fsdafrica

Youth Enterprise Grants (YEG) for the Informal Economy

mastercard foundation

Young Africa Works

GiveDirectly

UKaid from the British people

What's the Issue?

Kenya

80%

of the population in Kenya is under 35 years

The youth bulge. Kenya is a very youthful country. The median age is estimated at 19 and about 80% of the population are under 35.[1] This is typical of most African countries, with the continent's youth population (15–25 years) expected to double by 2050 to 452 million. Opinion is divided as to whether this is an asset for the continent or a threat. The Mo Ibrahim Forum Foundation Report[2] 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 those in cities than those in rural areas, urban populations in Africa are growing fast. By 2050, over half of Africa's population are expected to live in urban areas.[3] 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 jobs.[4]

Consequently, the **informal economy** in Africa is massive. A 2012 report by the Kenya Institute for Economic Affairs (IEA) estimated that it accounted for 34.3% of GDP. It is also a huge employer, estimated to represent 90% of all new employment.[5] 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-sized 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 mobile money and other digital financial services, access to affordable smartphones and increasingly cheap internet access.

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.

1 Alex O. Awiti and Bruce Scott, The Kenya Youth Survey Report, 2016.
2 Africa at the Tipping Point, 2017.
3 https://population.un.org/wup/Country-Profiles/
4 Kenya National Bureau of Statistics.
5 Kenya National Bureau of Statistics, Economic Survey, 2017.

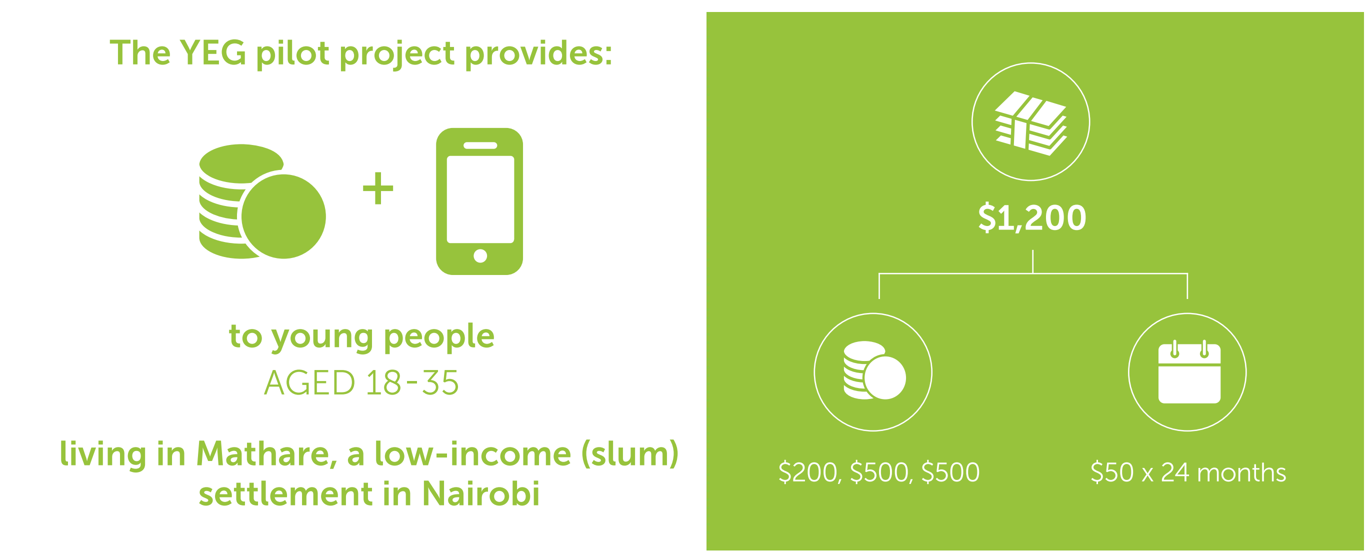
The YEG Pilot Project

The Youth Enterprise Grant (YEG) pilot project was a two-year intervention, implemented by cash transfer specialists GiveDirectly with additional funding from the MasterCard Foundation, FSD Africa and the Google Impact Challenge Fund. The project involved 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 were identified and selected as part of existing group structures in Mathare (many with saving and credit functions) with appropriate geographic and gender representation. The payments, totalling approximately $1,200 per beneficiary, were made via mobile money platform M-PESA.

The first payments began in November 2018. Half the beneficiaries received three lump-sum payments within three to four months of enrolment on the programme. The other half received them as monthly payments of approximately $50, for two years.

The young people were free to use the cash as they saw fit – but they were '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 a low-cost smartphone onto which a range of business and money management apps had been loaded.



Research activities

Research was the primary objective of the YEG project. In line with the YEG Research and Evaluation Framework, a range of quantitative and qualitative data was collected over the lifetime of the project. This included recipient surveys at registration and after payment rounds, as well as several rounds of focus group discussions.

YEG Findings

The Urban Context

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

> *"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 those enrolled were 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 were also 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 described 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. Nearly half of all participants (48%) lived in households with no children. This rose to 62% of men compared with only 9% of women.

Although the project provided youth with a smartphone,[6] 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, where 79% of adults have a mobile money account[7] – much higher than 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 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 piloted the selection of youth by working with local partners to identify existing group structures. The YEG programme showed that transferring cash and a smartphone to urban youth in this context is very feasible. There was no evidence of increased levels of insecurity, fraud or violence as a result of the project – in fact, there is some evidence that crime actually reduced as youth were busy building their livelihoods.

[6] The cost of which was deducted from the transfer.
[7] 2019 Finances Report.

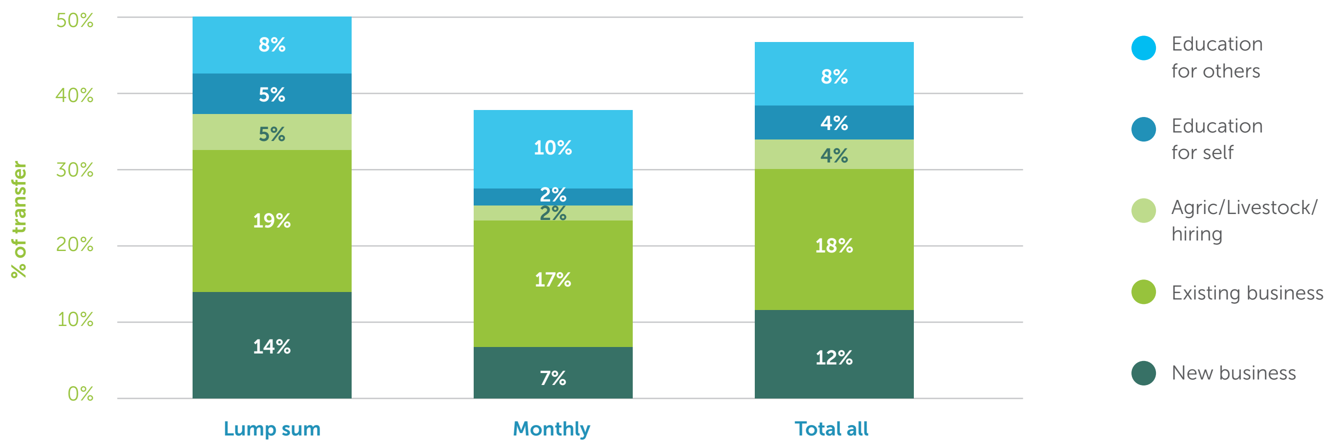
YEG Findings

What do youth do with the grants?

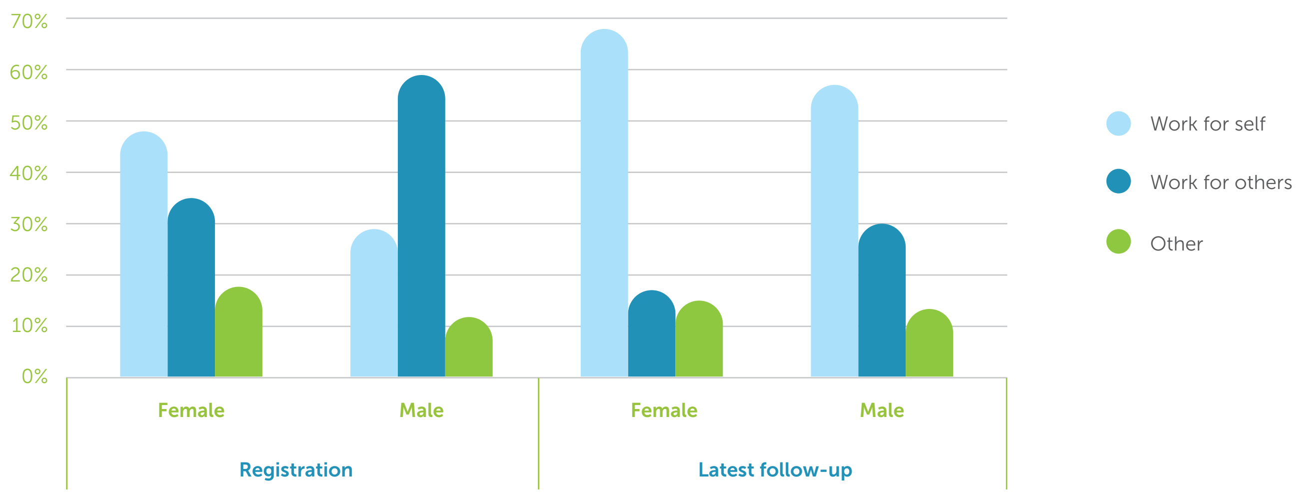
Analysis of follow-up and endline surveys showed there was no indication the cash was 'misused'. The vast majority was used to support daily needs or invested in education or income-generating/business activities.

Overall, YEG recipients invested more than one third (~34%) of their transfers in new or existing businesses (including agriculture). Lump sum recipients allocated a slightly higher proportion of their grants to productive investment (50%), which also included expenditure on education for themselves or others.

Productive investments by lump sum and monthly YEG recipients



There is strong evidence that the project encouraged entrepreneurial behaviour. In particular there was 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 79%. This shift was particularly marked for men, although there were still more self-employed women than men.



What do young people 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

Covid-19 and YEG

As the Covid-19 pandemic took hold in 2020, strict lockdowns were imposed in Kenya between April and August. These had a significant economic impact, nationally as well as locally. Monthly payment recipients directly benefited from the monthly payments, which continued through the height of the lockdowns. Endline surveys showed that the YEG recipients coped well during the lockdowns, with recipients clearly modifying their use of cash during this time, prioritising basic costs such as food and rent, and keeping existing businesses afloat. Although Covid-19 was a major shock, its impact appeared less important than (or on par with) the many other idiosyncratic shocks affecting small and micro-businesses in Mathare.

YEG Findings

What is the Value of the Smartphone?

Part of the theory of change that the pilot sought to test was the value of access to a smartphone in building a resilient urban livelihood – and, in particular, the value of digital technology in developing financial, business and technical skills and knowledge in addition to market access.

All recipients were offered a smartphone upon enrolment, although 89% already had a phone of some sort (and 28% had a smartphone). By the time of the endline survey, only 53% retained the project phone, due to a high level of theft, loss and damage. Despite this high attrition rate, the smartphone was extremely popular and widened access to social media and other internet services. Upon registration, GiveDirectly staff uploaded Touch Doh, a money management app developed by Shujaaz Inc[8] 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 Facebook page (a business advice and chat group). Follow-up with YEG recipients showed that the Hustle Fiti page was visited by the majority of recipients and actively used by some.

Conversely the Touch Doh app was not widely used, with analysis of endline data showing that only 11% of recipients reported using the app most days. Discussions on Touch Doh found users liked the idea of having different 'pockets' to compartmentalise cash, but that they wanted that in reality, rather than in the form of advice 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-Shwari.[9]

A more interesting finding is the increasingly important role that access to the internet (particularly social media) via smartphones is playing for young people's businesses. The phones proved critical to many users for gaining market knowledge, business and technical skills. Numerous recipients reported use of social media to access clients and market goods or services, and almost all used M-PESA to hold, send and receive money related to business activities. However, although expenditure on airtime and data 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 showed that access to capital and the direct experience of running a business seem to have made youth more aware of their gaps and limitations with regard to financial and business skills.

> *"Touch Doh is not saving my money. It's just like writing in a book about your expenses and savings but if it could lock some amount of money for a certain period of time that would help. But now, it doesn't stop impulse buying, if I had budgeted money for saving and I saw something nice that I had no plans of buying, I will go ahead and buy and Touch Doh will not help."*

> *"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 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."*

> *"As a businessman, I sell clothes and shoes. When I tell my friends that I have shoes of a certain type, they ask me to post photos of what I have in stock and then they call to place orders. I post them on Facebook and Instagram."*

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

[8] www.shujaazinc.com

[9] A micro-savings product linked to M-PESA, through which it is possible to access a micro-loan.

YEG Findings

Youth and financial services

Mobile money remained the most widely used method of managing and saving money

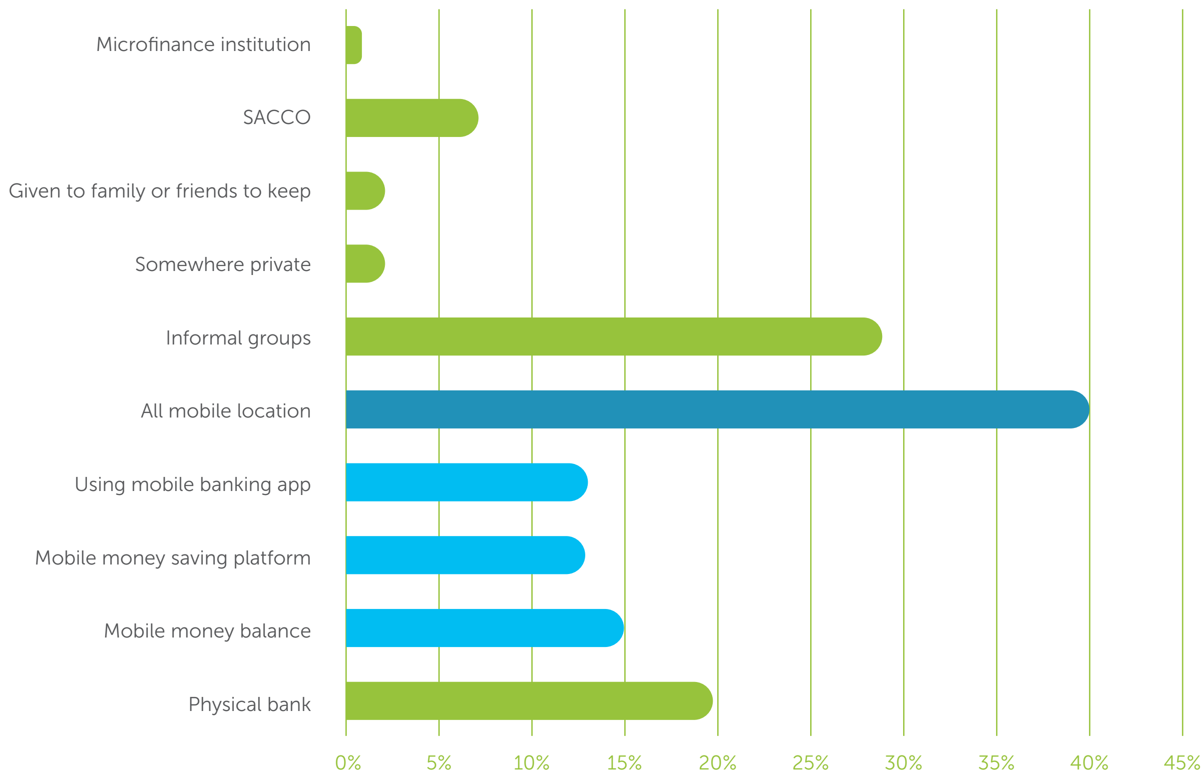
> *"I did not save my money in a bank or in M-PESA. I withdrew the money and gave it to my mother to keep for me and told her that I whenever I would need it, I would let her know."*

The capital injection provided by the enterprise grants addressed one of the key barriers to business or other livelihood investments. YEG research examined how the transfers facilitated the wider use of financial services, including digital financial services via 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 showed mobile money remained 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 seemed to be a small but steady increase in the proportion of youth using various mobile money services, like mobile banking, online loans and bill payment services, more frequently.

It was envisaged that young people would use the YEG money to leverage additional income or loans, but there was limited evidence of this. Instead, saving emerged as a bigger priority. Virtually all recipients reported saving, with the number with outstanding loans and debts reduced by 29%. Online loans emerged as an increasingly important source of credit for those with debts, but the amounts borrowed were small. Overall, YEG participants seemed reluctant to take loans or increase their debt levels.

Savings locations currently used by recipients at latest follow-up



> *"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."*

Both payment groups reported increased savings during the project, with lump sum recipients reporting nearly twice the level of savings of monthly payment recipients ($240 versus $120) at the halfway point. Endline surveys also showed that savings rebounded well following the Covid lockdowns. Women also saved more of their transfer then men.

The desire for illiquidity, i.e. mechanisms which enable youth to 'lock' their money away, emerged strongly. M-PESA's M-Shwari service – which offers this function – emerged 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 were twice as likely to use groups to save money than men.

22-year-old Simon Chege was born and raised in Mathare slum where he still stays with his mother and sister. After leaving school, he started hawking 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 had observed his friend sell popcorns and borrowing skills, He ventured in the business as the funds he got could enable him put together all the resources he needed to start up. Simon uses his phone for a bank as he saves his earnings on Mpesa and also accessing social media sites.

From the business, Simon says he has become financially independent in providing for his basic needs and even supported her 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.

The YEG Project:

Implications for policy and programming

The YEG study has shown that the provision of cash payments to large numbers of youth via mobile money is highly feasible and should be replicated.

The YEG study has shown that the provision of cash payments to large numbers of youth via mobile money is highly feasible and should be replicated. The high prevalence of mobile money and national ID coverage means electronic or mobile money payments are an efficient and effective means to make cash transfers in such contexts.

The targeting and selection process trialled by the YEG project also proved a successful approach in an urban 'slum' context, which can prove a challenge for traditional forms of targeting. The utility of this approach was validated during the Covid-19 crisis when GiveDirectly provided emergency mobile money payments to over 30,000 households during the 2020 national lockdown.

Policy makers need to be aware of the increasingly important role smartphones are playing in enhancing livelihoods and business opportunities for many young people. The YEG project identified many examples where phones were critical in supporting recipients' ability to access customers, market goods and services, establish prices and obtain business information and technical skills. Additionally, endline surveys showed that mobile money platforms and informal groups remain the most popular ways to save money. Mobile money provides a secure way to hold and save money, and the research highlighted the popularity of mobile saving functions enabling users to 'lock' money away. Digital financial service providers should consider the unmet demand for financial services that enable youth to compartmentalise money for different purposes.

Youth in Mathare view entrepreneurship as the only realistic way to improve their circumstances. The YEG project provided recipients with an unprecedented opportunity to fulfil this aspiration. This is evidenced by the large and sustained shift in the proportion of youth 'working for themselves'. Improvements in financial wellbeing were marked and appear sustained. Despite Covid-19, the majority of those working for themselves were still operating viable income-generating/business activities at the end of the study.

From tracking these youth before, during and after Covid-19 lockdowns, is it clear that small and micro-businesses in this context are continuously subject to external/idiosyncratic shocks and challenges. This can create a short-term survivalist approach to business that may undermine a long-term, growth-orientated mindset. Urban livelihoods programming and policies focusing on micro-entrepreneurs should put a higher priority on the environments in which these businesses operate. The YEG research found that business skills and financial literacy are rarely the most critical threats to success. Tailored and mediated business support is appreciated, but it has less importance than other factors inhibiting business success, such as reliable, affordable basic services, universal health care, secure property rights and security.

The research demonstrates the clear value of unconditional cash transfers to this group, as well as raising many additional questions on a wide range of topics, which further, bigger pilots could explore. These include, among others, mediating markets via mobile phone use; digital learning; youth social networks and group structures in urban environments; financial, business and technical skills and training; and financial services for low-income men and women.

35-year-old Erick Otieno has been living in Mathare slum for 15 years with his wife and three children. Erick has been a casual labourer taking all sorts of jobs that come his way for the time he has lived in Mathare until he was introduced to the YEG Programme.

Through the programme, Erick has received lumpsum twice, the first instalment of KES 20,000 that 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 through observation from other people where he went hanging out in days he couldn't get casual jobs.

A smartphone he received from the programme also 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 as well as servicing motorbikes for his community. On a good day, Erick pockets KES 1,500 and he dreams that his business can only grow and draw customers to him from the larger slum and Nairobi City Centre.

For futher information:

FSD Africa, Nairobi, Kenya
info@fsdafrica.org
@FSDAfrica

www.fsdafrica.org

UKaid
from the British people

Foreign, Commonwealth
& Development Office, London, UK
@FCDOGovUK

www.gov.uk