



Youth Enterprise Grants (YEG) for the Informal Economy



GiveDirectly



What's the issue?

The Challenge:
Inclusive growth in Africa cannot be achieved without establishing sustainable pathways out of poverty for the millions of urban youth operating in the informal economy.

The youth bulge



Kenya is a very youthful country:

MEDIAN AGE:

19 YEARS



80%
of the
population is
under 35 years

Kenya is a very youthful country with the median age estimated at 19 years and about 80% of the population being under 35 years¹. This is typical of most African countries with the continent's youth population (15-25 years) expected to double by 2050 to 452 million people between the ages of 15 and 24. Opinion is divided as to whether this is an asset for the continent or a threat. The Mo Ibrahim Forum Foundation Report² describes the possibility of a demographic dividend but also identifies the negative consequences that could result from the failure to harness the "drive, ambition and potential" of increasingly educated young entrepreneurs. It warns of the sense of economic exclusion that many young people feel as they try to get ahead in life.

Urbanisation exacerbates the problem for young people. Although there are better economic possibilities for young people in cities than in rural areas, urban populations in Africa are growing fast. By 2050 over half of Africa's population are expected to live in urban areas³. Despite consistent economic growth in Kenya and many African states, there are simply not enough formal jobs to go around and there probably never will be. In Kenya, some 800,000 young people enter the labour market each year but only a fraction of these can expect to find a formal job – in 2018, Kenya's economy grew by 6.3% but only produced 78,000 new formal jobs⁴.

Consequently, the informal economy in Africa is massive. A 2012 report by the Kenya Institute for Economic Affairs (IEA) estimated the informal economy accounted for 34.3% of GDP. It is also a huge employer, estimated to represent 90% of all new employment⁵. Traditionally governments and international organisations see the informal economy as a development failure offering low wages, limited or no tax revenues and poor job security. However, as populations and cities grow, it seems the informal sector will only expand. Multiple factors mean most micro-enterprises will stay very small: far too few of these succeed in transforming themselves into the kind of small and medium size businesses that are essential for inclusive growth.

On a positive note, the digital revolution may be working to enhance the productivity of the informal economy. Africa (and its youthful population) has embraced modern technology, communications, the internet and social media. Kenya has been leading the field in terms of mobile money and other digital financial services, access to affordable smartphones and increasingly cheap internet access.

The YEG pilot is trialling a variation on typical cash transfer programming through the provision of enterprise grants and improved access to digital technologies via a smartphone. With an explicit objective of improving the lives and livelihoods of selected youth, the project also aims to provide insights into how educated and digitally connected youth use the cash within the urban informal economy. As a pilot, this project is providing preliminary, directional evidence on how the transfers were spent and the changes recipients report in their lives. Building on the pilot's success it is anticipated future phases can be studied more rigorously and include a control group.

¹ Alex O. Awiti and Bruce Scott (2016) The Kenya Youth Survey Report

² Africa at the Tipping Point, 2017

³ <https://population.un.org/wup/Country-Profiles/>

⁴ Kenya National Bureau of Statistics

⁵ Economic Survey, 2017, Kenya National Bureau of Statistics

The YEG Pilot Project

The YEG pilot project provides:



**to young people
AGED 18-35**



**living in Mathare,
a low-income
(slum) settlement in
Nairobi**

The Youth Enterprise Grant (YEG) pilot project is a two-year intervention, implemented by cash transfer specialists GiveDirectly (GD) with funding from MasterCard Foundation, FSD Africa and the Google Impact Challenge (GIC) Fund. The pilot project is providing enterprise grants and a smartphone to, primarily, young people (aged 18-35 years) living in Mathare, a low-income (slum) settlement in Nairobi.

Over 1,000 youth have been identified and selected as part of existing group structures in Mathare (many with saving and credit functions) purposively selected to ensure broad geographic coverage and a roughly even split of recipient gender. The payments, totalling approximately \$1,200 per beneficiary are made via mobile money. The first payments to recipients began in November 2018. Half the beneficiaries are receiving the payments as three lump sum payments within three to four months of enrolment on the programme. The other half are receiving them as monthly payments of approximately \$50 for two years.



The project does not dictate how young people use or invest the money – but they are being ‘nudged’ or encouraged to invest or expand their existing business or income-generating activities. To support their propensity to invest in economic activities, recipients were given the option of purchasing a low-cost smartphone by having the cost deducted from their transfers - almost every recipient chose to do this - onto which a range of business and money management apps have been loaded.

Research Activities

Research is a primary objective of the YEG project. In line with the YEG Research and Evaluation Framework, a range of quantitative and qualitative data is being collected over the lifetime of the project. These include recipient surveys at registration and after payment rounds as well as several rounds of focus group discussions. Findings to date are set out here and detailed in the YEG Interim Report (www.fsdafrica.org/programme/YEG).

YEG Findings

The Urban Context

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"I am thinking, in these two years, I can open another branch of my salon and employ someone else there."

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"In two years' time I don't see myself being employed by someone again. I will have employed myself and my life will be running fine my children will learn without worrying about school fees"

“

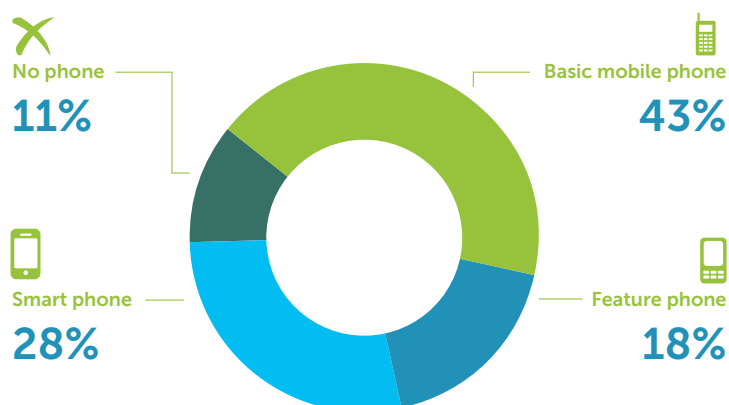
"Currently, my life is different in that I am self-empowered since I have a business that I had started with GiveDirectly's transfer hence it keeps me busy and I no longer get lured to engage in criminal gangs unlike before when at times I would be rendered jobless and idle around Mathare slums."

Analysis of youth surveyed upon registration found that almost none of the youth enrolled are in formal employment (less than 3% reported having a formal job). Economic activity in Mathare is dominated by casual daily labour or self-employment with 84% of all recipients categorising themselves in these areas. There are gendered dimensions to economic activity with far higher proportions of men involved in casual labour compared to women (60% versus 33%). Conversely higher proportions of women than men describe themselves as self-employed (47% versus 29%).

Getting a formal job is seen as almost impossible and was an aspiration for very few. When asked about their aspirations for the future most saw starting or growing their own business as the most obvious way to improve their life. The enrolment survey also found that the demographic composition of households in Mathare is very different to national norms. It showed that nearly half of all recipients (48%) lived in households with no children. This rose to 62% of male recipients compared with only 9% of female recipients.

Although the project provided youth with a smartphone⁶ upon registration it emerged that over a quarter of recipients (28%) already had one. This reflects the high levels of mobile and digital penetration in Kenya (91% of Kenyans have access to a mobile phone (2019 Finaccess Household Survey) compared with elsewhere in Africa. It also reflects the high value already placed on having access to the internet for this group of youth.

Type of Phone Ownership prior to Project



Crime and Insecurity

Mathare is one of Nairobi's largest low slum areas with a widespread reputation for crime and insecurity. Prior to the pilot there were concerns that selecting youth for cash transfers in this context could make them targets for theft or other crimes. The project has piloted the selection of youth by working with local partners to identify existing group structures. Experience to date has shown that transferring cash and a smartphone to urban youth in this context is very feasible.

⁶ The cost of which was deducted from the transfer

YEG Findings

What do youth do with the grants?

There is strong evidence that the project encourages entrepreneurial behaviour

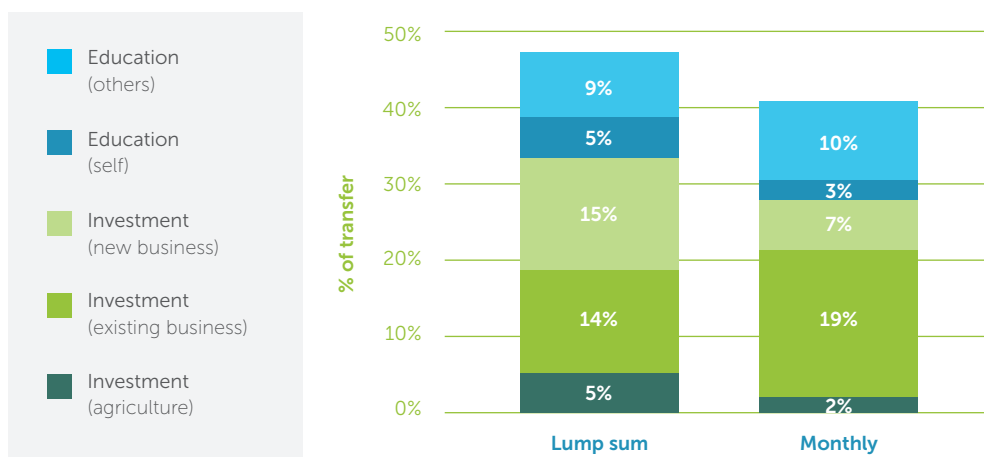
Shift from casual labour to self-employment among recipients:



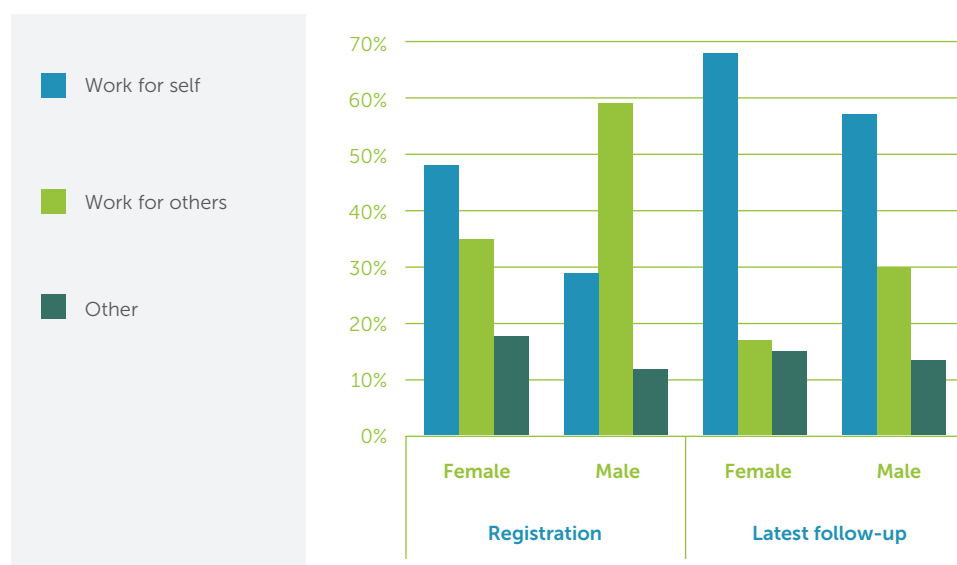
Analysis of post-payment surveys in the eight months of the pilot showed there is no indication the cash is 'misused'. The vast majority is being used to support daily needs or invested in education or income generating / business activities.

Overall YEG recipients had invested nearly one third (~31%) of their transfers on new or existing businesses (including agriculture). Lump sum recipients allocated a slightly higher proportion of their grants to productive investment which also includes expenditure on education for themselves or others.

Productive Investments by Lump Sum and Monthly YEG recipients



There is strong evidence that the project encourages entrepreneurial behaviour. In particular there has been a marked shift away from casual labour into self-employment with the proportion of all recipients describing themselves as self-employed increasing from 37% to 64%. This shift is particularly marked for men although there are still more self-employed women than men.



What do youth do with the grants?

The range of activities within these sectors is often diverse. This reflects the vibrant nature of the Nairobi economy compared with rural areas. Some of the business investments, cited:



Purchase of motorbikes



Selling clothes and shoes



Beauty salons / barber shops



Spare parts shop (for vehicles)



Shops selling general goods, fruit, vegetables and juices



Purchase of refrigerator to sell ice



Milk vending machine



Photographic; filming and recording equipment and services



Expanding M-Pesa float



Cafes (selling tea, snacks etc.)



Farming – livestock or agriculture



Emily Anupi

Emily (29) is born and raised in Mathare. She still lives in the same neighbourhood together with her husband. Emily has been fully dependent on her husband to provide for the family as she didn't have any source of income, until she learnt of the YEG Programme.

After receiving a lumpsum from the programme, Emily opened a cosmetic shop, but after a short period of operating, the shop was burnt down amongst other businesses by an accidental fire – an incident that is common in the slum. With the little cash she had salvaged, Emily could not afford to restock a cosmetic shop and hence decided to start a small grocery shop.

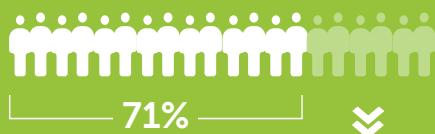
With the grocery shop, Emily can afford to cater for her house expenses and share some financial responsibilities with her husband. She uses a smartphone she received from the YEG programme to keep her savings in M-Pesa.

Improved financial status

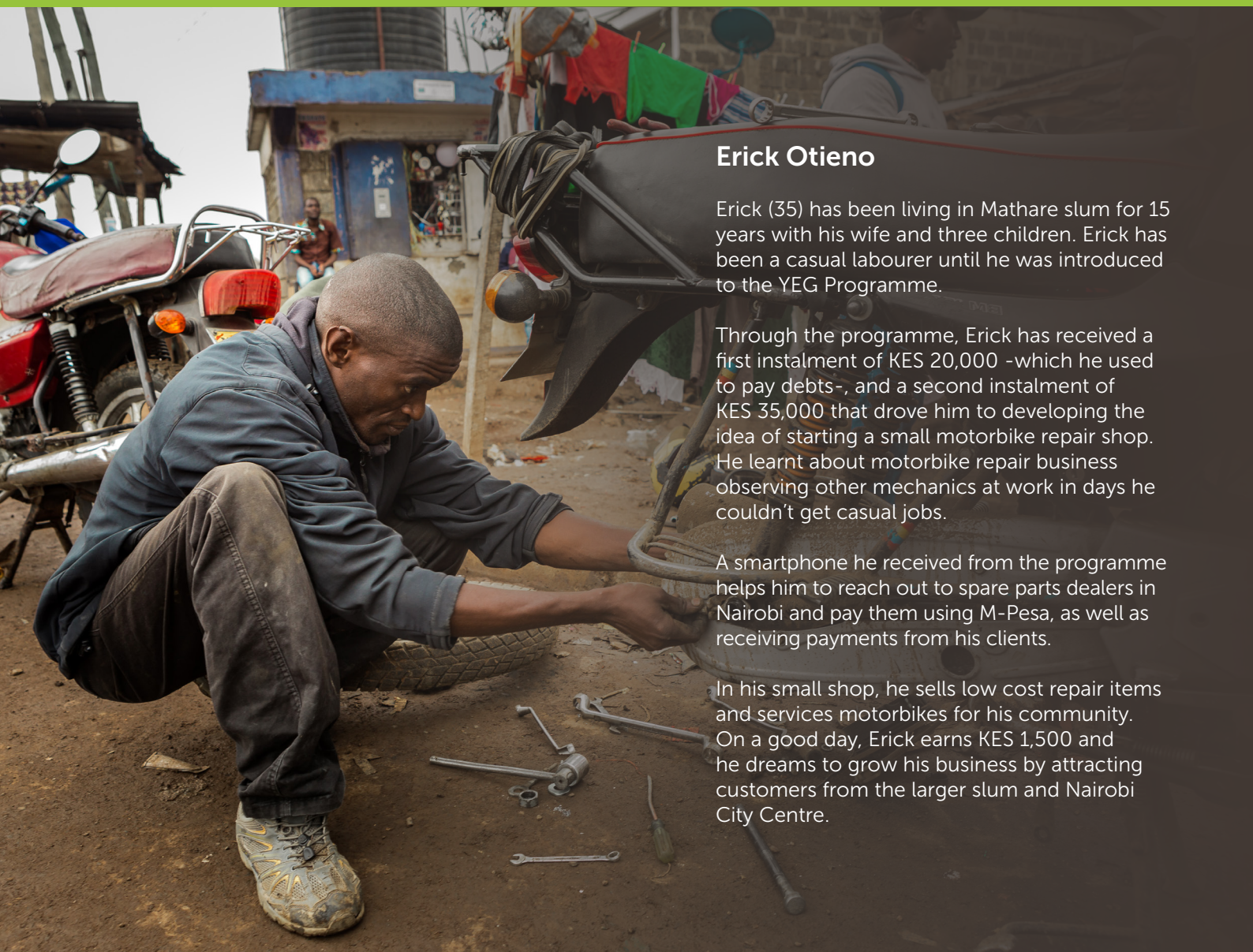
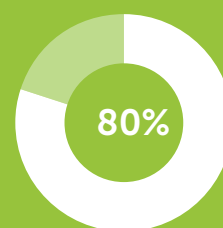
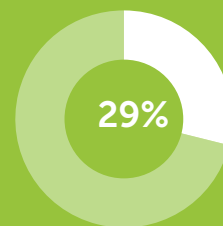


Recipients report marked improvements in their financial status and over 75% report their income has increased beyond the value of the transfer.

Many used the cash to pay off debt with the number reporting having a loan or debt reducing from:



The proportion of youth who report being better able to meet their needs has increased from:



Erick Otieno

Erick (35) has been living in Mathare slum for 15 years with his wife and three children. Erick has been a casual labourer until he was introduced to the YEG Programme.

Through the programme, Erick has received a first instalment of KES 20,000 -which he used to pay debts-, and a second instalment of KES 35,000 that drove him to developing the idea of starting a small motorbike repair shop. He learnt about motorbike repair business observing other mechanics at work in days he couldn't get casual jobs.

A smartphone he received from the programme helps him to reach out to spare parts dealers in Nairobi and pay them using M-Pesa, as well as receiving payments from his clients.

In his small shop, he sells low cost repair items and services motorbikes for his community. On a good day, Erick earns KES 1,500 and he dreams to grow his business by attracting customers from the larger slum and Nairobi City Centre.

YEG Findings

What is the Value of the Smartphone?

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"I have an Instagram group where I post new hair shaving styles so it helps with getting creative. I also run searches for cool hair shaving styles using the phone."

“

"I check Alibaba for new trends. You might find out that you bought some things and you do not know what they are, so you just run a search to find out what it is and how much it is worth."

“

"I need to know how to talk to customers and make them come to my M-PESA shop and not go to another."

“

"I take photos of items for sale. When I get home, I post the photos on Facebook. From my Facebook page, my friends ask how much the items are and others ask for the location of my shop."

“

"I know how to shave, but I also need to know how to make the latest styles that I am not used to."

“

"I really love this phone. I actually used this phone to get my motorcycle. Someone posted the motorcycle on Instagram, including its cost and so I bought it."

“

"I need to be trained on how to balance expenses and income."

Part of the theory of change that this pilot is seeking to test is the value of access to a smartphone in addressing the constraints to building a resilient urban livelihood – and, in particular, to ascertain the value of digital technology in developing financial, business and technical skills and knowledge in addition to market access. Upon registration GiveDirectly staff uploaded the Touch Doh⁷ app which is a money management app developed by Well Told Story using animated characters talking in street slang (Sheng). Facebook was also installed

on the phones of participants who did not already have a Facebook account and all were supported to join the Hustle Fiti page (business advice and chat group). Follow up of YEG recipients has shown the Hustle Fiti page has been visited by the majority of recipients and actively used by some.

Conversely the Touch Doh app has not been widely used. Discussions on Touch Doh found users like the idea of having different ‘pockets’ to compartmentalise cash but that they wanted that in reality not just notionally on the app. Several recipients mentioned how they wished Touch Doh enabled them to actually save or put away their money where it could not be easily accessed. There were requests for it to be linked to M-Pesa or M-Shwari⁸. *"Touch Doh is not saving my money. It's just like writing in a book about your expenses and savings but if it could like lock some amount of money for a certain period of time that would help."*

These findings highlight the increasingly important role that access to the internet (particularly social media) via smartphones is playing for young people's businesses. The phones are proving critical to many users for gaining market knowledge, business and technical skills. There are

numerous recipients reporting use of social media to access clients and market goods or services. However, although expenditure on airtime and data has increased by 37%, the cost of data / lack of wifi was highlighted as a constraint to young people's access to streamed video content.

At registration most youth felt very confident about their ability to run or start a business or income generating activity. Follow up interviews have shown that access to capital and direct experience of running a business seems to have made youth more aware of their gaps and limitations with regard to financial and business skills.

⁷ Developed by the youth comms and digital media specialists Well Told Story www.welltoldstory.com

⁸ A micro-savings product linked to M-Pesa, through which it is possible to access a micro-loan



Simon Chege

22-year-old Simon was born and raised in Mathare, where he still lives with his mother and sister. After leaving school, he started selling sweets on the streets and on Juja road in Nairobi when traffic built up.

He received a lumpsum and a phone from the YEG Programme and, having observed his friend sell popcorn, he ventured in the business as the funds he got enabled him to put together all the resources he needed to start up. Simon uses his phone to save his earnings on M-Pesa and to access social media sites to promote his business.

Thanks to his business, Simon has become financially independent and can now even support his mother in purchasing some of the items needed to enable his sister join high school.

Since he operates on the roadside, Simon's dream is to secure a permanent place where his popcorn clients can find him in one location even during rainy seasons.



Ann Wanjiru

Ann (36) has lived in Mathare for the last ten years, working as a hairdresser. She has been hawking her services walking door-to-door to style her clients' hair until recently, when the lumpsum from the YEG Programme enabled her to open a salon in the slum.

From the YEG Programme, Ann also received a smartphone she uses to take photos and search new hairstyles online that she later shares with her clients to help them choose a preferred style, as well as receiving payments from them.

YEG Findings

Youth and Financial Services

99%

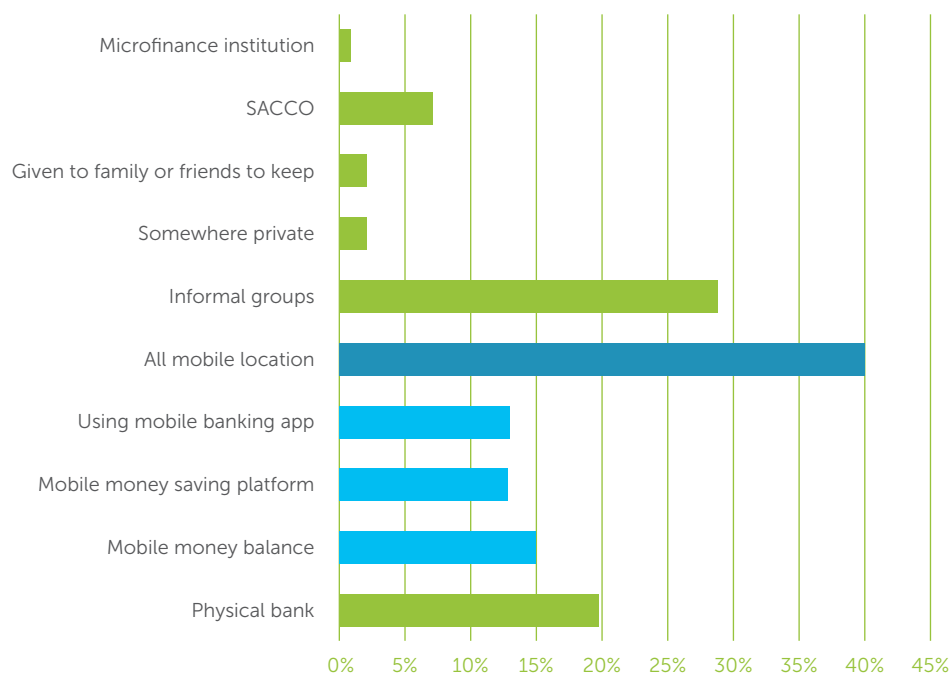
of recipients
have used
mobile money
to send or
receive cash

The capital injection provided via the enterprise grants addresses one of the key barriers to business or other livelihood investments. YEG research is examining how YEG transfers facilitate wider use of financial services including digital financial services (DFS) via their smartphones.

Utilisation of mobile money in Kenya is extremely high, even at registration 99% of recipients had used mobile money to send or receive cash. Follow up surveys shows mobile money remains the most widely (and increasingly) used method of managing and saving money. The high density of agents and other mobile money users mean it is an easy, convenient and safe way to transfer or liquidate money. There seems to be a small but steady increase in the proportion of youth using various mobile money services more frequently e.g. mobile banking, on-line loans, bill payment services.

It was envisaged that youth would use the YEG transfer to leverage additional income or loans. There is limited evidence of this. Saving emerges as a bigger priority. Whilst virtually all recipients report saving, the number with outstanding loans and debts has reduced by 24%. Overall YEG youths seem reluctant to take loans or increase debt levels.

Savings locations currently used by recipients at latest follow-up



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"In the savings group, they can refuse to give me the money, so my savings will stay intact. It is very hard to have money and not spend it. In the group, I tell them to lend me money only when things are very tough for me and hence the borrowing is justifiable. If I am not in deep trouble financially, I tell them not to lend me any money. I cannot stay with money. I will spend it."

“

"I did not save my money in a bank or in M-PESA. I withdrew the money and gave it to my mother to keep for me and told her that I whenever I would need it, I would let her know."

Both payment groups report increased savings since the start of the pilot with LS recipients reporting nearly twice the level of savings of MP recipients (\$240 versus \$120). Women also save more of their transfer than men. The desire for illiquidity i.e. mechanisms which enable youth to 'lock' their money away emerges strongly. M-Pesa's M-Shwari service – which offers this function – emerges as a very popular way to save money. It enables savers to put away money for fixed periods so as to save for school fees and keep money out of their M-Pesa account where it is too easy to spend. It is one of the key reasons why informal groups still remain an important saving location. This is particularly true for women who are twice as likely to use groups to save money as men.

The YEG Project Going Forward

Further Learning

Potential research questions⁹ could include:



Will income and other reported gains be sustained? If so by whom and why?



Is it possible to identify characteristics which distinguish potential growth entrepreneurs (as opposed to survival entrepreneurs) early on? What are the common factors behind their success?



In relation to the main features of the intervention- cash transfers, smartphones, access to apps and the implementation of the project through groups - What are the key drivers of success in terms of impacts on resilience and growth?



How has targeting through groups influenced the impacts of the pilot? How well is group and individual performance linked?



How has the project influenced behaviour and identity, for example, with respect to entrepreneurship, resilience and growth?

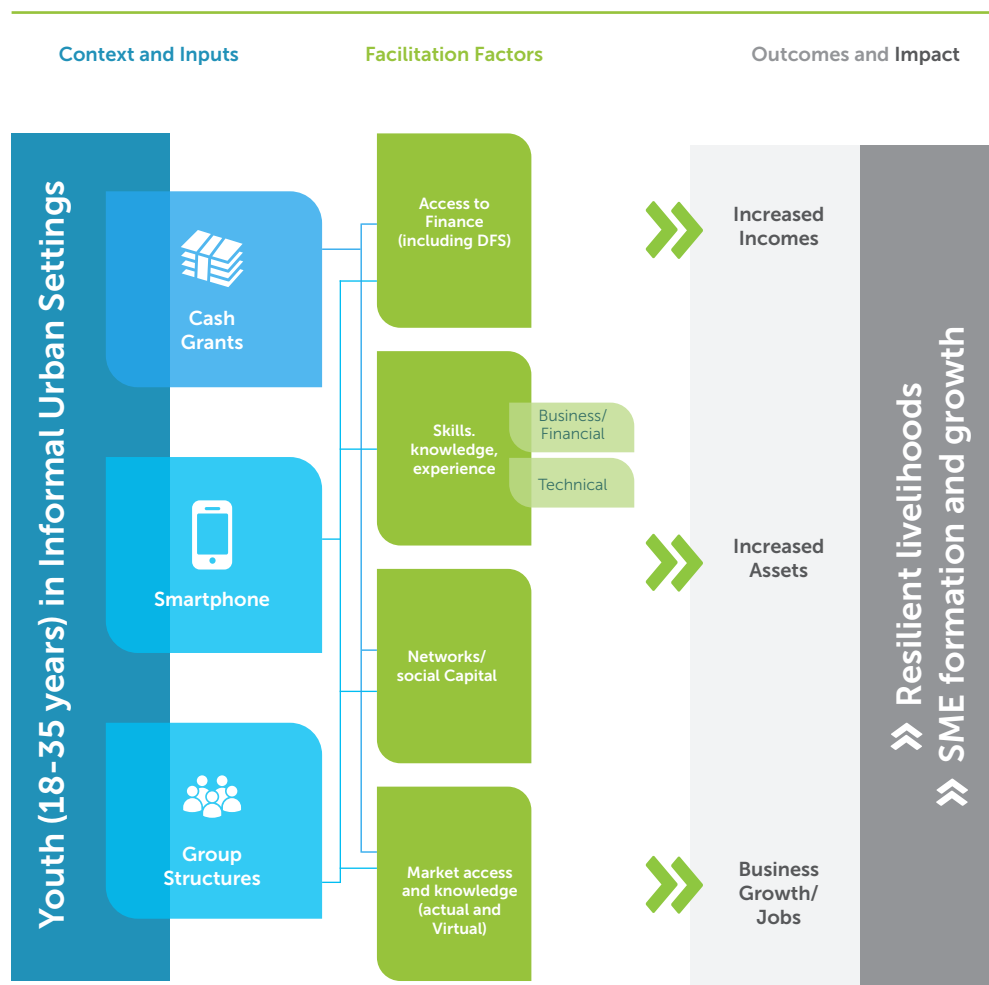


How do research findings compare with wider trends or other studies in populations elsewhere?

The YEG pilot is now into its second year and whilst all lump sum payments are complete monthly recipients will continue to receive monthly grant payments. The project is continuing to generate large amounts of data, particularly from the post-payment telephone surveys.

The initial findings provide many interesting insights on urban low-income youth. However they also throw up many additional questions on a wide range of topics. A full exploration of all issues is beyond the scope of FSD Africa's original research framework. However FSD Africa and project partners recognise the project presents an ideal opportunity for wider learning and research. Going forward, FSD Africa are keen to identify potential partners interested in undertaking more detailed or supplementary research on mutual areas of interest. These could include: cash transfers; mobile phone use and digital learning; youth social networks and group structures in urban environments; financial, business and technical skills and training; financial services for low income men and women etc.

The figure below outlines the possible elements of a theory of change illustrating the interplay and relationship between project inputs (grants, smartphone and groups) on some of the facilitating factors that build resilient urban livelihoods.



⁹ Many of these research questions would require additional research funding / data collection to answer.



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