



The Impacts of Microfranchising on Young Women in Nairobi

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We evaluated two interventions that eased credit constraints in slightly different ways: a multifaceted ‘microfranchising’ programme eased both financial and human capital constraints by providing training and physical capital to recipients, while an unrestricted cash grant of comparable value more directly eased credit constraints. Both interventions led to persistent increases in self-employment and had economically large and statistically significant impacts on income over the medium-term (7 to 10 months after intervention). However, the impacts on income diminished over time.

Introduction

Integrating young adults into the labour market is a major challenge facing low-income countries. Unemployment and underemployment rates among youth are typically two to three times higher than rates for older adults, and much of the evidence suggests that young women have the most difficulty generating an income (Fares, Montenegro and Orazem, 2006; UNDP, 2013). In many African countries, the formal sector remains small, leading some policy makers to promote self-employment as a possible source of income for underemployed youth. A number of binding constraints may inhibit youth entrepreneurship: credit and savings constraints may prevent individuals from starting profitable firms, while a lack of training or entrepreneurial ability may prevent them from identifying a market opportunity or successfully managing an enterprise.

A number of interventions ease credit constraints directly by providing large infusions of capital. These infusions may help prospective entrepreneurs escape a poverty-trap if the easing of the credit constraint allows them to launch sustainable, profitable businesses. However, for those with lower levels of entrepreneurial ability, self-employment may not be sustainable or profitable and the infusion of capital alone may be insufficient to facilitate an escape from a poverty trap. With this in mind, some multifaceted interventions combine a capital transfer with business or life skills training to try and also ease human capital barriers to sustainable self-employment; however, such interventions may or may not succeed at transforming unemployed youth into successful entrepreneurs. Moreover, when youth have few secure savings mechanisms, they may use enterprise capital as a savings technology – opening small business that get smaller over time as they spend down their initial capital investment. In such a situation, youth with limited entrepreneurial ability may launch firms that they expect to close in the future.

In this study, we compare two interventions: a cash grant intervention that directly eases credit constraints, and a multifaceted intervention that eases both credit constraints and human capital constraints through the provision of physical capital and training. The two study arms allow us to comment on the role credit constraints play in holding back sustainable entrepreneurship as well as whether the additional structure provided by a multifaceted intervention yields an additional benefit relative to the unrestricted cash grant.

Context of the study

This research evaluated two labour market interventions, each designed to ease credit constraints. Both interventions targeted young women living in three of Nairobi’s informal settlement neighbourhoods: Baba Dogo, Dandora, and Lunga Lunga. The first intervention, the Girls Empowered by Microfranchise (GEM) programme, was designed and implemented by the International Rescue Committee (IRC). The GEM programme helped out-of-school teens launch branded franchise businesses – either Darling salons or



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Kenchic mobile food carts – through a package of training, capital, and ongoing mentoring and support. The second intervention was implemented by the research team and consisted of an unconditional cash grant disbursed to randomly selected applicants to the GEM programme.

The GEM intervention combined a number of distinct elements: business skills training, franchise-specific training, start-up capital (in the form of the specific physical capital required to start the franchise), and ongoing business mentoring. Several of the intervention's components are common to many enterprise promotion and job skills programmes; what distinguishes microfranchise programmes from other interventions is the focus on a small number of specific franchise business models that are tailored to the skills and constraints of programme participants (i.e. poor young women in urban Nairobi) and to local market conditions. In this case, the implementing NGO partnered with two Kenyan businesses looking to expand their presence in Nairobi's poorer neighbourhoods. The franchise partners were both relatively well-known firms (within Kenya), and their reputations added value to the franchise package that programme participants received.

Applicants assigned to the cash grant treatment were offered an unrestricted transfer of 20,000 Kenyan shillings (approximately 230 US dollars in late 2013). The value of the grant was selected to make it roughly comparable to the value of the microfranchising package of training and capital. Individuals assigned to the grant arm were contacted by phone and invited to meet privately with a member of the disbursement team to discuss the grant. During the meeting, individuals were told that there were no restrictions on how the grant could be used and that the grant did not need to be paid back. Disbursements to the grant recipients were timed to coincide with the launch of the microfranchise businesses.



Figure 1: Vocational training for the salon microfranchise business model (left); example of the mobile food vending microfranchise model in operation (right)

Evaluation methodology

We estimate the impacts of the interventions on participants through a randomized control trial. Because the IRC anticipated receiving more applications than available spaces in the GEM programme, applicants to the programme were randomly assigned to either the microfranchise treatment, the cash grant treatment, or the control group. As the possibility of receiving the cash grant could induce individuals not interested in the microfranchise treatment to apply, the cash grant arm was not publicized. Women randomly assigned to the treatment group were contacted and invited to begin the programme while those assigned to the cash grant group were notified of a different programme for which they were eligible and had been selected. Figure 2 details the assignment of applicants across the study arms.



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Figure 2: Assignment to treatment

To measure the impacts of the interventions on applicants assigned to each group, we conducted a midline survey 7-10 months after treatment and an endline survey 14-22 months after treatment.

Evaluation results

There are large differences in compliance (i.e. participation to the intervention) across the two treatment arms: while almost 40 percent of women randomly assigned to the microfranchise treatment did not participate, 95 percent of those assigned to the grant arm received the disbursement (Table 1). These differences highlight both the ease of disbursing cash grants and the required commitment to complete a multifaceted training programme. In spite of the differences in compliance across the treatment arms, the two programmes are estimated to have similar treatment-on-the-treated impacts across a range of outcomes.

Table 1 - Compliance with Treatment

	Control	Franchise Treatment	Grant Treatment
Completed baseline survey	1.00	1.00	1.00
Attended basic business training	0.00	0.61	0.01
Launched a microfranchise	0.01	0.39	0.01
Received a cash grant	0.00	0.00	0.95
Observations	363	360	1

At the midline, individuals in both the franchise treatment and grant treatment were approximately 45 percent more likely to be self-employed than individuals in the control group, with some indication that the increase came at the expense of paid work for others (though the observed decline in the likelihood of working for others is only marginally significant). Both treatment arms are also estimated to increase incomes; the franchise treatment is estimated to have caused a 26 percent increase while the grant treatment is estimated to have led to a 55 percent increase. The two treatment arms differ in their impact on labour supply: while the franchise treatment is not estimated to have had any effect on the number of hours worked (across self-employment and paid work for others), the grant treatment is associated with a 40 percent increase in labour supply – driven by an extremely large increase in self-employment hours, with almost no reduction in hours of paid work for others.

The endline results show an overall lack of persistence of the short-term impacts on income and labour supply. While individuals in both treatment arms are still more likely to report self-employment activities (Figure 3, left), they are somewhat less likely to report paid work for others at endline (Figure 3, right). Together, these impacts translate into an absence of overall impacts on either income or labour supply at endline.



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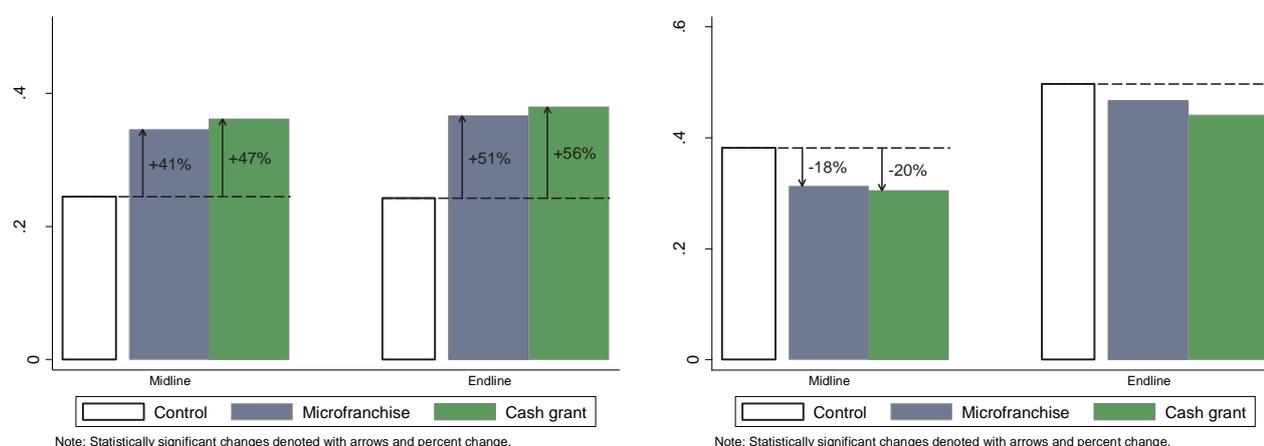


Figure 3: Impacts on self-employment (left) and paid work for others (right) over time and across interventions. Arrows indicate statistically significant differences between treatment arms and the comparison group.

Policy Implications

Our findings are not consistent with the presence of poverty traps caused by credit-constraints. Both interventions were designed to ease credit constraints and led to large increases in self-employment without sustainable increases in income; the microfranchise intervention was also meant to address skills constraints and other obstacles to entrepreneurship, potentially making impacts more sustainable. However, neither treatment had a sustained impact on income.

Our results are consistent with prospective entrepreneurs having limited secure savings mechanisms, leading them to start unsuccessful businesses which they then consume over time. The similar impacts across treatment arms suggests that the additional structure and training provided as part of the franchise intervention did not increase productivity sufficiently to create an enduring, profitable enterprise.

While our results do not indicate that credit constraints *never* generate poverty traps, they are consistent with a number of recent studies of cash grants and other credit market interventions which have consistently failed to find positive impacts on business profits (De Mel, McKenzie and Woodruff, 2008; Banerjee, Duflo, Glennerster and, Kinnan 2015). Taken together, these studies and our results suggest that credit constraints are not the main obstacle preventing sustainable entrepreneurship among the poor.

Moving Forward...

In addition to measuring impacts on programme participants, it is also important to understand the general equilibrium impacts on the sectors impacted by the intervention. With that in mind, we embedded in the research design a survey designed to measure the impacts of the GEM treatment arm on pre-existing firms. This stems from the fact that the microfranchise arm increased the number of firms operating in specific sectors (hair salons and prepared foods) in the programme neighbourhoods which could impact pre-existing firms in these neighbourhoods. Using a panel dataset of firms in impacted and control sectors and neighbourhoods, we plan to measure the spillover effects of this programme on existing firms.