Impact Report

Creating Secure Jobs and Tackling Poverty in
Kenya by Growing Micro Enterprises into SMEs

balloon
VENTURES

Table of Contents

1. Objectives

This report presents the key findings from an evaluation of Balloon Ventures' FCDO funded project: Creating Secure Jobs and Tackling Poverty in Kenya by Growing Micro Enterprises into SMEs. The report sets out to achieve 3 main objectives:

1. To compare and actual performance on the project with the targets agreed at its inception, and to explain any variances.
2. To highlight key learnings from the project, building on reflections about what's worked well/less well.
3. To propose recommendations that improve outcomes based on these learnings and that can be applied by Balloon and other organisations with similar goals.

The report begins with a short background to the project, including some context about practical challenges encountered during delivery. It then briefly describes the main methods and sources of data used for the evaluation, before moving on to address the 3 aims described above.

2. Background to the project

The project's aim was to create good quality jobs for poor and marginalised people in high potential small businesses.

We planned to support 20 small businesses, with loans of ~$10,000 and high touch technical assistance to improve management practices, facilitate growth, and deliver decent work for 400 direct employee beneficiaries. More broadly, the project was set up to explore whether carefully selected and supported small businesses can represent a viable investment opportunity for social lenders and deliver strong impact through improvements to job quality in the informal sector (where ~80% of the population in Kenya work). The key resources required to deliver these outcomes (e.g., guides, tools, templates) will be documented in an open-source playbook so that other organisations can adapt and apply our what works.

The project was based in the Rift Valley region of Kenya, primarily in and around Nakuru County, and was originally planned over 30 months. The total grant approved by UK Aid was £223,229. Balloon committed to top this up with £38,607 to make a total project budget of £261,836.

Two significant setbacks occurred during the project.

Firstly, funding changes were implemented mid-project by UK Aid. Projects were required to find savings of 50% of the annual 19/20 budget and to reprofile this spend in 2021-22. This disrupted delivery and targets had to be reduced.

The project was then terminated 5 months before its planned completion date; much of the spend moved from 19/20 to 20/21 was therefore lost.

The overall total project period was reduced to 22 months and the total budget (including Balloon's contribution) ended up at £229,853, a reduction in project funding by circa £32,000.

The results described in section 4 were negatively affected by these changes and targets have been adjusted twice, once in 2020 to accommodate the FCDO shortage of funds that year, and then again in 2021 when notice of termination was received and the budget reduced with less time to reach the targets.

Secondly, Covid-19 and the associated restrictions on movement and social life, including a national lockdown, damaged our ability to deliver some project activities as planned and had devastating effects on small businesses and their employees. Balloon took several measures to limit Covid-19's impact on the project, such as:

- Developed Covid survival plans for small businesses, focusing on long-term viability and employee welfare
- Offered short term loans to address more immediate working capital needs
- Provided extended loan holidays to preserve cash for things like salaries and rent
- Leveraged technology to deliver technical assistance remotely when in-person contact was not possible

These steps helped to ensure none of the businesses supported through the project had to permanently close (all are still in operation). However, most businesses experienced serious disruptions, generated less income, and employed fewer people because of Covid-19. This should be considered when reviewing the project's results.

Despite these two setbacks, the project achieved many positive results; both in terms of Balloon's performance against logframe targets (see Key results), and, crucially, in the lessons learnt that future interventions should seek to build on (see Key learnings and recommendations).

3. Summary of methods

This report draws on data from a broad range of sources collected by different people and at different times to limit the likelihood of individual biases and to reflect changing circumstances over the project period. The main sources have been listed below:

- **Weekly progress meetings** with key beneficiaries. These meetings are part of the project's core delivery method (i.e., impact data is collected passively) and therefore led by staff implementing the project activities.

- **Monthly data collection** covering business performance (e.g., revenue), job numbers and basic questions around job quality (e.g., whether jobs are contracted).
- **Biannual data collection** that comprises a detailed review of the themes covered in the monthly data collection. Monthly and biannual data is compiled by the impact data lead at Balloon.
- **Feedback events and focus groups** with project beneficiaries, including peer to peer learning sessions and workshops on issues relevant to the project, such as job quality and barriers to small business growth.
- **Staff workshops** led by external consultants and Balloon Ventures senior managers to draw out key insights from delivery and proposals for improvements to the project.
- **Existing reports evaluating the project**, such as quarterly and annual submissions to FCDO and impact and insight reports prepared by Balloon Ventures and shared with staff and other partners.
- **Extra capacity brought in during the last quarter of the project** to gather additional qualitative feedback from key beneficiaries.

In compiling the report, we have reviewed materials from each of these sources. In some cases, information has been taken straight from the source, unedited. Generally, however, data from different sources has been combined to inform insights and conclusions.

4. Key results

The results presented in this section show performance against the outcome and output indicator targets captured in the project logframe. Some of the targets have been adjusted to reflect reductions in the length of the project and in the total amount of funding awarded.

Some key terms from the logframe have been defined below:

Good Jobs Framework – tool to evaluate job quality in small businesses, covering job security, wages and benefits, safety and risk management, on the job learning, and voice and representation. The indicators are informed by a sample of internationally accepted standards (e.g., ILO, IFC Performance Standard 2, SDG 8 Decent Work). Businesses are assessed by Balloon using the Good Jobs Framework every 6 months.

Business diagnostic – tool to evaluate management practices in small businesses, covering strategy and planning, sales and marketing, human resources, accounting, and production/ operations. The indicators are informed by the World Management Survey. Businesses are assessed by Balloon using the business diagnostic every 6 months.

Playbook – the guides, tools, templates, and training materials required to implement Balloon's intervention effectively. Everything needed to set up the project in a new location or with a new team.

Performance against Outcome Indicators

Outcome 1: 340 employees have good jobs in growing businesses which contributes to them and their ~2000 dependents escaping poverty

Outcome Target 1.1: 170 new jobs created in businesses that achieve over 50% of the criteria in Balloon's Good Jobs Framework

Achieved: 43 jobs created

Balloon created 43 jobs on the project, against a target of 170. Performance in this area was significantly impacted by Covid and contractions in commercial activity due to local and national lockdowns. Despite these challenges, some businesses on the project did increase their staff numbers. These businesses were primarily operating in industries providing "key goods and services" that were less affected by restrictions on movement, such as agro-processing.

Balloon Ventures also concentrated during this period on retaining existing jobs over creating new jobs with good success as the numbers below demonstrate.

Outcome Target 1.2: 170 existing jobs improved in businesses that achieve over 50% of the criteria in Balloon's Good Jobs Framework

Achieved: 221 existing jobs improved

Balloon improved 221 jobs in small businesses, against a target of 170. Employment in small informal businesses is typically casual in nature, and characterised by low pay, insecurity, and in some cases unsafe conditions. Balloon's intervention addresses these issues by working with businesses to improve their employment practices, for example by introducing contracts of employment with legal rights and protections, ensuring salaries are fair and paid on time, and introducing measures to minimise risks and provide opportunities for learning and development.

The 221 jobs included against this indicator are those that have improved due to the project, measured using the Good Jobs Framework (on average business's aggregate Good Jobs Framework score increased by 20% during the project).

Overall, Balloon created or improved 264 jobs for direct beneficiaries, from an overall target of 340, despite the challenges presented by Covid and disruptions to project due to UK Aid cuts. Within that group, 53% are aged under 25 (slightly above the 50% project target) and 46% are women (slightly below the 50% project target).

Reflections covering the age and gender spread are included in the section 5 (Key insights and recommendations).

Outcome Target 1.3: 300 employees with incomes of 500Ksh p/ day or above

Achieved: 229 paid 500Ksh+

Of the 264 direct beneficiaries on the project, 229 are paid 500Ksh p/day or above (estimated minimum living wage for the region). This is 76% of the project target (300). The data for this indicator was collected through business owners rather than employees, due to sensitivities around sharing personal information about income, which should be considered when reviewing the numbers provided (e.g., business owners may choose to present a more positive picture). Business owners and Balloon staff have reported changes in salaries due to the project, however no comprehensive data was collected on this.

Performance against Output Indicators

Output 1: 20 Small businesses with potential to grow and committed to creating good jobs are identified, selected and receive investment through BVF

Output Target 1.1: 36 Small businesses assessed for the project

Achieved: 84 small businesses assessed

Balloon's estimated rate of conversion from assessment to selection on the project proved to be overly optimistic, with higher attrition rates than anticipated. The main factor cited was high levels of risk aversion amongst small businesses due to Covid, e.g., they were cautious taking on investment during an uncertain period and more concerned with survival ahead of growth and job quality. Balloon increased the size of its pipeline to account for this risk aversion, which led to 84 business assessments versus the 36 assessments target.

Output Target 1.2: 20 Small businesses invested in through the project

Achieved: 20 investments in small businesses

Balloon disbursed 20 investments which was the pre-project target. 45% of the investments were into businesses with female owners/ managers. The average number of employees in each business at the start of the project was 11, in line with the expected number of starting employees per business (10). The average investment size also in line with the pre-project expectation (£7000). Having successfully repaid their first investments, 4 of the businesses have returned for larger follow-on loans.

Output 2: *20 Small businesses using the Good Job Framework to improve quality of jobs*

Output Target 2.1: Good Job Framework created

Achieved: created and in use in first quarter of project period

All businesses on the project were assessed at baseline using the Good Jobs Framework. They were subsequently re-assessed every 6 months. Balloon field staff use the outcome of each assessment to identify and propose initiatives for businesses to improve job quality.

Output Target 2.2: 19 Small businesses meeting 50%+ of the indicators in the Good Jobs Framework

Achieved: 20 businesses surpass 50% of indicators

Balloon collects most data on-site at each business's premises through meetings with business owners and key staff, and through the observations of Balloon staff in the delivery of weekly growth meetings (also typically hosted on-site). During periods where movement was restricted due to Covid, the data was collected over the phone. Comparing performance at baseline versus end of project, businesses aggregate score in Good Job Framework assessments increased by 19%.

Output 3: *20 Small businesses with improved business practices that lead to business growth*

Output Target 3.1: 15 Small businesses with aggregate business diagnostic score greater than 2

Achieved: 14 small businesses with score higher than 2

Balloon uses a diagnostic tool to assess management practices in businesses. They then create quarterly growth plans using the diagnostic assessment to help define priorities. Each indicator in the diagnostic is rated between 1-3:
[1] = does not meet expectations
[2] = meets expectations
[3] = exceeds expectations

Of the 20 businesses, 14 finished the project with an aggregate score of 2 or higher (i.e., they generally met or exceed expectations). On average, aggregate scores increased by 24% through the project. The most significant improvements related to financial management, with better oversight of money coming in and out of businesses, and more decisions based on evidence from financial statements (with

fewer businesses running out of cash). The business diagnostics also show consistent improvements in risk management and planning (linked to the quarterly growth planning cycle Balloon introduces in every business), and human resources (through better recruitment practices, job descriptions and staff training).

Output Target 3.2: 15 small businesses that reach their revenue targets based on quarterly growth plans

Achieved: 4 business hit their revenue targets

Businesses on the project underachieved against revenue growth targets set with Balloon. The main reason cited for underperformance is "Covid lockdowns" which meant most businesses were temporarily closed. When businesses opened-up there were also big issues with supply of raw materials, keeping staff safe, and getting products to market. The priority was survival rather than growth. The four businesses that did hit their revenue targets operate in the agri-processing industry which was not subject to all Covid restrictions because they provide essential foodstuffs (i.e., they were able to operate at some points during lockdowns).

Output 4: A model of sustainable finance and technical support produced to contribute to shared learning and the evidence base to take many more people out of poverty

Output Target 4.1: Playbook completed, shared with small business support ecosystem and launched at end of project event

Achieved: final version of playbook due by original project end date

Balloon has developed, tested, and refined playbook resources through the project. They are committed to the original project timeline and on opening sourcing the playbook to crowd in other business support organisations. They will also work with other funders on this, such as Argidius Foundation, Global Innovation Fund, and Palladium.

Output Target 4.2: Small business repayment rate over 75% for reinvestment in further poverty reduction

Achieved: repayment rate above 80%

More than 80% of expected repayments have been made through the project, 5% ahead of the target. This takes account of reprofiled loans, loan holidays, and top-up funds provided to help businesses survive and protect jobs through the pandemic. Achieving a repayment rate above 80% is a strong performance because of the types of business Balloon supports, i.e., those that are underbanked and typically considered too high risk/ low return for other funders.

Output Target 4.3: £15,000 of loan repayments from small businesses

Achieved: value of repayments above £30,000

Balloon has over-achieved in this area, generating absolute repayment returns worth more than 2x the target. This is again due to project adjustments in response to Covid. Addressing the urgent need for cash, Balloon provided more short-term loans to keep businesses operating, e.g., to cater for the increased cost of purchase raw materials. These short-term loans are, by their nature, repaid more quickly than a longer-term arrangement. As a result, that value of repayments is higher than anticipated.

5. Key learning and recommendations

This section describes some of the most critical insights generated through the project, including recommendations based on these insights. It aims to pull out lessons are useful to Balloon and similar organisations, that they can draw upon in the evolution of this model and other interventions that seek to create good jobs for poor and marginalised people.

1. **Improving jobs in informal small businesses can be done.** Growing the number and quality of jobs in the businesses Balloon supports is central to their mission. This project has shown positive results in this area, e.g., helping staff access legal protections, safer workplaces, and improved job security. In some cases, Balloon has also worked with businesses to introduce gradual increases in salaries - especially amongst the lowest paid workers - and more reliable and regular payment cycles so that so staff can invest in their future with more confidence; e.g, through better education, health services, and housing. Getting business owners to buy-into initiatives delivering improved conditions for staff requires a focus on how it will benefit the business. For example, introducing:
   a. Better salaries to improve staff morale, performance, and retention
   b. Staff contracts to comply with legal requirements and protect against closure of the business
   c. Training opportunities to ensure staff have all the skills they need to execute their jobs effectively

2. **Women and young people make up a significant proportion of employees in small businesses.** In this project, more than 50% of employees were under 25 and slightly less than 50% were women. Focusing on creating and improving jobs in this segment has the potential to deliver strong impact for these groups. However, more needs to be done to understand how different levels of job quality are accessed by women and youth. For example, to what extent is there a gender pay gap in the types of small businesses that Balloon supports? And how well are women represented in more senior roles? Similarly,

how does being aged under 25 affect the likelihood that an employee will have a contract of employment or access to statutory employment benefits? And do levels of satisfaction at work change based on the age of employees? Balloon has begun to address these questions more rigorously in a new research project with 60 Decibels, through which 500+ employees in small businesses will be surveyed to better understand:

 a. what informal workers value most in a job
 b. whether informal workers access the things they value most
 c. how job quality differs based in gender, age and other factors

3. **Peer-to-peer engagement is valued by small businesses and effective for Balloon.** As part of this project Balloon set up peer-to-peer sessions for small businesses. These were positively received by attendees, most of whom had not previously experienced opportunities to build connections and learn from similar businesses in a structured way. Various evaluations have recently highlighted the potential of utilizing peer groups to grow businesses. On this project, some additional benefits emerged:

 a. **Behaviour change -** driving changes to business practices in the most difficult areas (e.g., lack of commitment to good record keeping, a preference for informal labour and operations) was better achieved through lessons from peers than from Balloon. Peer advice can be viewed as more authentic and convincing for the toughest challenges.

 b. **Industry expertise** - business owners often have specific and deep experience about an industry that goes beyond what business support organisations can offer. They have up-to-date insights based on practical experience and are often grappling with (and have sometimes already resolved) the same issues as their peers.

 c. **Recruitment for the project** - Businesses that are performing well typically surround themselves with other good businesses. Therefore, these peer-to-peer networks can become a valuable means through which to attract new businesses for the project. This brings down our recruitment costs (and therefore delivers better value for money). Peers who have already experienced the project are also typically better at selling its benefits to new recruits.

4. **Technology has potential**, **but execution requires a strong understanding of the limitations and opportunities for small businesses.** Through this project (partly in response to Covid restrictions), Balloon introduced digital solutions to help businesses manage their finances more effectively and to use the improved data to make smarter decisions. They also used digital checklists with some businesses to standardise key procedures, monitor and develop performance, and assure product/ service. These technologies represent an opportunity to significantly improve the value for money of business support services, and therefore to create and improve jobs at lower cost. The project also uncovered some limitations to using technology in this context: e.g., staff members have varying levels experience using technology and may require

lots of support to get started, the hardware needed often comes at a large upfront cost, changing practices that people are comfortable with can take a long time and may be met with resistance, internet access is inconsistent. Without bottoming out these challenges with each business, technology will not help – in fact, it might make things worse.

5. **Resilience is a critical requirement for small business to survive and thrive.** The complex challenges presented by Covid over the last 12 months has made this point even more important, but even before the virus reached Kenya many of the businesses Balloon supports had experienced shocks that threatened their viability. This might be related to the business, e.g., a big client defaults on a credit payment or a landlord suddenly hikes the rent and closes the facility, or just as often something outside of work, e.g., key staff get ill or the business owner has family commitments that require them to take money out of the business. How well organisations supporting small businesses can prepare them for these moments, through proper risk management, will play a big part in whether they can bounceback.

6. **Small businesses will pay for effective business support services.** Balloon's thesis is that poor management practices are stifling growth and job creation in most small businesses. Many organisations offer free technical assistance subsidised through grants (an important part of the solution), but to make this a sustainable and truly scalable solution, small businesses may need to commit a financial contribution for this support. Getting small businesses to do this is sometimes a challenge. During this project, Balloon identified some insights about how to effectively sell business support services:
    a. **The language used to present growth services is important** – using generic business language isn't always enough as it may not resonate with business owners that have not received formal training. Instead, Balloon focuses on what problem each business wants to solve and starts there. For example, rather than saying "we need to introduce a financial system", Balloon brings up common challenges more directly, e.g., "we want to help you know how much money you're making", or "we want to make sure there's no money going missing in the business". Similarly, instead of saying, "we'll help with Human Resources", they address specific challenges that small businesses often face, such as high turnover of staff or key tasks not getting done/ getting done poorly. Using language that response to common challenges increases the likelihood that a business will be interested in covering some of the cost.
    b. **Sell through doing** – as paying for services is new for most of the businesses Balloon supports, they need to demonstrate their services in practice, rather than just describing them. Small businesses need to experience the benefits to build confidence in Balloon and what they are proposing. This might mean making a financial model at no cost or sharing some templates and providing free training to show them what

can be achieved with investment. Alternatively, having small businesses who have experienced Balloon's support present their practical experience also helps (links to the section above on peer-to-peer sessions).

c. **Tie in with investment** – Balloon uses their investment offer as a way start conversations with small businesses that might otherwise not entertain conversations about paid for business support services. They also use the investment plan as a jump off point to show how value is added – i.e., by making sure they get the best possible outcomes from new machinery, a working capital injection or new branch. Balloon presents their support as a critical factor in the successful deployment of the new liquidity.