of incentives around project funding.

### **Market-based approaches to development**

This report examines a particular kind of market-based intervention that relies on a profound assumption that markets are more 'rational' than other ways of living. This is in contradiction to current pastoral societies. The approach also rested on the assumption that change at the top of the market chain would be transmitted down the chain to producers by market forces, with price signals driving changes in decision-making among small livestock producers, and that market forces would result in a wide distribution of any benefits of change. All three of these assumptions proved highly questionable. This failing was driven by an ideological approach to development that was not based on realistic assumptions because it lacked an informed theory of change based on an understanding of the society and the economy.

### **Understanding the basics of pastoral economics**

The existing logic of pastoral livelihoods has first to be understood before trying to work with pastoralists. There is little point in designing a change pathway that can work only once a new economic culture has become entrenched: any theory of change has to work from its starting point, being able to operate in the pastoral status quo. Pastoralist livelihood strategies do not seek to maximise annual income from livestock sales: this is rational in the face of a cycle of good and bad years, and where economic profit is only one among a number of objectives in their lives. Pastoralists' decision to remain cash-poor and keep the largest herd possible is rational also as an economic choice, because of the relatively high returns from livestock, at around 27% p.a., and 33% p.a. for goats and sheep (Behnke, 2010). There is strategic logic behind the observation that more markets have not led to increased sales or poverty reduction in pastoral societies (Catley, 2024).

### **Elite capture as a gift**

Increasing livestock commercialisation in pastoral areas is known to drive increasing wealth stratification (Aklilu and Catley, 2009; Hesse and Catley, 2023). Combined with investing most resources directly with a few large-scale traders, it was always highly likely that any benefits would exacerbate economic disparities and not be equally shared by the smaller producers. Recognition is needed of the extent to which power dynamics have resulted in the hegemony of models of 'development' that disproportionately serve the interests of the better off and more powerful.

# 1. INTRODUCTION

## 1.1 Why conduct this study?

Donors and international agencies use market-centred approaches in several countries in efforts to transform rural economies regarded as unproductive and with high rates of poverty. According to theory, market forces drive efficiencies. If markets can be made to work more effectively, then price signals will encourage investment in ventures that have higher returns.<sup>1</sup>

Pastoral communities in many parts of Africa are often regarded as among the poorest and most vulnerable. For proponents of market-driven economic development, the pastoral economy has appeared to be a perfect place to apply this approach because the perceived poverty and vulnerability of pastoralists are both attributable (it is argued) to a lack of market orientation in the production system.

The underlying logic of the market-based approach has at its heart a belief that a negatively self-reinforcing circle can be turned into a virtuous circle. Pastoralists currently concentrate on the quantity of animals in the herd, not the quality of each animal. As a result, and because of the resulting high transaction costs, sellers receive low prices for their low-quality animals; and the over-population of animals on the rangeland lowers its productivity (Sandford, 2006; Sandford, 2011). Productivity and incomes are (believed to be) low, because of this low-input/high-population production system.<sup>2</sup> Because the market has developed to buy low-quality animals, there is little premium for higher-quality animals and therefore little incentive to invest in high-quality production, maintaining the situation of low incomes and (perceived) low productivity. However, if higher-quality animals received higher prices, pastoralists would (it is believed) have an incentive to produce for quality. Higher incomes from smaller, higher-quality herds would generate enough income to purchase the inputs needed to sustain this production. It is also argued that this would result in fewer livestock, reducing pressure on the rangeland and thus improving its environmental sustainability. This potential can be unlocked only if there is a reliable market for good-quality animals offering high enough prices.

Following the drought crisis in the Horn of Africa in 2010–2011 and the subsequent surge of interest in the need for building resilience, market-based approaches to making the pastoral economy more resilient – and making pastoralists more economically resilient – have been applied for over a decade in Somali Regional State, Ethiopia.

These investments continue to be made, despite the fact that little is known about their impact on pastoral production systems and on pastoral livelihoods. Projects have been evaluated, and seen to be successfully implemented, but these learning exercises have not attempted to trace the chain of impacts to the level which had justified the investments: the transformation of the households' economy in pastoral areas. This gap in evidence is a sector-wide problem. Evaluation and learning are resourced from project budgets and rarely take place outside the

---

1 Pain and Levine (2024a) offer a critique of the assumptions hiding in this approach as it was applied to the rural economy in Afghanistan.

2 Low productivity is a dominant perception. How far perception reflects reality is beyond the scope of this report, but several studies have argued that pastoralism is more productive than 'modern' ranching (WISP, 2006).

project timeframe. Since resilience (and project sustainability) can only be seen in the years after the end of external support, this means that surprisingly little has been learnt about how best to support people to improve their ability to cope with droughts and other shocks.

SPARC has conducted a series of studies<sup>3</sup> returning to resilience-building investments several years after they ended, to learn what happened when external agencies tried to introduce change, to trace impact chains down to household level, and to see how far the assumptions on which interventions were based have held true.

This report is based on an unpublished impact assessment of three consecutive market-based projects implemented in Somali Regional State, Ethiopia. It does not repeat the detailed examination of the original study, because its concern is not with the specific successes or failures of individual projects. The projects were known to have been well implemented and to have delivered the outputs well: indeed, this was a reason for including them in the series of studies. SPARC's concern is instead to assess a programmatic model or a broad theory of change: how well are market-centred approaches to livelihood transformation succeeding in transforming livelihoods? This report uses the three project components as case studies of those approaches, to examine what can be learnt about how best to invest in resilience-building.

## 1.2 A strategy for achieving pastoral resilience in Ethiopia

Ethiopia has been one of the main recipients of humanitarian assistance almost every year for decades as a result of conflicts and frequent climate-related shocks. For many years it has been recognised that this situation can only be addressed through long-term efforts to improve livelihoods or improve resilience. From 1988 to 2020 the government, with support from international donors, provided around \$11 billion of investments in such resilience-building.<sup>4</sup> Over the past two decades, this has increasingly included support to pastoral livelihoods in the drylands.

Some programmes have taken a market-based approach to transforming pastoral livelihoods, including in their strategy efforts to strengthen the local market economy, combined with support to pastoralists to take advantage of commercial opportunities that the market would make available. The underlying logic of this approach was described above. Pastoralists faced more than one constraint if market opportunities and incentives were to transform their livelihoods. In order to produce animals that could attract higher prices, pastoralists would also need (it was believed) veterinary services, other inputs (e.g. high-quality feed), technical knowledge, and access to financial services to finance higher-input production. A 'layered' approach was therefore adopted, with parallel components addressing specific constraints. The theory was that by 'layering' these components on top of each other, transformational change would be possible. Figure 1 illustrates this layered approach, setting out a simplified theory of change with four layered 'interventions' to achieve transformational outcomes for the pastoral economy.

---

3 The other studies are: Levine et al. (2024) on public works programming; Agol (2025) on three project types in Turkana, Kenya; Benoudji et al. (2025) on the introduction of climate-smart agriculture in eastern Chad; and Balfour et al. (2025) on building resilience in the drylands through the new permanent water sources.

4 Data developed by DevelopMetrics on Resilience Interventions in the Horn of Africa. Data available on the [Resilience Dashboard](#).



This study looks first at the overall chain starting from interventions to change the livestock market (Section 2). It does not look at all the subsequent layers which form links in the theory of change (e.g. input suppliers, veterinary care), focusing instead on the overall outcomes of the model. This is followed by two stories about interventions related to financial services, the establishment of a microfinance institution (Section 3) and of mobile money services (Section 4). The components were selected partly because they were deemed to be the most successful by the implementing organisation.

### 1.3 Methodological approach

The study assessed the medium-term impacts on people's lives and livelihoods of this market-based development approach approximately five years after the conclusion of the components studied. A 'programme theory' or 'theory-based impact assessment' approach was adopted, following the impact chains of cause and effect from the activities and inputs of the interventions down to changes at household level. This gave a single analytical framework into which a wide variety of methods and information sources could feed.<sup>5</sup> Projects had been implemented in Somali, Oromia and Afar Regional States in Ethiopia, but the impact assessment focused only on Somali Regional State. Primary research was conducted in March 2023 in Jigjiga town, capital of the Somali Region, Kebribeyah district in Fafen zone, Daghabur district in Jarar zone, and Erer district in Sitti zone. Forty-two people were interviewed, including bank branch managers, clients and non-clients of the different institutions supported, traders and livestock producers. A further 76 people (43 men and 33 women) participated across 12 group discussions.

<sup>5</sup> This approach is described in more detail in an accompanying report in this series, Levine et al. (2024).

# 2. TRANSFORMING PASTORALISM BY SUPPORTING LIVESTOCK TRADING ENTERPRISES

## 2.1 The transformation logic

By enhancing livestock trade in Somali Regional State, the project expected to create a market that would act as the driver of transformational change in the relationship between pastoralists and their livestock, leading to higher incomes and greater resilience. The intervention worked with around 16 traders operating at large scale, to help them to expand their trade networks nationally and internationally and to increase market efficiencies, e.g. through increasing the traders' connections to formal financial institutions. They were given financial support to set up livestock holding grounds and feedlots so that they could fatten animals. Some support was also given to small-scale traders, providing them with inputs such as weighing scales so that they could reward the sale of heavier animals with higher prices. The aim was to create a year-round demand for higher-quality animals from the pastoral areas. The broad theory of change is summarised in Figure 1.

## 2.2 How well did investments with large formal traders change their market network dynamics?

There were significant benefits for the large-scale traders who received the bulk of the direct assistance. Financial, technical and training support helped them to expand their enterprises nationally, in Kenya and in the Gulf, and to improve their physical infrastructure for cattle fattening. Their relationships with aggregators (or mini-collectors) of livestock in rural areas, facilitated by the programme, allowed them easily to procure larger amounts of livestock.

## 2.3 How far did this create a price incentive for informal smaller traders to source higher-quality animals?

The justification of the project model was that benefits would trickle down the value chain to smaller traders. This did not happen to any great extent. Local traders did not report any changes in their demand for animals of better quality. The drivers of the supply of animals did not change: these were determined by pastoralists' need to sell animals, not by price, and this, together with grazing conditions, determined the quality of the animals offered to the market. There had been no additional trade in animals being fattened by intermediaries, because few others could adopt the same lucrative practices as the larger traders, fattening animals for export markets. Others purchased fodder only for animal maintenance. Their constraints are complex, and it was beyond the scope of this study to investigate them in full, but they included: a lack

FIGURE 1: THEORY OF CHANGE OF THE LAYERED APPROACH TO TRANSFORMING THE PASTORAL ECONOMY

- Layered interventions
- The intended consequences of those interventions

|   |  |  |
|---|--|--|
| <b>1</b>  | <b>Support offered to large-scale formal traders to find reliable market for animals of high quality</b> |  |
|   | <b>a</b>   | Formal traders have increased demand for high-quality animals                                    |
|   | <b>b</b>   | Informal smaller traders have price incentive to source higher-quality animals                   |
|   | <b>c</b>   | Higher demand for high-quality animals increases prices in local markets                         |
|   | <b>d</b>   | Price signals incentivise pastoralists to invest in producing and selling higher-quality animals |
| <b>2</b>  | <b>Support offered to input suppliers</b>  |  |
| <b>3</b>  | <b>Support offered to veterinary care providers</b>  |  |
| <b>4</b>  | <b>Support offered to MFI to provide accessible loans</b>  |  |
|   | <b>a</b>   | Pastoralists borrow investment capital to invest in producing higher-quality animals             |
|   | <b>b</b>   | Pastoralists' herd management becomes market-oriented  |
|   | <b>c</b>   | Pastoralists obtain higher incomes from fewer animals  |
| <p><b>The overall objective</b><br/>Transformation: pastoralists are more resilient in a more environmentally sustainable economy</p> |  |  |

Source: Authors' own

of business registration and access to enough working capital; challenges in sourcing enough quality feed provisioning for fattening practices in rural areas; and high costs of quality feed.

The model also ignored a critical dynamic in local livestock markets: the huge informal cross-border trade in animals to Somalia, Somaliland and Djibouti, where market demand is more consistently high (Aklilu and Catley, 2009). The Ethiopian government has made this trade illegal, and a donor-funded project following compliance regulations could work only with traders operating in the formal, legal sector. However, cross-border markets, operating with trusted intermediaries, offer a lower transport and logistical burden and higher prices. This provided competition for those small local traders who were seeking to aggregate for the formal market as supported by the project.

#### **BOX 1: THE TWO PARALLEL EXPORT MARKETS FOR LIVESTOCK**

Effectively, livestock exports take place in a highly segmented market. Large traders, such as the exporters supported by the project, maintain year-round sales, a few using fattening stations to bring animals to export market standards even in years of bad pasture. Animals are sorted and sent to the most strategic terminal market based on the animal's age, size and overall body condition. Traders are able to maintain a degree of consistency in market operations by sourcing from diverse markets across a large region, despite fluctuations in livestock quantity and quality during a drought, and they can take advantage of seasonal market peaks (and, of course, troughs which are opportunities for some to buy cheaply).

In contrast, small-scale traders purchase livestock locally and sell them in both local and international markets. Exports are focused on markets like Hargeisa, Berbera and Djibouti but, through informal trade, which they often find more profitable than selling animals to the larger exporters (i.e. in the other 'segment' of the market). Interventions by international organisations have not supported informal – or illegal – international trade for obvious reasons. These smaller-scale operations are more affected by drought, as they can engage in only maintenance feeding rather than fattening malnourished animals on any scale.

Source: Authors' own

The last decade has seen other changes in market dynamics, unrelated to any project intervention. Again, these were largely beyond the scope of this study, which was focused on impact tracing of particular intervention types. However, trader informants talked of improvements in communication and networks that had enabled larger traders, including international traders, to penetrate the rural areas of Somali Regional State. This reportedly caused many small-scale traders to lose market share.

Changes have sometimes been quite localised. Traders in Erer district highlighted a decline in livestock trading activity, partly due to shifting market demands and an increasing preference for young goats, which are scarce in Erer because of rangeland and weather conditions. Buyers, including importers from Djibouti and Somalia, have redirected their activities to areas where they can find the animals that they require. The project model in Figure 1 assumes that each market actor plays their allotted role in the chain, e.g. as small-scale trader or as exporter.

However, large-scale traders were able to make additional profits from vertical expansion down the value chain, taking advantage of their competitive advantage in scale.

In summary: the dynamics of the livestock market are far from simple. From the perspective of the intervention model, the causal chain in the theory of change broke down to a considerable extent between changes which were effected for larger traders and the expected changes for smaller traders, which did not occur.

## **2.4 Was there any increase in demand for quality livestock from the region?**

In principle, the failure of the previous link in a causal chain means that the subsequent links cannot have operated. If support to larger traders did not result in changes trickling down to smaller traders in the area, then there are no mechanisms by which it can have brought about a change in demand locally for quality animals in the market. It is still worth looking, though, at the various other factors that have brought about market changes during the same period, if only to verify that any observed changes are adequately explained by these other factors.

Over the past five to ten years, there have been many changes in livestock trading in Somali Regional State, caused by a number of factors. As discussed above, improved communications have encouraged new entrants to purchase animals in rural areas. However, the market has always been as responsive to market demands as possible, including for the export market, and particularly to demand from the Arabian Peninsula. Festivals such as Eid al-Adha and Ramadhan have long been peak demand seasons with much higher prices, especially for goats. Offtake markets are oriented towards the different pulls from such end markets but are often unable to meet the quantity and quality required.

Livestock trade is largely shaped by the conditions that determine production in the pastoralist system. Recurring droughts in the region, for example, result in thinner, older animals that are less attractive to buyers and difficult to sell. Although the market remains favourable for livestock in good condition, such animals are scarce and always commanded high prices. However, these high prices have not stimulated an intensification of production precisely because they are caused by the inability of producers as a whole to produce the required animals for the market in the context of frequent or lengthy droughts. The economic logic of pastoralist production is that herd management has to prioritise maintaining the herd for future production, and the animals needed for retention will be the animals most protected in difficult situations such as droughts. Herders cannot prioritise investments in animals for offtake without risking the survival or the size of the herd as a whole, and with it their future livelihood (Box 2).

Local factors also play a role. Conflict between ethnic groups and clans in Somali Regional State and Afar Regional State has disturbed market access and linkages, causing displacement. Even where traders can move in conflict areas, the additional risks and costs to them (e.g. of negotiations) increase transaction costs, and the movements of the suppliers (herders) with their animals, may be more restricted.

## BOX 2: DOES PROFIT MAXIMISATION ALWAYS DRIVE PRODUCTION STRATEGIES?

The change theory underpinning the market-based interventions studied assumes that pastoralists will be profit-maximising – if changes in prices reward a different production strategy with higher incomes, then pastoralists will change their production strategies.

Pastoralist production does indeed show strong economic logic, but economic logic does not necessarily lead in all cases to production that can lead to theoretically optimal profits in the short term. As discussed above, herders have to prioritise the sustainability of their herds in the longer term, i.e. prioritising the survival of breeding animals over the quality of animals for offtake.

However, there are other reasons why the envisaged production strategies might not be optimal for pastoralists who do not live in a theoretical, risk-free world. Maintaining higher-quality animals might restrict their mobility. It may also lead to higher risks from theft. Greater dependence on the market exposes them to greater risks of price volatility and market disturbance, as for example happened in 2020 and 2021 when the main export market for quality animals disappeared with the closure of the Hajj due to the COVID-19 pandemic. It also increases their dependence on market-sourced inputs being available at predictable prices at the right time – a further source of risk.

Animals play critical non-market functions in maintaining the social bonds that are not just an objective in themselves but also pastoralists' main economic safety net. An animal far more expensive than those owned by others may attract demands or requests in many different forms, further exposing the herder to risk.

Profit maximisation is a luxury that cannot necessarily be afforded by those whose livelihoods are geared to maximising their resilience in the face of multiple risks. Unless a market-based strategy can offer a highly reduced risk profile, it may come at a high price for pastoralists.

Source: Authors' own

## 2.5 Was there any impact on animal pricing and profits?

Changes to the trading networks of large-scale formal exporters have not brought any incentives for smaller livestock traders to change their practices. They continue to react to a trading environment that is inherently highly volatile because changing weather conditions have a large effect on production and supply.

Prices of animals have fluctuated significantly over the past decade, as is normal, particularly because of seasonal and annual changes in the availability and quality of livestock as a result of changes in weather and other conditions affecting grazing. Recently, there has also been general inflation in the economy, which hit 38% in 2022, and drought, causing producers and traders to struggle to maintain profitability despite higher prices in nominal terms. However, there has been no overall real-terms increase in prices of animals, and no causal chain linking project interventions to any increases in prices through improved animal quality or market dynamics.

## 2.6 Have there been changes in livestock productivity?

Since the expected causal chain broke down and did not lead to pastoralists being offered higher prices than before for animals of better quality, there has been no significant change in the incentives for producers as a result of the interventions. The production strategies and market behaviour of pastoralists have not changed as a result of the intervention. This has been confirmed by both pastoralists themselves and local traders.

Some pastoralists have purchased inputs for their animals but this has been in line with their regular production practice: supplementary fodder and water were purchased, where necessary, to keep their animals alive during the long drought. This has had nothing to do with market demands.

When interviewed, producers made it clear that their overall strategies have remained the same. Their strategy for coping with recurrent droughts is maximise herd growth, not income from sales, to increase the number of animals that they expect to survive each shock (see Box 2). If livestock multiplication is looked at as a rate of return on capital, then each additional animal offers a much higher return than any other economic opportunities in these areas (Aklilu and Catley, 2009). Using figures from Behnke (2010) on the total livestock asset value in pastoral and agro-pastoral systems in Ethiopia, and their total annual economic production from a herd in live sales and milk production, the rate of return on capital invested in livestock is 27% p.a. This excludes other economic benefits of the livestock, e.g. value as draught animals in agro-pastoral systems. The pastoralists' approach to the market is thus highly rational in three ways: maximising their rate of return; as a risk management strategy; and in supporting their livelihoods as a whole.

In households with relatively few livestock, i.e. an increasing majority (Aklilu and Catley, 2010), livestock are sold to meet income and consumption needs, and sales are based on family requirements. Market demand plays a minor role, or none, in their production decisions. Producers naturally prefer to sell their animals in markets where they can fetch higher prices and at times when prices are seasonally high, but these decisions are taken on an ad hoc and opportunistic basis when they need to make sales, rather than being a strategic market response.

## 2.7 Has this helped improve household resilience?

The final research question in the chain was about whether the intervention had led to higher incomes and greater resilience. Because the intervention's intended causal chain failed at the stage of changing the local market dynamics, there is no reason to pursue this question. The expected changes in the pastoral economy have not resulted.

It appears that the large-scale traders who were directly assisted by the project have enjoyed improvements in incomes and in their resilience, as a result of their livelihood diversification into investments in agricultural land and rental properties. However, this was not the purpose of the intervention. The objective was to change, even to transform, the livelihoods of small-scale pastoralists over time, and, despite the implementation successes of the project, this theory of change has not proved fruitful. These investments by the wealthy into land and property are likely to have indirect impacts. Investments into privatised land may further diminish access to rangelands for others. Increasing inequality (caused by substantial increases in wealth of the already wealthy) may have consequences that are both positive and negative – further productive investment in the local economy may bring new opportunities but also relative impoverishment and increased concentration of economic power, at the expense of the poor and less well off.

# 3. TRANSFORMING PASTORAL PRODUCTIVITY BY CREATING A SOURCE OF INVESTMENT CAPITAL

## 3.1 The transformation logic

Investment capital was seen as essential both to support new livelihood strategies for people transitioning out of pastoralism and to unlock a potential productivity transformation in small-scale livestock production, as discussed in the previous section. The project sought to create a source of investment capital partly by supporting the establishment of the Somali Micro-Finance Institution (SMFI), the first microfinance institution (MFI) in Ethiopia to provide financial services based on Islamic Sharia principles. This was intended to give many people access to financial services for the first time, which would support entrepreneurial activities and livelihood investments to enable poor households to step out of poverty and build their resilience to future shocks.

SMFI was provided with cost-share grants and technical and training support to make available small loans to micro and small businesses, livestock traders, petty traders and pastoralist and non-pastoralist households in areas where access to formal finance was previously limited. By 2019, the SMFI had expanded to 43 branches across Somali Region, with over 300,000 savers and almost 40,000 borrowers. In 2022, the SMFI became Shabelle Bank after securing a banking licence from the National Bank of Ethiopia, which would allow it to expand products and service offerings.

The study tested the assumptions that had justified this investment: that it would lead to loans becoming accessible to poor pastoralist and non-pastoralist households in areas previously without financial services; that poor households would use this opportunity to take loans for investments in livelihoods; that these investments would lead to higher incomes; and that this would improve the resilience of poor pastoralist and non-pastoralist households.

## 3.2 Did poor households have new opportunities to take loans?

Since the establishment of SMFI, now Shabelle Bank, loan uptake has steadily increased, reaching over 40,000 active loan clients by 2021–2022, according to the bank.<sup>6</sup> The bank offers a range of loan types, including solidarity group loans (from a minimum of \$130 up to \$2,775), which are the most popular, especially among women's savings groups. Larger loans are available as micro-enterprise sector loans and job-creation loans for young adults.

---

<sup>6</sup> These figures were provided from the bank during an interview.

Shabelle Bank operates under Islamic banking principles, offering interest-free transactions and loans on a profit-sharing basis. Previously, clients faced barriers to loan access due to non-compliance with Sharia Law. The bank's cultural alignment, being 'Somali-born' and operating in local languages, has fostered trust, eased communication and resonated with clients, making it the preferred choice for many. The bank has clearly been successful and is providing useful services to a growing client base.

Whether or not this meets the assumptions that it could be part of a livelihood transformation is more difficult to judge. The answer to this question starts with a look at the people who were able to take advantage of the bank's services. Shabelle Bank operates over 50 branches across the Somali Region, targeting both urban and rural residents, but the vast majority of loans are taken by urban people involved in retail, petty trade and small business activities. There is limited access and limited uptake by those in remote rural areas.

The bank promotes itself as serving lower-income groups, especially women, e.g. through small-group loans for starting or expanding businesses. Members of women's loan groups indicated that other financial institutions had not extended loans to them. However, many women within loan groups had been unable to maintain group loan obligations and dropped out. One group began with 70 women but, at the time of the research, remained with only 25 members. Even in areas with branch coverage, most women (and men) do not feel able to take advantage of the availability of loans. This does not invalidate the intervention as business promotion, because no one would expect the whole population to become business owners, but it may raise an initial question around MFIs as a potential vehicle for wholesale transformation of pastoral livelihoods – and lives.

Some traders and small business owners chose not to take loans because they had reservations about the conditions regarding Sharia compliance, but many preferred to rely on family loans for support because of the terms and conditions. This indicates the existence already of informal credit networks that might have been under-appreciated by the project logic. It interpreted the lack of a formal MFI as a constraint to business investment and entrepreneurship. While many clients have clearly preferred to take credit from formal sources, this is not enough to validate the project's logic. The project relied on the assumption that the MFI would provide a source of investment capital *where none had previously existed*. This may not be widely true.

### 3.3 Were loans used for productive investment?

Loans clients use borrowed funds for various investments, including businesses, productive activities and the acquisition of assets such as purchases of land. Group loans have supported a diverse range of small businesses, from clothing and household goods to fruit and vegetable sales, tea shops and restaurants. Larger loans have financed the expansion of existing businesses and the launch of new ones. Some clients have adopted a diversified approach, investing in multiple businesses to mitigate potential losses from failed activities, or they have invested in very different enterprises in succession due to drought-induced challenges.

Few borrowers are taking loans to finance production-based livelihoods, particularly among livestock producers or even traders in remote areas. This sector is instead largely supplied by informal credit networks, which provide more flexible financing methods, particularly in rural areas. Informal credit has also played an important role in funding small businesses in urban areas.

There is little evidence to support the project's assumptions that the MFI would provide investment capital for rural agricultural and livestock production, or for trade in livestock and agricultural produce – investment capital over which the project would 'layer' other interventions to support the transformation of rural livelihoods. This is not a surprise. It is well known that production-based livelihoods in rural areas involve higher risks and necessitate much longer payback periods than petty trading, especially in urban or peri-urban markets where demand is more reliable. Agricultural loans are also vulnerable to far more shocks, and they are often considered risky investments, both by formal financial services and by those seeking the investments, who therefore often prefer to rely on borrowing from friends or family (Banerjee et al., 2022).

### 3.4 Have investments increased incomes?

Clients have confirmed that investments from SMFI loans have typically resulted in higher incomes. The scale and size of this increase is important, though. Typical stories involved small business owners making a profit of just under \$100 per month. If these reports are accurate, the incomes are modest. On their own they are well below the international poverty line (which is around \$10 per day or \$300 per month for a family of five), and even below the humanitarian minimum expenditure basket (ECWG, 2020). Such businesses may provide useful additional income to households, but they are not a route out of poverty. Recent shocks like the severe drought (2020–2022) and high inflation have made it challenging to save enough from any profits for reinvestment and business growth.



Most loans support trade and small businesses in urban areas rather than agricultural production © E. Millstein/Mercy Corps

### 3.5 Has this helped improve household resilience?

Following the severe recent drought, it has been possible for the study to move beyond theoretical constructs of resilience (e.g. 'measuring' resilience by some composite of asset holdings, income and access to services) and instead to see it in real terms – to ask households how well they coped with the most recent drought. Drought is the most typical covariate<sup>7</sup> shock that pastoralists face on a regular basis. This shock also reduced the positive impact of the MFIs, not because the drought obstructed access to loans<sup>8</sup> but because it affected the performance of the businesses that were invested in.

Although the livestock sector was worst hit, the whole economy in Somali Region depends heavily on livestock. The effects of drought are therefore felt throughout the local economy, because demand for other goods and services collapses when herders have no money. Small businesses can extend credit for only a short time before they have no further capital and, as they then cease trading, this has a knock-on effect on everyone else's demand for goods and services. What appears to be livelihood diversification does not always mean diversification of risk, if economic activity in several sectors is hit by the same drought. High inflation has been an exacerbating factor.<sup>9</sup>

On the whole, the successful loan clients (e.g. excluding those who dropped out of loan groups because they could not make it work) said they felt better able to handle crises. However, this is largely because they felt that they had built up a certain buffer of material assets, which helped them absorb the shocks. This is quite distinct from the intended consequence, that investment capital would enable them to diversify their income sources and thus become more resilient to shocks. This has not generally happened, because, as discussed above, the economic downturn from the drought affected livelihood opportunities in all sectors and so diversified income sources did not equate to spreading risk, as hoped.

Resilience can also be understood in ways beyond the household economy, e.g. in increased agency. The focus on loans to women seems to have supported women's economic empowerment, giving women greater economic autonomy. This contributed to changes in women's decision-making authority and social status. These improvements, as with the impacts of the MFI more generally, have been felt by a limited number of people, mainly in urban and peri-urban communities, and mainly those already engaging in petty trade.

It could not be expected that the investment would transform the rural economy within a few years, nor that a single intervention type would be a 'solution' to the poverty of most people. However, there are few signs that, even in the coming years, it will bring transformational change to the rural economy.

---

7 A covariate shock is one affecting many people at the same time. Shocks such as illness are also common but affect individual households at different times.

8 During the drought, the Shabelle Bank demonstrated flexibility by extending repayment periods to accommodate borrowers' situations (Shabelle Bank Branch Manager, pers. comm., 2023).

9 Inflation rose steadily and continuously from 2016 (7%) to 2022 (34%) ([www.focus-economics.com](http://www.focus-economics.com)). This is due to national macroeconomic factors, including huge military spending on the civil war in the north and, since 2020, on impacts from Covid-19.

# 4. TRANSFORMING THE PASTORAL ECONOMY THROUGH A MOBILE MONEY SERVICE

The project supported the Somali Micro-Finance Institution (SMFI) to establish a commercial partnership with a Dutch mobile money service provider to set up an agent-based mobile money service ('HelloCash'), with the aim of extending banking services to hard-to-reach areas. The aid intervention enabled negotiations between SMFI and BelCash, and supported efforts to change strict national regulations within the financial sector that had deterred investment in mobile banking, and then financed the training of agents and awareness creation. The underlying logic of the intervention was that improved access to mobile banking would stimulate economic activity and result in higher incomes from businesses, thereby improving household resilience.

## 4.1 Did a mobile banking service improve access to mobile money for remote communities?

Since its launch in 2015, HelloCash has rapidly expanded its services, covering all 93 districts in Somali Regional State. The NGO programme team estimated that there are now around 1 million users.<sup>10</sup> Access to the network exists even in some remote areas: urban traders use the mobile service for transactions with rural traders, and herders rely on it for fund transfers when migrating in search of water and pasture. Although many women manage their household finances, especially when the men are absent, cultural restrictions have restricted women's willingness to visit agents when men are present. Use is more pronounced among the younger generation. Elderly women often struggle due to non-literacy and limited familiarity with mobile phones, requiring assistance from family members or agents to manage transactions.

## 4.2 Has the mobile service increased income?

The service is widely used for both personal and business transactions. People use mobile transfers to pay for goods and services, receive salaries, and send and receive remittances. Humanitarian agencies also sent transfers as mobile money during the drought crisis. Money can be stored in mobile wallets, providing a secure way of saving. Business owners, from petty traders to wholesalers, find that using mobile money has increased efficiency and brought new business opportunities, connections with new partners and an ability to expand their customer reach. Overall, mobile money transactions have improved profitability and business growth.

---

<sup>10</sup> The population of Somali Regional State was estimated at around 6 million in 2022, based on projections from the last census in 2007 (UNICEF, 2022).

Two new mobile money services have since opened in Somali Regional State, and some agents have reported a decline in HelloCash transactions due to the competition, which has offered fee-free services and higher agent commissions. Any decline in HelloCash's market share has not been a problem for users, who have benefited from the competition. The overall impact of mobile banking has only increased over the years.

### 4.3 Has the mobile service led to improved household resilience?

According to users, the greatest contribution of a mobile money transfer service to resilience has been facilitating remittances during crises such as drought, enabling help to arrive from the diaspora and for urban relatives to assist those in rural areas. It also supported emergency cash transfers. Interviewees described long queues at mobile agents during the recent droughts.

The contribution of the mobile transfer service to economic growth may be hard to quantify but it is undoubtedly real – just as it has been over many years in neighbouring countries.<sup>11</sup> Although its overall impact may be greatest in urban areas,<sup>12</sup> it is felt strongly in remote regions where it has facilitated pastoral livelihoods, allowing those migrating with livestock to purchase essentials like feed or water without travelling to town. In many pastoral areas, mobile payments are often the sole form of formal finance in use (Banerjee et al., 2022).

The exact contribution of one specific mobile service (in this case, HelloCash) is less easy to gauge. It could be argued that change would have happened anyway, as evidenced by the introduction into the market of two other services. Or it could be argued that HelloCash's entry into the market proved viability and profitability in Somali Regional State, encouraging others to open. The answer is important for deciding when to invest aid resources to support individual private companies but is not relevant to this study.

---

11 For example, Fabregas and Yokossi (2022) report a positive impact on economic growth in Kenya, as do Nor and Mohammed (2024) in Somalia.

12 This has been the case in Kenya (Fabregas and Yokossi, 2022).

# 5. CONCLUSIONS: DRAWING WIDER LESSONS

## 5.1 Asking the necessary questions

It took less than three weeks of interviewing to uncover some of the flaws in basic programmatic assumptions that had been held for over a decade by successive programmes. This suggests that the difficulty is less in answering questions about how programmes work than in asking the questions at all. Given that millions of dollars continue to be spent on similar programmatic assumptions, not only in pastoral and livestock economies, this is hard to understand. It is also relatively easily put right.

Projects were well implemented, and they had detailed information systems. They had a huge amount of data on the (large) traders with whom they worked directly. The research team was struck by how well staff knew the traders whom they had supported, and their business activities. Nevertheless, little was known about what had happened to the lives of the ultimate intended beneficiaries of the work – rural and particularly pastoral households. As a result, little had been appreciated about some of the more fundamental flaws in the underlying programme model. This highlights the need for a change in standard approaches to monitoring information systems. They should be designed not only to deliver upward accountability on the use of resources but also to measure the extent to which projects have used resources to deliver outputs.

Monitoring has to help bring an understanding of how the interventions are playing out in real life and to test assumptions on which projects are based. This cannot be achieved by following the lives of every 'beneficiary', both because this is impractical and unaffordable and because it is unhelpful (as this is not the way to understand wider processes of change). This dilemma can be resolved only by agreement between implementing agencies, including governments, and donors on the kinds of information that are most useful and on the best processes for ensuring that information is used.

## 5.2 Using theories of change actively

Many things had to come together for the project logic to be validated. On one level, this was recognised by the project's 'layered' approach, attempting to bring change to households simultaneously from several directions at once – creating access to investment funds, ensuring the supply of inputs and services for production, creating favourable market conditions, and so on. This, though, describes only what had to come together that was under the project control.

Many things had to change in real economic life. As seen above, this did not always run to plan. It was expected that people would change their behaviour – but the project was working on only economic theories, not social theories. Economic theory alone is not a basis for predicting how pastoralists would use access to credit or how small-scale traders



would change how they bought animals if new export markets were opened up. Expecting pastoralists to abandon their whole approach to livestock-keeping in order to embrace market-oriented production may possibly have been based on flawed economic thinking (see below) but it was more obviously based on a lack of social thinking. There was simply no reason to expect it to occur.

All resilience programming needs to be informed by a sound theory of change. This is often taken to mean aspirational diagrams indicating how objectives may be achieved. A real theory of change engages with the perspectives and motivations of each actor in the chain from intervention to result, understanding how they are likely to react in different circumstances, and how the project will maximise the likelihood that those reactions will lead to the desired outcome. For investments in resilience-building to have a better chance of succeeding, theories of change have to be used actively. This means identifying the underlying assumptions, testing their feasibility in advance of implementation, constantly testing the assumptions during implementation, and actively adapting interventions according to what is taking place.

### 5.3 Dealing with informality

One of the clearest tests of a theory of change is its willingness to engage with informality. Much of life is informal everywhere but, in countries like Ethiopia, informality extends from the normative codes that govern behaviour through interpersonal economic and credit relations to export markets. Social relations are as crucial for successful livestock trading as financial capital (Banerjee et al., 2022). These informal ties serve multiple functions, including the provision of credit, social protection, spreading risk, and establishing supportive networks (Pain and Levine, 2024b). If informality is ignored by a theory of change, then its appropriateness

for the real world – for ‘the context’ – must be in doubt. Aid agencies often struggle with the informal in all its dimensions, including economic, moral, legal and institutional.

In most cases, this represents a simple blind spot of the aid sector (and, perhaps more understandably, of government departments and the civil service). It can pose a dilemma where the informal has been made illegal, such as the case of trade across the Ethiopia–Somalia border. (The reasons behind the outlawing of this trade, and the winners and losers of the policy, are beyond the scope of this report.) However, the dilemma does not justify this being a blind spot. External interventions may not be able to support this informal trade but they have to understand it and to consider its implications. It is impossible to design an effective policy to improve trading conditions without understanding the whole landscape in which trading decisions are made.

## 5.4 Is resilience about transformation?

Resilience and transformation are often spoken about together.<sup>13</sup> This seems logical. Many people, including in Ethiopia, suffer from unviable livelihoods and standards of living that should not be acceptable. Merely entrenching this situation (i.e. making it resilient) is not the point: transformation is needed in their lives and livelihoods, as only then will the resilience of the people concerned be either possible or desirable.

The problem with attempting designed transformational change, though, is that it is much harder to achieve, as the first two attempted transformational changes above illustrated. People were expected to combine several changes at once, to take a leap into the unknown. There are reasons to think that this rarely happens. In the companion report in this series from Chad, Benoudji et al. (2025) show how innovations were adopted more easily when they blended more seamlessly into people’s lives. They contrasted difficult transformations, which in the Ethiopian context would be expecting pastoralists to invest in much smaller herds with less mobility, with what Kaufmann (1996) called ‘the adjacent possible’, the range of changes possible from any given starting point. The third attempted transformational change described in this report, the creation of a mobile money transfer system, is an example of a seamless change, a move to the adjacent possible. There was nothing complicated or controversial in the theory of change. The technology had proved itself everywhere else; agents had been willing to open up selling points everywhere else and people had been willing to use it – because no-one was expected to change what they wanted to do in order for HelloCash to succeed. The mobile payment system simply made it easier for people to do what they were already doing, such as sending remittances and making payments. Pastoralists embraced it because it helped them to remain mobile pastoralists, and did not rely on them having to become market-oriented livestock producers. Mobile money is transformational because it does not seek to be transformative: it opens up opportunities and allows people to do whatever they were doing more effectively and efficiently. Such changes have often led to organic transformations, economically, socially and politically.

Changes may be outside this realm of adjacent possibilities for reasons related to technology or infrastructure (e.g. if there is no electricity), economics (e.g. if there is no market),

---

<sup>13</sup> Some speak of ‘transformative resilience’ (Asadzadeh et al., 2022). Others, such as Oxfam (2017) include transformational capacities as one of the sets of ‘resilience capacities’ that need to be built, alongside adaptive and absorptive capacities.

institutional factors (e.g. if land tenure arrangements make it difficult) or for social, cultural or religious reasons. It seems likely that resilience can be built much more quickly by taking shorter steps – each step or change bringing more possibilities closer or adjacent – if each step demands less change culturally, psychologically, economically, institutionally and politically. This in turn would require two changes. First, agencies would have to let go of designing the transformations because, if transformation happens by people seeing and taking advantage of opportunities, outcomes are not predictable, let alone open to being designed. This would require a substantial psychological change in many agencies, governmental and non-governmental. Second, agencies would have to make investments with fewer promises, which would require those funding the investments to demand less. The current set of incentives around project funding is based on commercial competition between agencies and only what they promise and what they report on. Taking real-life results seriously would involve a huge change for which there are no clear incentives. Unfortunately, there is currently no credible theory of change leading to this result, which remains outside the sphere of the adjacent possible.

## 5.5 Market-based approaches to development

Nothing in this report should be taken to suggest that people's lives cannot be improved by interventions designed to help them to improve their welfare by using markets better or by interventions designed to change market conditions. This report did not look at interventions aiming to improve how poor people or small-scale producers can engage with the market. The critique here is about intervention types that are market-based in a very particular way. They have a very particular normative approach to markets, reliant on three market assumptions.

Their normative perspective is a belief that markets are more 'rational' than other ways of living. They seek to replace a society where market activity occurs, but as an element of life that is primarily shaped by social relationships and reciprocity, with a 'market society' (Polanyi, 1944), to 'subordinate the substance of society itself to the laws of the market'. This socio-political dimension to market transformation may not be appreciated by those who have grown up in market societies, such as has been the completeness of the transformation of market societies. It is clear from any understanding of the pastoralist economy that pastoralist societies are not, in this sense, market societies. Any attempt to transform them into market societies entails such profound changes that there are good reasons to argue that it should not be attempted without the full and informed consent of those affected.

Putting the ethical dimension to one side, these approaches rely on markets to create a transformation in three ways:

- They create (or pay for) change at the top of the market chain and assume that the market will then transmit related changes down the value chain.
- They assume that market signals will then change decision-making and behaviours among small producers.
- They rely on markets to distribute the benefits of any change.

All three of these assumptions are highly questionable in the context in which they have been applied. Worryingly, we found no body of evidence showing that this model was working and that the assumptions were holding true in the pastoralist economy of the lowlands of Ethiopia. Despite this, the model continued to be promoted and replicated. This is not a critique of market-based approaches.<sup>14</sup> It is a critique of ideological approaches to development that do not take the time to develop realistic sets of assumptions about what can be achieved, nor apply an informed theory of change that explains how change will happen, based on an understanding of the people, the society and the economy in question. It is, most of all, a call for the need to test assumptions, to find out when and where interventions are playing out as hoped – and, when they are not, to understand why this is happening.

## 5.6 Understanding the basics of pastoral economics

There are particular reasons why the assumptions should be even harder to hold in pastoral economies. Pastoralists with small herds engage with the market, but they do not adopt a production strategy purely to maximise income from sales. Pastoralist societies in this part of Ethiopia are not ‘market societies’ in Polanyi’s sense: they are societies with markets, not market-driven societies. This is not because of ignorance, traditional culture or lack of market access; it is the logical centre of their adaptive strategies in the face of an inevitable cycle of good and bad years, and because economic profit is only one among a number of objectives in their lives. This is not irrational. They have to prioritise maintaining a minimum herd size to be able to withstand bad years such as those with droughts. Since sales are made in response to a need for money, more market access is less likely to result in increased livestock sales. Indeed, higher livestock prices may even lead to fewer sales if households can meet their needs by selling fewer animals (Hesse and Catley, 2023). There is strategic logic behind Catley’s (2024) observation that there is little evidence that more markets have led to increased sales or poverty reduction.

Ideological approaches may pay little attention to current pastoralist strategies in the belief that they will inevitably be replaced by a market-oriented ranching mindset, because of the inherent superiority of market orientation. There may well be good reasons to doubt this superiority, although that is beyond the scope of this report. There are certainly good reasons to believe that the existing pastoral logic has first to be understood before trying to work with pastoralists. There is little point in designing a change pathway that can work only once a new economic culture has become entrenched. Any theory of change has to work from its starting point: it has to be able to operate in the pastoral status quo.

Some of the intervention components are also a response to a common assumption that pastoralists lack the capital to invest because of poverty. Pastoralists’ wealth is associated with the accumulation of livestock over cash, and livestock are used as financial capital, financial assets – as savings in the bank. Pastoralists are often cash-poor but this too is a rational economic choice, because of the relatively high returns from livestock relative to cash (Hesse and Catley, 2023). As mentioned (in Section 2), the return on investment in a herd averages 27% per year. The same studies of herd dynamics have shown that is even higher, 33%, on capital investment in faster-reproducing small stock such as goats and sheep (Behnke, 2010).

---

<sup>14</sup> There is a separate set of arguments critiquing the belief that market interventions are a sufficient condition for building resilience, i.e. they can work on their own without complementary actions and/or policy changes in the public sector or with public financing. It was beyond the scope of this report to analyse how market-based programmes can best be combined with other interventions.

## 5.7 Elite capture as a gift

Those with more power – political or economic power, or relative power from gender relations – always tend to benefit disproportionately from any external assistance.<sup>15</sup> Sometimes, though, they are not made to work very hard to do so. Some interventions intended to help those less well-off are designed in ways that almost guarantee an increase in economic inequality. This can be inherent in the design of what is attempted and in how it is to be achieved. It is possible that livestock commercialisation in pastoral areas may contribute to area-wide economic growth but it is known for certain to drive increasing wealth stratification (Aklilu and Catley, 2009; Hesse and Catley, 2023). The decision to support the livestock sector by focusing on the market meant that the majority of benefits were unlikely to go to the smaller producers. The further decision to invest most project resources directly with a few large-scale traders made it even more likely that benefits would be concentrated among a limited group and would exacerbate economic disparities.

There are understandable and well-documented reasons why external agencies find it much easier, more comfortable and more rewarding to work with the better-off. Stephenson (2003) blamed innovation theory; Horwitz and Dovidio (2015) blamed a deep-seated psychological pro-rich bias; while the World Bank (2015, Chapter 10) identified a range of cognitive attitudes among development professionals that created barriers between them and the lives of poorer people.

These explanations of cognitive biases are only part of the story though. The elite and more powerful know how to present a picture that they know will appeal to external actors. It is much more difficult to challenge prevailing power structures; this goes beyond a cognitive bias. Recognition is needed of the extent to which power dynamics have resulted in substantial aid capture over many years – an aid capture that goes beyond merely capturing the benefits of investments and interventions, and which has resulted in the models of ‘development’ that serve the interests of the powerful being engrained in how many development actors understand progress.

There are few incentives to challenge this status quo beyond moral arguments. It is disappointing that any report still needs to finish with the following conclusion: great care should be taken to test any theory of change that sets out to give most direct support to the wealthier, and which relies on theory to distribute benefits to those who are less well off, harder to reach and with lives harder to understand. Unless there is convincing evidence to the contrary, it is likely that such theories of change are evidence of successful elite capture at a very high level.

---

<sup>15</sup> This is equally true in richer economies. Hastings and Matthews (2011) detailed the ways in which the middle classes in the UK are better at capturing the benefits of services and benefits intended for all, or for those more in need.

# REFERENCES

- Agol, D. (2025) *Does resilience-building last when projects end? Retrospective lessons from projects to support pastoralists in Turkana, Kenya*. London: SPARC (<https://www.sparc-knowledge.org/publications-resources/does-resilience-building-last-when-projects-end-turkana-kenya>).
- Aklilu, Y. and Catley A. (2009) *Livestock exports from the Horn of Africa: an analysis of benefits by pastoralist wealth group and policy implications*. Boston, MA: Tufts University.
- Aklilu, A. and Catley, A. (2010) *Mind the gap. Commercialization, livelihoods and wealth disparity in pastoralist areas of Ethiopia*. Boston, MA: Tufts University.
- Asadzadeh, A., Khavarian-Garmsir, A.R., Sharifi, A. et al. (2022) 'Transformative resilience: an overview of its structure, evolution, and trends'. *Sustainability* 14(22).
- Balfour, N., Wachira, J., Taye, M. and Levine, S. (2025) *Do New Permanent Water Supplies in the Drylands Help Build Resilience? The impacts of new boreholes on coping with drought in Ethiopia and Kenya*. Technical report. London: Supporting Pastoralism and Agriculture in Recurrent and Protracted Crises (SPARC) (<https://www.sparc-knowledge.org/publications-resources/do-new-permanent-water-supplies-build-resilience>).
- Banerjee, R., Barry, B., Jacquez, C. et al. (2022) *Financing livestock trade: formal and informal finance in Kenya, Mali and Somalia*. London: SPARC (<https://www.sparc-knowledge.org/publications-resources/financing-livestock-trade-formal-and-informal-finance-kenya-mali-and-somalia>).
- Behnke, R. (2010) *The Contribution of Livestock to the Economies of IGAD Member States Study Findings, Application of the Methodology in Ethiopia and Recommendations for Further Work*. IGAD LPI Working Paper No. 02. Addis Ababa, Ethiopia: IGAD Livestock Policy Initiative.
- Benoudji, C., Bolmbang, M.I. and Levine, S. (2025) *What happened when resilience-building projects closed: Stories of change from Chad*. London: SPARC.
- Catley, A. (2024) *Pastoralism and livestock marketing in Africa*. Washington DC: USAID; Medford: Feinstein International Center; Edinburgh: International Institute for Environment and Development.
- ECWG – Ethiopia Cash Working Group (2020) *Minimum expenditure basket for Somali Region: Guidance Note*. June (<https://reliefweb.int/report/ethiopia/ethiopia-cash-working-group-minimum-expenditure-basket-somali-region-guidance-note>).
- Fabregas, R. and Yokossi, T. (2022) 'Mobile money and economic activity: evidence from Kenya' *World Bank Economic Review* 36(3): 734–756.
- Hastings, A. and Matthews, P. (2011) *"Sharp elbows": do the middle-classes have advantages in public service provision and if so how?* Glasgow, UK: University of Glasgow.
- Hesse, C. and Catley, A. (2023) *Pastoralism in Africa: a primer*. Washington DC: USAID; Medford: Feinstein International Center; Edinburgh: International Institute for Environment and Development.
- Horwitz, S. and Dovidio, J. (2015) 'The rich – love them or hate them? Divergent implicit and explicit attitudes toward the wealthy' *Group Processes and Intergroup Relations* 20:1.
- Kauffman, S.A. (1996) *Investigations: the nature of autonomous agents and the worlds they mutually create*. SFI working paper # 96-08-072. Santa Fe Institute.
- Levine, S., Ludi, E. and McCord, A. with Agol, D., et al. (2024) *Do public works programmes create valuable assets for livelihoods and resilience? A retrospective study of the impacts of assets for natural resource management in Ethiopia and Kenya*. Technical report. London: Supporting Pastoralism and Agriculture in Recurrent and Protracted Crises (SPARC) (<https://www.sparc-knowledge.org/publications-resources/do-public-works-programmes-create-valuable-assets>).
- Nor, I.M. and Mohamed, A.A. (2024) 'Investigating the economic dynamics of mobile money in post-conflict economies: empirical evidence from Somalia' *Qeios* (May).
- Oxfam GB (2017) *The Future is a choice. Absorb, adapt, transform: resilience capacities*. Oxford: Oxfam GB.

- Pain, A. and Levine, S. (2024a) 'What does it mean to take context seriously for engaging in markets? Lessons from Afghanistan'. Policy Brief. London: SPARC.
- Pain, A. and Levine, S. (2024b) 'What does it mean to take context seriously for credit and microfinance? Lessons from information credit in Afghanistan'. Policy Brief. London: SPARC (<https://www.sparc-knowledge.org/publications-resources/what-does-it-mean-to-take-context-seriously-credit-and-microfinance-lessons>).
- Polanyi, K. (1944) *The Great Transformation*. New York: Farrar & Rinehart.
- Sandford, S. (2006) *Too many people, too few livestock: the crisis affecting pastoralists in the Horn of Africa*. Future Agricultures.
- Sandford, S. (2011) 'Pastoralists and irrigation in the Horn of Africa: time for a rethink?' in A. Catley, J. Lind and I. Scoones (eds) *Development at the margins: pathways of change in the Horn of Africa*. Routledge.
- Shabelle Bank Branch Manager (2023) Personal communication, Jigjiga, March.
- Stephenson, G. (2003) 'The somewhat flawed theoretical foundation of the extension service' *Journal of Extension* 41(4).
- UNICEF (2022) *Somali: Regional Brief*. Ethiopia: UNICEF.
- World Bank (2015) 'The biases of development professionals' *World Development Report* (Chapter 20). Washington DC: World Bank.
- WISP – World Initiative for Sustainable Pastoralism (2006) *Global review of the economics of pastoralism*. IUCN.

X @SPARC\_Ideas

**sparc-knowledge.org**

Cover image: A herder in Somali  
Region, Ethiopia © S. Sheridan/  
Mercy Corps

Funded by



This material has been funded by UK aid from the UK government; however the views expressed do not necessarily reflect the UK government's official policies.