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Comparing the Effects of Entrepreneurship Promotion Programs on Young Women in Nairobi

Two Labor Market Interventions that Have Similar Impacts on Self-Employment Have Different Long-Run Impacts on Well-being

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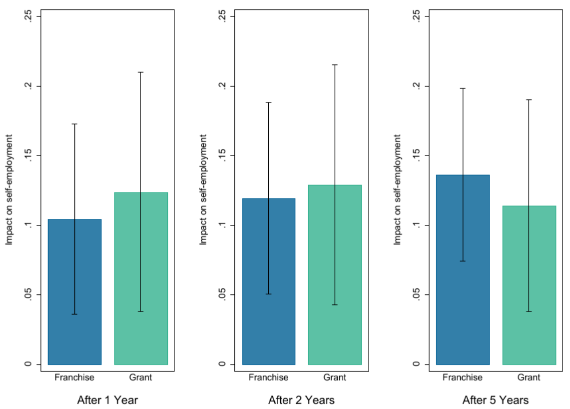
Two interventions shift women into self-employment: a multifaceted program improves well-being; cash grants do not.

Topic at a Glance

Millions of African youth struggle to enter the labor force. Many would like to start their own businesses, but may lack the capital, business skills, and market intelligence required to do so. During the years many young people spend searching for good jobs or entrepreneurial opportunities, women in particular are vulnerable to exploitation. In this context, active labor market programs that help vulnerable young women launch their own businesses can have the dual benefit of overcoming poverty traps related to credit-rationing while providing social protection for the most vulnerable.

We conducted a randomized trial that was designed as a cash-benchmarked evaluation, comparing a one-off cash grant to a “microfranchising” intervention and a pure comparison group. The franchise program was a bundled intervention that provided business-specific training, capital, supply chain linkages, life skills training, and ongoing mentoring. The cash grant was approximately 230 US dollars. The interventions were implemented in urban Nairobi in 2016, targeting young, unemployed women.



Caption: The figure summarizes the impacts of the franchise and grant treatments on women’s self-employment. Black lines are 95-percent confidence intervals around the estimated intent-to-treat effects.

New Insights

The analysis points to the following key findings:

- First, entrepreneurship-support interventions increase young women’s probability of starting a business and remaining self-employed over time. Five years after the intervention, women in the franchise and grant arms were roughly ten percentage points more likely to be self-employed, relative to a control group. Similar impacts on self-employment were already evident one and two years after treatment. (Impact estimates vary from 10 to 14 percentage point increases in self-employment over the two arms and three follow-up periods without controlling for any other characteristics, but are never statistically distinguishable from one another, as shown in the figure; impacts range from 10 to 12 percentage points after controlling for other characteristics.) Both interventions seem to shift young women into self-employment permanently. We do not find any sustained impact on the likelihood of being in the labor force or on the total number of hours worked.

- Second, both the franchise and cash grant treatments had large positive impacts on earned income in the first year after treatment, but those income gains dissipated in the second year and did not return. Five years after treatment, there is no detectable impact on income from either intervention.

- Third, descriptively, young women in this setting prefer self-employment. Over 90 percent of young women in all three study arms indicate that they would prefer to be self-employed rather than work for someone else if the hours and pay were the same. This preference may reflect the value that young women assign to self-employment job attributes such as flexibility of hours and working independently, compared to wage employment or family work offering similar earnings. This preference also helps explain why, following the two interventions in this study, women choose to remain in self-employment even when it does not improve their income. If anything, the puzzle is why the treatments don’t have even larger impacts on entrepreneurship.

• Finally, the franchise intervention had a positive long-lasting impact on subjective well-being, while the cash grant did not. Though the franchise and grant treatments had (seemingly) similar impacts on occupational choice, they had different impacts on overall well-being. Our survey included measures that might reflect impacts on welfare not directly caused by current labor income, including household assets, living conditions, and subjective life satisfaction; we aggregate these measures to construct an overall index of well-being. Our results indicate that the franchise treatment improved well-being five years after treatment by 0.19 standard deviations, relative to the control group. In contrast, the grant treatment did not improve well-being relative to the control group. While it may initially seem surprising that two interventions that had similar impacts on labor market outcomes had different effects on well-being, our results suggest that the franchise program built a stronger sense of entrepreneurial identity among treated women, and that the impacts of the franchise treatment on well-being are not mediated by self-employment.

Policy Recommendations

There are two key policy takeaways from our study. The first is that labor market interventions targeting youth can have extremely persistent impacts on occupational choice, even when they do not impact income or overall labor supply over the long term. In our study, in a context characterized by informal labor markets and limited opportunities for wage employment, both the franchise and grant treatments shifted about one in ten women into self-employment, and these impacts show no sign of diminishing over time – though the short-run impacts on income that we observed in the first year after treatment quickly disappeared. Even programs that fail to impact poverty can lead to permanent changes in young women's lives.

In addition, our findings suggest that bundled interventions may have positive impacts on subjective well-being that go beyond impacts on occupational choice and income. A multifaceted "microfranchising" intervention—that sought to improve young women's life skills, and to increase their human capital in the form of general and specific business skills, while providing mentorship and expanding their entrepreneurial opportunities—improved overall well-being five years after treatment, while an unrestricted cash grant that had the same impacts on labor market outcomes did not improve well-being. As a result, in terms of subjective well-being, women assigned to the multifacted program are significantly better off five years later than those who received the cash grants.

Limitations

Like all randomized trials, our results are context-specific: replicating the interventions with different women in a different market context migh not produce the same results. This is a particular issue with the franchise treatment because the franchise package was tailored to the skills of program applicants (who were young, out of school women in three very poor neighborhoods in Nairobi) and the specific market environment. Moreover, our design does not allow us to identify the impacts of the individual components of the microfranchise program – which included life skills training, vocational education, physical capital, and ongoing mentoring; nor can we test whether the impacts of these individual components were additively separable.

A second limitation is our relatively small sample size, which may limit statistical power in our anlysis of treatment effect heterogeneity. Using a machine-learning based approach, we do not observe any meaningful treatment effect heterogeneity in our data, but statistical power is relatively limited given the scale of the program we are evaluating.

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