International Labour Organization

CRAFTING KUZA:

TOWARDS A SYSTEMIC APPROACH TO JOB CREATION FOR YOUTH IN MOMBASA

MARKET SYSTEMS DEVELOPMENT FOR DECENT WORK: CASE STUDY NUMBER 2

CRAFTING KUZA:

TOWARDS A SYSTEMIC APPROACH TO JOB CREATION FOR YOUTH IN MOMBASA

the LAB

MARKET SYSTEMS DEVELOPMENT FOR DECENT WORK

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INTRODUCTION

This is the story of a project iterating its way towards impact. At the end lies a viable model for sustainably employing hundreds of Mombasa County youth and making fast moving consumer goods available to thousands of poor households in more regular supply and at lower prices. In between there are analyses, decisions, pitches, arguments, mistakes, triumphs and occasional despair. Above it all is a case about the need to capture, absorb and process results in an environment in which bad access to incomplete information both frames the challenge and creates opportunities.

PURPOSE OF THE CASE STUDY

This case study – the second in the Lab series – focuses on the poor as workers in an urban environment. It extracts lessons from the Kuza project in Mombasa, Kenya (see Box 1) and its efforts to create more regular and remunerative employment for disadvantaged youth. The paper seeks to answer two key questions:

- How did Kuza take an iterative and adaptive approach to addressing the jobs problem?
- How did Kuza learn to measure changes in the jobs it was helping create?

KUZA
Productive Coast, Productive Kenya

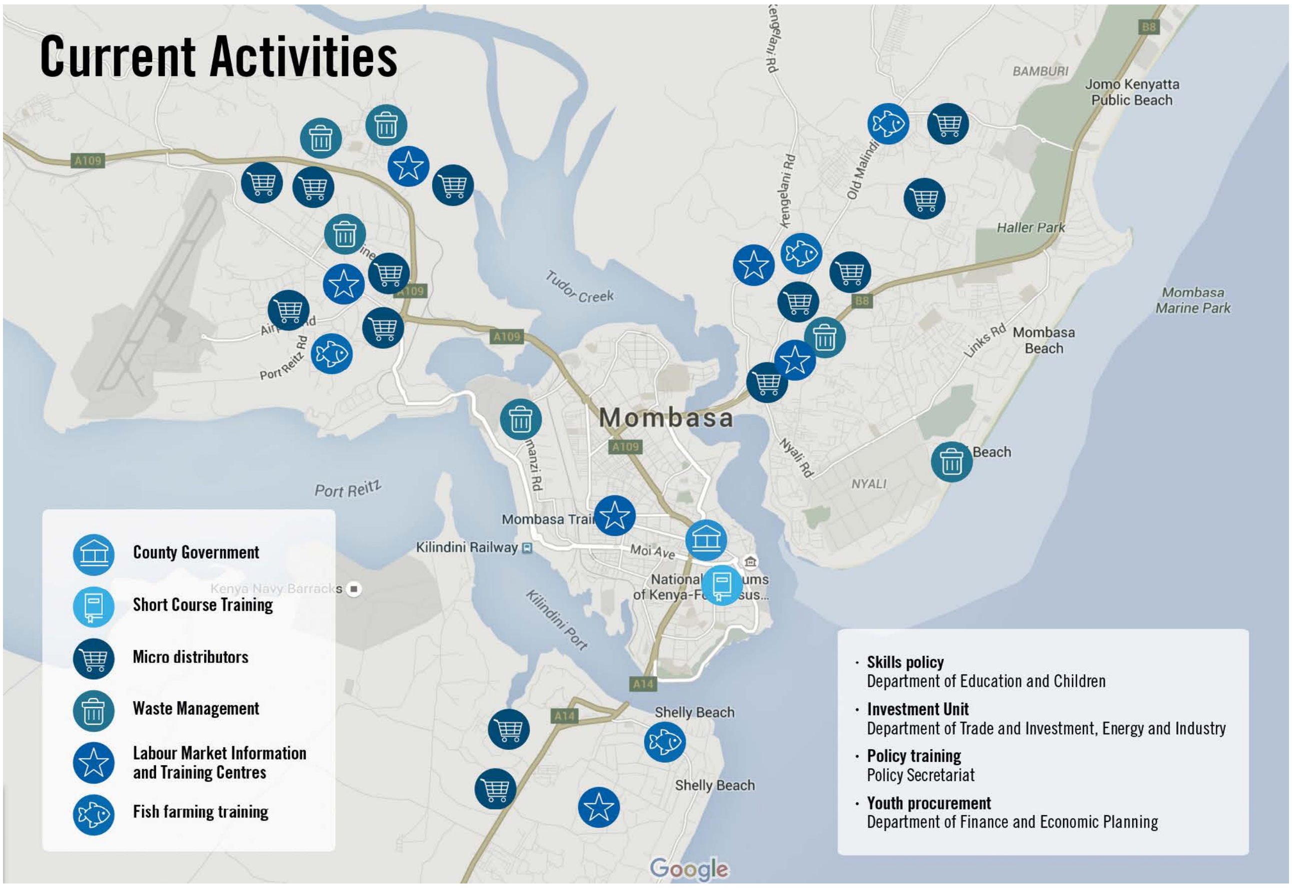
BOX 1: ABOUT THE KUZA PROJECT

Kuza is a 3.5 year program, funded by the UK's Department for International Development (DFID) and implemented by Adam Smith International (ASI). Launched in 2014, the project takes a market systems approach to expanding employment opportunities for poor and marginalized youth in targeted sectors in Mombasa County, Kenya, combined with a more direct push strategy to build youth skills. It aims to increase the employability of 8,000 young people over the life of the project while creating at least 5,000 sustained jobs.

The project's early analysis laid out the challenge of promoting youth employment in Mombasa County. The 44 percent unemployment among youth was higher than the national average and also higher than the overall unemployment rate in Mombasa. The challenge was strongest for specific groups of youth, including those from traditional coastal ethnic communities and women. There was also a significant mismatch in the types of skills youth were being taught in existing educational institutions and those required by the job market. Recognizing that job creation is largely reliant on the economic performance of the region, the fact that the economic mainstay of tourism was flagging as a result of several high-profile security incidents was significant for the project's choice of focal sectors. As the project examined sectors that might feasibly provide for the expansion of employment opportunities for disadvantaged youth, it began to focus on the wider constraints to business expansion in Mombasa County, including the extraordinary costs of doing business and inadequate access to information about new business opportunities.

In light of that analysis, Kuza opted to focus on manufacturing, waste management, investment promotion and micro-retail. This study focuses on Kuza's micro-retail work. See Figure 1 for a map of the Kuza interventions.

FIGURE 1 – MAP OF KUZA INTERVENTIONS



METHODOLOGY

This case study was undertaken between August and November, 2015. It was led by MarketShare Associates (MSA), who started by reviewing project documents and conducting remote interviews with project staff[1]. Fieldwork for this study was conducted over one week in September 2015. It consisted of documents reviews and key informant interviews with Kuza staff and partner suppliers, team leaders and sales people. The case study does not aim to "evaluate" the Kuza program or attempt to analyze its effectiveness. What it does is to make explicit the decision-making that occurred in Kuza around systemic job creation, in the hope that this will provide insight for other practitioners tasked with the tricky issue of achieving, and reporting on, jobs impact in market systems development[2].

The case study takes the position that problems and their solutions are context-specific[3]. Any given context likely lends itself to several solutions, so finding optimal solutions requires an iterative process of trial and error[4]. For other practitioners, the actual solutions Kuza is developing are perhaps less useful than the *process* by which the Kuza team is fitting its "solutions" to the context, using monitoring and measurement to continually adapt and improve the model in light of new learning.

1 MSA support the set up and implementation of Kuza's results measurement system, and therefore did not approach the case study from the perspective of an unbiased observer. Rather it drew from its deep knowledge of Kuza's strategies and context to reflect in the case study.
2 For more on a market systems approach to poverty reduction, see https://beamexchange.org/
3 See Woolcock, Michael, *Using Case Studies to Explore the External Validity of 'Complex' Development Interventions*, 2013; also Ramalingam, Ben, Miguel Laric and John Primrose, *From Best Practice to Best Fit: Understanding and Navigating Wicked Problems in International Development*, 2014.
4 Allana, Amir and Tim Sparkman, *Navigating Complexity: adaptive management and organizational learning in a development project in Northern Uganda*, Knowledge Management for Development Journal, Vol 10, No 3, 2014.

PART ONE

MAXIMISING INCLUSIVE JOB EFFECTS IN THE MICRO-DISTRIBUTION SECTOR

1.1 UNDERSTANDING THE PROBLEM

Fast-moving consumer good (FMCG) distribution to consumers at the 'bottom of the pyramid' is a longstanding challenge worldwide, and Kenya's Mombasa County is no exception. While a host of large-scale retailers have emerged in Kenya in recent years, micro-retailers, or *dukas*[5], continue to account for the bulk of retail trade and serve the poorer segments of the nation's consumers. In Mombasa County, approximately 70 to 80 percent of retail transactions take place at *dukas*, which employ about 58,000 men and women directly and indirectly, according to Kuza's estimates[6]. Rooted in a market systems analysis that focused on supporting functions, rules and norms, Kuza identified a gap in the link between *dukas*, suppliers and manufacturers of highly demanded consumer products.

1.1.1 The Market Constraint, and the Opportunity

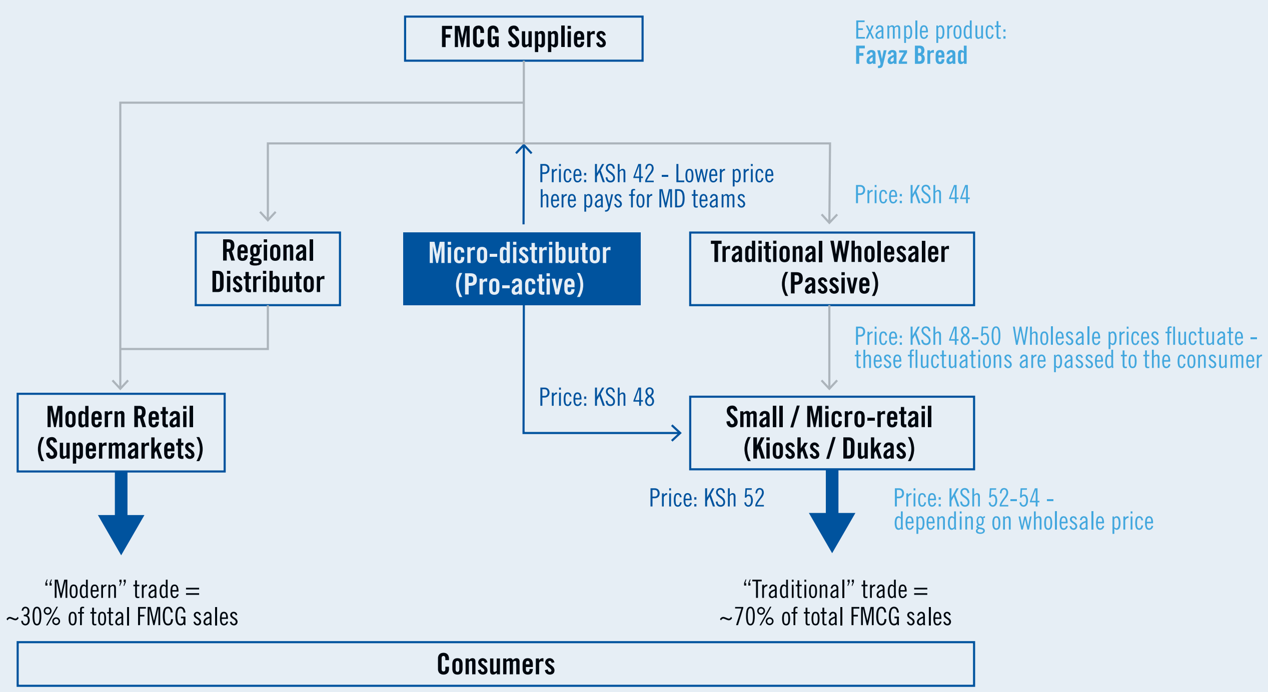
Recognizing the size of the market served by *dukas*, many FMCG suppliers in the area were already struggling to distribute to the small retailer level. Kuza had thus picked a problem that was on the minds of many potential partners. Almost none of them were doing it well, however. Fayaz Bakers Ltd., a supplier, had already bought dozens of bicycles to provide to independent salespeople for its bread products but had a difficult time motivating them to return each day (and keeping them from stealing the bicycles). Another of Kuza's partners, Ezzi Traders Ltd., was frustrated by its dependency on existing wholesalers and their inability (or unwillingness) to invest in reaching micro-retailers and gather information on the preferences of their consumer base. When asked why the supplier had not simply built a micro-retail outreach model themselves, they responded that they were not comfortable bearing the "pretty big level of risk" involved in the investment.

At the retail end, *duka* owners often deal with passive distributors and wholesalers who make little effort to understand the preferences and constraints of *duka* owners and their customers. Retailers often temporarily close their shops to travel to purchase from wholesalers directly, losing sales and bearing the costs of transporting their products back to their stores. Alternatively, retailers dealing directly with suppliers had to wait for lorry deliveries from suppliers' sales teams, often spending up to a week between stocking out and resupplying. Their own working capital constraints made it difficult for them to order products in advance of stock out.

5 *Duka* means 'store' or 'shop' in Swahili, the predominant language of small-scale trade in Mombasa County.

6 Kuza Project Intervention Plan: Micro-Distribution March 2015.

FIGURE 2 – SIMPLIFIED MICRO-RETAIL DISTRIBUTION MODEL



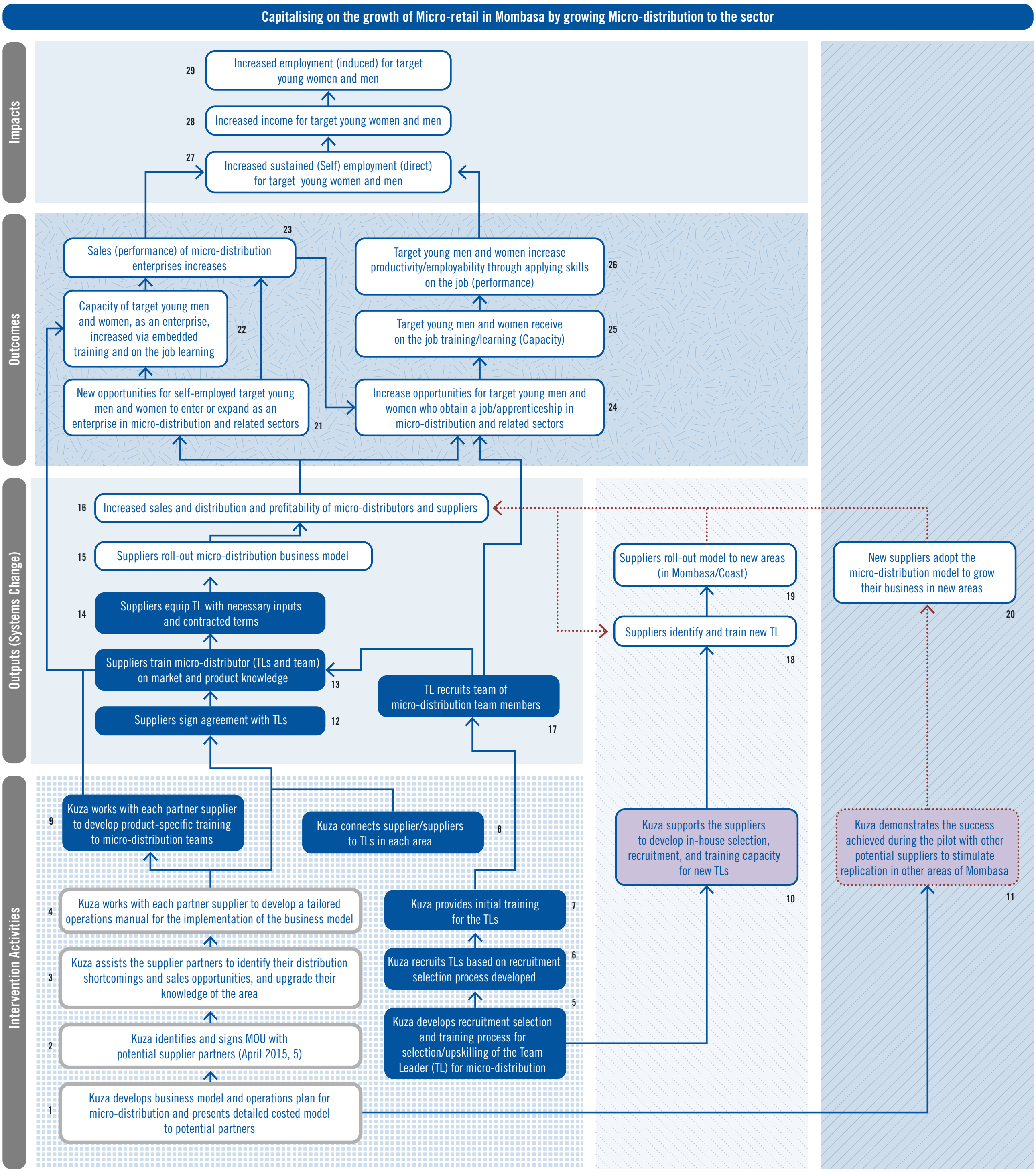
In summary, Kuza's challenge lay in finding actors who were more willing than existing distributors to energetically serve the needs of both suppliers and *duka* owners. Kuza wanted to use a market facilitation approach to bridge that gap, "supporting establishment of a new micro-distribution model that will give suppliers better access to the micro-retail segment, while also equipping micro-retail outlets with the products, information, equipment and skills required to grow their businesses." Kuza thought that the skill level required to be salespeople was appropriate to the disadvantaged youth that they were targeting for employment.

1.2 TESTING THE BUSINESS MODEL

To address the issues in the supply system, Kuza decided to pilot a model that would enlist successful retailers in targeted neighborhoods to deliver a basket of FMCGs, provided by a set of enthusiastic suppliers, to nearby retailers. This model would create several positive impacts on job creation. The **direct employment generation** effect would be through hiring local unemployed youth as salespeople. **Indirectly**, revenue increases among suppliers and retailers would create more jobs at those businesses. Higher incomes for previously unemployed or underemployed youth would also generate **induced employment** in the broader economy[7]. Kuza's micro-distribution results chain is shown in Figure 3.

7 The concept of induced employment is explained in detailed in the results measurement discussion.

FIGURE 3 – MICRO-DISTRIBUTION RESULTS CHAIN



1.2.1 Business Model Partners

To identify suppliers, Kuza started by looking at the products in micro-retail shops which suppliers had the most trouble keeping in stock, owing to a combination of high demand and distribution challenges. These were bread, milk, cosmetic products, juice and snack foods. Many of these products also had quality issues that were easily improvable, and were supplied in packages that were too large, making them difficult for poorer households living around *dukas* to afford.

The Kuza pitch to suppliers consisted of four points. Suppliers joining the platform could take advantage of:

- Dedicated salespeople pushing their products;
- No competition in the basket pushed through the micro-distribution channel;
- Kuza-trained micro-distributors and salespeople; and
- Above all, access to a large network of hard-to-reach retailers.

"One of our original concerns was that there wouldn't be enough entrepreneurs, but that's turned out to not be a problem. They're there, and they're easy to see."

-Richard Dellar, Kuza Micro-Distribution Consultant

Implicit in this pitch was the expertise of Kuza's combination of market systems and industry expert staff, plus the donor-provided resources to hold partners' hands as they experimented with the model. However, Kuza provided no financial support to any partner. The team first sought a bread seller as an anchor partner, enlisting Fayaz, then built a basket of four additional non-competing suppliers. This grew to include suppliers of bread (Fayaz Bakers), milk (Pwani Fresh), water and juice (Milly Fruit Processors), snack foods (Norda Snacks) and cosmetics (PZ Cussons). This 'basket' approach was a cornerstone of the model as no single supplier sold enough product to warrant its own dedicated micro-distribution network.

At the same time, the Kuza team identified 15 separate, though in some cases contiguous, geographical areas around Mombasa County that they felt could each support a micro-distribution team (see the map in Figure 1). Once the areas were identified, Kuza walked through the neighborhoods, and drew on colleague and stakeholder networks, to identify and enlist established, well-functioning retailers as micro-distribution team leaders.

The two original micro-distribution team leaders used references from friends and neighbours to identify candidate salespeople, then vetted them for their ability to express themselves clearly (a useful trait when marketing). They also had the freedom to adapt salesperson incentives – one of them thought his salespeople would be more aggressive if he gave them a 1 KES commission on unit sales above their target, for example. However, they were encouraged to hire their new employees from within Kuza's target demographic.

Kuza then held an initial training session with the two team leaders and their original batch of salespeople. Suppliers came to the training to educate team leaders and salespeople about their products and distribute marketing materials. The Kuza team provided training on marketing and inventory record keeping, but did not offer material or cash support to any of the team leaders or salespeople that it worked with.

Shortly after training the initial two micro-distribution teams, the Kuza team recruited an additional 13 micro-distribution team leaders and guided them through the recruitment of salespeople, trained the whole group and set them to work as well. Because that recruitment process took time, the project had the opportunity to learn from the start-up of their original two micro-distributors, most importantly about the need for new micro-distributors to possess a higher-than-expected volume of working capital. That lesson factored into their second round of recruitment, yielding a new batch of micro-distributors who were more cash assets and therefore more capable of quickly making orders and buying delivery bicycles.

1.2.2 Growing Pains

Different suppliers used different models for servicing micro-distributors depending on their distribution models. Fayaz Bakers, who worked directly with salespeople prior to Kuza, continued that arrangement with the micro-retailers. Those direct relationships facilitated a high level of information flow and rapid reactions by Fayaz management, as well as more incentives (it was on the verge of providing a tuktuk - a small motorized three-wheeled vehicle - to a micro-distribution team leader) for high performing micro-distributors.

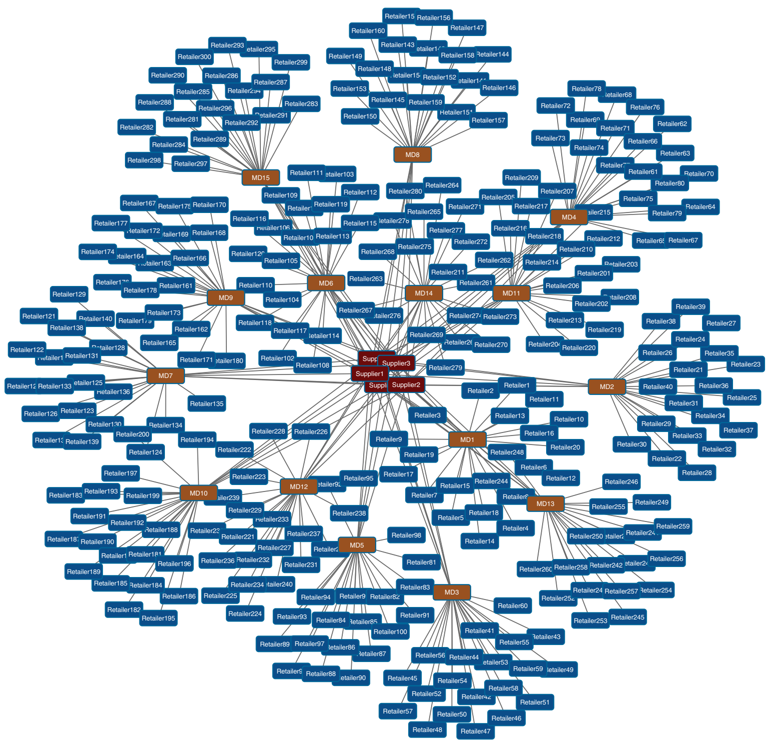
Cosmetics seller PZ Cussons, on the other hand, continued to work through its sole distributor for the coast region, which took orders and supplied micro-distributors on its behalf. While PZ Cussons kept its marketing and advertising role, and by that means had some direct contact with micro-distributors, it was one step removed from product quality and distribution timing issues.

Each of these arrangements created an array of challenges. Micro-distributors dealt separately with each supplier, arranging delivery and settling payments on a supplier-by-supplier basis. Benjamin Maingi, one of the original two team leaders, characterized the setup as “hectic,” saying, “it’s my first time to combine so many suppliers.” Moreover, one of his suppliers was continuing to sell directly to neighborhood retailers at the same preferential price offered to micro-distributors, eroding Benjamin’s ability to use the additional margin to cover the costs of a youth salesperson. The Kuza team dug into this with the supplier and found that it had to do with a sales team that was personally benefitting from retailer kickbacks and felt threatened by the new model – this team was being replaced by the supplier at the time of writing this study.

Another team leader reported that one of the suppliers’ distributors had dumped old stock on him. Richard Dellar, one of Kuza’s micro-retail advisers, characterized this as “the difference between head office enthusiasm and other behaviours by frontline staff.” In this case, it was other behaviours by that supplier’s sole distributor, which had a long-term contract to push products throughout the coastal area, and which had viewed the nascent micro-distribution partnership as an opportunity to get rid of expired stock it had sitting in its warehouse.

The coordination challenge is clear when the distribution network is visualised, as in Figure 4. The existing network consists of 15 micro-distributors dealing separately with suppliers and their distributors: suppliers are in red, micro-distributors are brown, and an illustrative population of *dukas* is coloured blue.

FIGURE 4 – MOMBASA TRADING NETWORK



The network shows a high density of relationships and significant redundancy, meaning that no central actor could cause the arrangement to fall apart if it failed, but at the same time it illustrates how each micro-distributor communicated simultaneously with a few dozen actors. In this case, centralizing the role of communication and coordination between the key actors in the network (micro-distributors and suppliers, in particular) would improve the flow of information and ease the pressure on micro-distributors to maintain multiple communication channels. Kuza knew that it needed to find an actor willing and able to play that role.

1.3 CHECKING SUSTAINABILITY

Kuza's intervention reduces suppliers' cost of search, helping them find and build the capacity of energetic micro-distributors who can reach Mombasa County's thousands of small *duka* owners. "The hardest part is finding the right person for sales. That's the greatest benefit Kuza brings," said Fayaz Khamisa, Managing Director at the family-run Fayaz Bakers. Combine that function with the training and ongoing coordination support the program provides, and the model becomes very attractive to suppliers in the highly competitive FMCG market. Put more bluntly, PZ Cussons Area Regional Sales Manager Patrick Maingi pointed out, "There aren't many forms of distribution that are free."

Kuza's role, at the time of writing this study, was to sort out the model's teething problems while building a stronger network between the players involved that would continue developing once Kuza exits the market. It is unlikely that the model would have gotten off the ground without Kuza's intervention at the micro-distributor level – the subject of significant internal debate on the project at the beginning. In deciding to play a more prominent early role, the Kuza team felt confident enough that the future vision for the system warranted, or required, more direct early intervention in some parts of the system.

Kuza knows it must pass the search and coordination function on to a sustainable entity, so its attention is shifting to figuring out what that arrangement should look like: association, supplier or regional distributor owned function, or a new business entirely? In other words, Kuza started with the idea that suppliers would take on the model (see the Results Chain in Figure 3), and built sustainability checks into its results chain (see boxes 18 and 19 in the Results Chain) so that it could track the degree to which market actors were beginning to own and replicate the model. However, the project's early attention was on the issue of whether it could even find micro-distributors capable of servicing micro-retailers. So the first hypothesis to test was whether existing retailers could function as viable micro-distributors, with each one servicing approximately 300 retailers in each area.

The project is sufficiently convinced that it has tested that hypothesis. Fifteen micro-distributors are trained and operating, producing employment for at least 60 youth salespeople, while suppliers are starting to see noticeable growth. The supplier Fayaz Bakers, an early adopter of the business model, has seen a 2.5 percent increase in sales since it started with Kuza three months prior and projects that sales through the micro-distribution channel could exceed 10 percent of its total units sold in the next six months. According to the micro-distributors, retailers are happy because goods are being delivered to them regularly at fair prices with no additional transport costs. Moreover, all parties are benefiting from improved information flows, a feature that speaks to the long-term viability of the new relationships. Improved information about buyer preferences is an explicit aim in the model and there was evidence that it is now occurring. Fayaz had made several changes to their bread products, based on new customer feedback relayed through micro-distributors. Ezzi also reported improved access to consumer preferences through the new channel. Several micro-distributors also reported relaying consumer preferences up the chain to suppliers, while their salespeople were better able to market products to retailers, owing to the tailored supplier training they received. Improved information flow was made possible by the micro-distributors' aggressive attention to *duka* owners, the feature in the model that distinguished it from the current paradigm of passive sales by longstanding distributors.

But would suppliers be willing to take on the model, themselves, as the results chain hypothesized? This seems unlikely for a few reasons, some of which were mentioned in interviews with suppliers themselves. For one, there are currently a handful of micro-distribution models for FMCGs in Kenya, but those models are owned by suppliers who give little room for other suppliers' products. For another, selling FMCGs is a low-margin business, leaving little room for experimentation.

As mentioned previously, many suppliers would be averse to taking on the investment of recruiting and training micro-distributors, let alone the ongoing servicing required to keep them operational. So while the model was obviously to everyone's benefit (perhaps with the exception of some existing wholesalers), did anyone benefit sufficiently to want to take on Kuza's coordination and capacity building role? The answer to this question is still unclear, although some regional distributors were beginning to express interest in piloting their own 'in-house' versions of the model – perhaps sensing the growing opportunity to increase market share in the micro-retail segment.

Moreover, Kuza also questioned the degree to which the jobs being created by the model were appealing to the target population of marginalised, unemployed or underemployed youth from the coastal region. The project found a high degree of turnover among salespeople, even among those who were not otherwise employed. Micro-retail adviser Richard Dellar reflected that "You would think that in a place with over 40 percent unemployment, [the youth] would be crowding at your door. But in reality it can be difficult to get them to come back to work every day." Kuza recognized that it needed to learn more about the motivations of its target population and other factors influencing their willingness to work.

Young salesperson at Humphrey's shop – Boniface Kyalo, 24 yrs old from Kitui County, was doing *jua kali* work before Humphrey hired him.

Leakey Mogangi in his shop: 32-yr-old entrepreneur with two *dukas*, he has big plans – "*In time you won't find me here.*"

PART TWO

MEASURING INCLUSIVE JOB EFFECTS IN THE MICRO-DISTRIBUTION SECTOR

2.1 NOT A JOB FOR EVERYONE: THE CHALLENGE OF INCLUSIVITY

To know whether the business models were working, or not, the Kuza project built a monitoring and results measurement (MRM) system using the DCED Standard. The aim was to provide credible estimates of results achieved for reporting purposes, but more importantly to provide a basis for the project to learn and adapt based on the data they were collecting[8]. This meant that every intervention had a separate results chain that outlined the anticipated causal linkages between project activities and the ultimate desired impacts.

Kuza's MRM system was designed to respond to the donor's desire to measure impacts of job creation on specific subsets of the youth population. In line with the DCED Standard, Kuza defines job creation as "*Net additional, full time equivalent jobs created as a result of the programme, per year and cumulatively*". Given that part of the donor's justification for financing Kuza was to help address the risk of radicalization and marginalization at the coast, the target group was defined very specifically: un- or underemployed, low income youth (18-30) who have not completed high school, with particular focus on women and people from coastal ethnic groups. The project estimated that only approximately 6 percent of the youth population met all these inclusion criteria. At project inception, Kuza faced a challenge in determining how best to measure its employment impacts on the target groups in a way that would not exclude most of the likely job takers. Consequently, Kuza decided to define its beneficiaries as any individuals meeting a "2+1" rule[9]. The "2+1" rule meant that to be reported to the donor as a Kuza beneficiary, all job recipients would need to be both young and poor[10], plus meet at least one of the other four characteristics (underemployed or unemployed, from a traditional coastal community, be female or with a low formal education).

From a market systems perspective, it can be problematic to define the potential population of job recipients too narrowly, since Kuza's indirect approach meant it does not have control over who received the jobs that it helped create. However, as mentioned above, to influence this outcome the project is encouraging micro-distributors to hire youths meeting the 2+1 rule. This effectively passes the challenge down to project partners, although by its nature micro-distribution roles are naturally filled by salespeople meeting most of Kuza's targeting criteria. That said, women seemed to be proving especially difficult to recruit as salespeople – due, for example, to cultural constraints around riding bicycles for work – as indicated by the fact that most of the sustained jobs created thus far had been filled by men.

8 Further information on the DCED Standard for Results Measurement is available here: http://www.enterprise-development.org/page/measuring-and-reporting-results.

9 Fowler, Ben. *Annex 10: MCYEP Measurement Note*. June 2014.

10 Poor was defined as being in the bottom two income quintiles.

2.2 COUNTING DIRECT JOBS

To capture its impact on employment, Kuza seeks to measure three types of job creation: direct, indirect, and induced. It defines **direct jobs** as those created by the private sector partners that it is directly supporting. In the micro-distribution intervention, this means jobs created by the micro-distributors. Kuza relies on its partners to provide information, but in practice it has proven challenging to acquire the basic sets of data Kuza requires. The micro-distributors do keep rudimentary information on sales (e.g. to reconcile cash balances) and some have information on employees, but this is not always collected systemically or recorded formally. The project distributes paper forms to micro-distributors to track sales by supplier – to gauge the model's performance from a financial perspective, as well as employee characteristics – to measure the model's performance with respect to employment generation. But despite the fact that Kuza emphasised basic business management skills when selecting micro-distribution partners, many team leaders keep only informal and ad hoc records.

The project needs to know sales levels and employee numbers – on top of the frequency and daily hours of employment for each salesperson – in addition to the number of retailers served by each. Asking micro-distributors to track this information should theoretically be helpful to them as well, and would lead to the goal in which "the market players recognise the value of enhanced information and the model generates this information without Kuza's ongoing intervention" as expressed by Justin van Rhyn from the Kuza team. Nonetheless, the Kuza team was somewhat frustrated by how difficult it proved to be to convince their partners to take the additional time required to keep track of these few pieces of vital information.

A tricky challenge that Kuza has struggled with is how to determine the sustainability of the new jobs created from its efforts. Kuza's theory of change essentially asserts the following: new jobs let youths access new skills, youth capacity improves as a result, then worker performance improves, then the working youth's job is more permanent (i.e. a sustained job). This makes sense.

However, once it was agreed with the donor as a project cornerstone, it carried significant ramifications for what Kuza felt comfortable reporting as direct jobs created. In a principled effort to avoid over-reporting, it is quite possible that the project is instead under-reporting jobs created.

Take the case of Mr. Mwangangi. He had three salespeople working for him at the time of interview for this report, serving at least 100 *dukas*. He started with six staff, then fired one for stealing and laid off two others because the milk supplier was not delivering due to its own working capital challenges. He expected to rehire the last two youths as soon as milk returned to his micro-distribution basket, but for Kuza's purposes those two youths would not qualify in the beneficiary count because their jobs came on and offline in direct relation to the milk supply. MRM is a tough job that manages to combine intense deadline pressure with precious little authority to force project staff and partners to provide needed data – risk aversion is understandable. As Kuza MRM Manager Herbert Kere noted, "The ones that are consistent are the ones that are coming every day. The ones that fluctuate I leave out entirely."

Mwangangi's was a consistent story for each of the micro-distributors interviewed. With little working capital themselves, they could not bear the cost of paying youths to sit around the shop in the vain hope that the milk truck would show up. When they were certain of delivery, they would call for help. Otherwise, there were youths on furlough. The DCED Standard provides a method for counting part-time jobs, called Full-Time Equivalent (FTE), designed to address situations such as this and account for the sum total of work created in days equivalent to full-time jobs[11]. However, Kuza felt uncomfortable classifying such periodic work as "sustained" employment.

11 For further information on definitions, refer to Fowler, Ben and Erin Markel, *Working Paper: Measuring Job Creation in Private Sector Development*, 2014.

2.3 THE INDIRECT, THE INDUCED AND THE DISPLACED

Kuza reports to the donor on two other aspects of job creation – indirect jobs and induced jobs – and considers an additional concept – job displacement[12]. To address the issue of **indirect jobs**, it chose to look at suppliers and retailers. If suppliers and retailers could demonstrate increases in employment that were convincingly due to increased business serving micro-distributors, those jobs would qualify. This is quite likely, given the direction the model is taking. Two cases illustrate the point.

Fayaz claims to have "far more reach" in "areas [it was] not serving before" owing to the partnership with Kuza's micro-distributors. Its sales in three months had increased by 5,000 loaves per week (against a total volume of 175,000 to 200,000 loaves per week) and it expected to increase by 30,000 in the next six months owing only to sales through Kuza's micro-distributors. That 15 percent increase, if achieved, would translate to an additional 35 full-time equivalent jobs within Fayaz.

These would qualify as indirect jobs, under the assumption that any increase above Fayaz's pre-Kuza sales level are due to the micro-distribution channel.

PZ Cussons said it would only increase staff through its distributors, paying the salaries of additional staff through an amended distribution contract that rewarded the distributor for hitting sales targets. However, that distributor, in turn, served at least nine other suppliers in Coast Province, complicating the task of attributing a given staff increase to Kuza's micro-distribution work.

Estimating **induced employment** was another important focus for Kuza. Induced employment occurs when additional income that is generated by a project results in greater consumer expenditure (e.g., hotels, meals). This has a knock-on effect of greater economic activity, thus creating jobs in other sectors. To estimate induced employment, a project must first identify a credible ratio, or multiplier, between an increase in income and employment. Many efforts have been made to estimate such multipliers[13]. Critiques of induced employment estimates are both practical (if using secondary sources as the source of the multiplier, they cannot be verified) and theoretical (multipliers are linear and do not account for scale and substitution effects).

Nevertheless, for many development investments, induced employment can represent a significant job creation impact and Kuza consequently sought to measure it[14]. Kuza used the average of two studies in Kenya to calculate a multiplier of 1.21, meaning that for a 1 percent increase in income generated reported, the project could claim to have contributed to increased aggregate employment levels by 1.21 percent[15]. Kuza further defined an "income increase" as net income changes attributable to the work of the programme. Kuza staff determined that they would only calculate induced employment increases using income increases for that specific population (essentially, salespeople), although it might fairly count income increases across the micro-distribution arrangement, from suppliers to retailers. This is another instance in which the desire to avoid over-reporting potentially leads to under-selling the project's true impact.

12 A quick note on definitions: the uses of "direct" and "indirect" are different in the M4P literature and the job creation literature. Both definitions are used in this case study, based on the context of use. For clarity, a "direct" beneficiary is one that receives Kuza support –the micro-distributors and suppliers. An indirect beneficiary would be a retailer served by a micro-distributor. A direct job, however, would only qualify as a job created as a result of the introduction of the micro-distributor model – thus the rationale for limiting direct job creation to sales jobs with micro-distributors. An indirect job would be created as a result of the model's success – thus jobs created by suppliers and retailers.

13 For an overview, see the International Finance Corporation's review of this topic here: http://www.ifc.org/wps/wcm/connect/f0be83804f7cdf68b7deff0098cb14b9/chapter3.pdf?MOD=AJPERES

14 Fowler, Ben and Erin Markel, *Working Paper: Measuring Job Creation in Private Sector Development*, 2014.

15 The Society for International Development's urban employment multiplier for Kenya has a value of 0.75, while the International Labour Organization's overall employment multiplier for Kenya has a value of 1.67. The average of the two is 1.21.

Lastly, the issue of **displacement**, which is when the "expansion of some enterprises supported by the programme [comes] at the expense of the market share of other enterprises."[16] It is always an issue for private sector development programs, whether seeking to boost employment or not. A few examples from Kuza illustrate the challenge of maintaining awareness of displacement.

For example, on a visit to Michael Njeru, a new micro-distributor in the neighborhood of Miriti, we learned that a local youth group had been buying bread from Fayaz's local wholesale point and selling to local retailers, at the same price at which Mr. Njeru was selling. As he aimed to reach all 280 *dukas* he had identified in his survey of his area, he would inevitably compete for all bread wholesale business with this group.

"There's a lot of contact at the moment so it's relatively easy to get information about unanticipated outcomes… but that will become more difficult as the system develops and micro-distributor numbers increase"

-Justin van Rhyn

Another team leader, Humphrey Khingi in Magongo, said he previously bought Fayaz bread from self-employed salespeople who worked under that company's previous effort at distribution to micro-retailers. With his team's distribution to around 50 shops in his area already (he had only been operating for one month when we met him), he noted that some of those original salespeople are "still there, but they only sell along the highways" now.

Furthermore, there is also the potential for displacement at the supplier level. Fayaz, for example, is not the only breadmaker trying to reach micro-retailers in Mombasa County. Supaloaf and a few other brands are prominent, some with well-established distribution systems. PZ Cussons, for its part, faced challenges because its cosmetic products were more expensive than competitors – along with its expanded outreach it is also now selling at lower prices. It seems possible that the market gains of Kuza-affiliated suppliers could translate into losses by their competitors, with associated cutbacks in staffing at all levels.

These examples do not highlight a weakness in the model (it's hard to imagine any youth employment model that would not have some displacement effect) so much as highlight a challenge in ascertaining the likely degree of displacement when aiming for tightly-defined inclusive jobs impact. Kuza staff commented that the project was not yet at the point where it had a well-defined process for estimating displacement, but was planning to conduct research on the issue in the months following the case study.

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PART THREE

TAKE-AWAY LESSONS FROM KUZA'S EXPERIENCE OF INCLUSIVE JOB CREATION

The Kuza micro-distribution case provides an inside look at the difficult decisions and actions that projects have to make when starting-up and iterating their way towards systemic and sustainable impact. While it may be too early to see how Kuza has changed its programming in response to the realities facing Mombasa County youth, its efforts to get the pilot business model up and running and to measure progress – getting to the point where it can begin adapting – offers valuable process learning. Based on this experience, we finish by extracting 6 lessons that other projects seeking to measure and maximise their inclusive jobs impact should bear in mind:

1. **Differentiate between acceptable versus unacceptable compromises:** It is not uncommon to make compromises to a facilitation strategy when market actors signal, for example, that their capacities are too low to effectively take advantage of opportunities in a market system. The Kuza project recognized the compromises it was making and is moving quickly to extricate itself from its prominent initial role in FMCG distribution. Despite the resort to some more direct tactics, Kuza kept the systemic change vision in sight and had a clear plan for incrementally working towards it. This is a principled compromise – qualitatively different from the (perhaps more common) compromises programs sometimes make for the intention of simply hitting targets or spending program funds.

2. **Prepare to pivot from day one:** Though it was still too early to witness significant changes in Kuza's micro-distribution activity, its efforts to learn rapidly were already visible – for example, with the increase of the working capital requirement for new micro-distribution team leaders following their experience with the first two team leaders. Instead of marching into the market system with a predetermined solution to youth employment, the Kuza team recognized that it could adapt tactical methods (such as the working capital requirement) as quickly as they gathered relevant information.

3. **Counting jobs requires choices:** The Kuza team struggled with how tightly or loosely to define inclusive job creation. Its decisions in this regard include the 2+1 solution, the choice of only counting regularly employed salespeople on micro-distribution teams, and the decision to apply the multiplier (and thereby estimate induced employment) based only on changes in the incomes of salespeople who fit the 2+1 rule. With these choices, Kuza sought to balance not only rigour (getting accurate measures) with practicality (data gaps), but also to balance the pressures and incentives for credible reporting (with the associated risk of under-reporting) with real achievements (which risks over-reporting). It is not easy to know what credible estimates of impact are when it comes to job creation, since there are many pathways to impact. The best guidance, as Kuza demonstrated, is to make the decision-making transparent and consistent.

4. **Recognise that data is not equally valued by all:** Somewhat counter intuitively, it can be difficult to align the information needs of partners and project teams, even when the data in question would be useful to all parties. Utility does not necessarily equate to perception of value. Kuza encountered this with its micro-distributors, some of whom were not accustomed to record keeping, despite the obvious benefit to their business, and were averse to changing their practices. Kuza's effort to build a monitoring regime that gathered information by itself sought to align the interests of the project and its partners, but Kuza recognized that it still has a long way to go before it reaches that goal.

5. **Understanding network strength, not just individual behaviours:** While operational data was problematic but feasible to gather, the Kuza team worried more about understanding the strength and extent of the distribution network it was trying to foster. While focusing on changes in individual actors is useful, it is important to understand the evolution of the entire system to fully capture how the market is evolving – this is the hallmark of a truly 'systems' approach, after all. This includes measures that shed light on the strength and extent of the network, such as how effectively information (e.g., prices, orders, complaints, feedback, etc.) flows between actors in different network configurations.

6. **Mix theory and practice:** Mixing generalist, market systems theory staff with specialist, industry consultants has worked well for Kuza. The latter lend significant credibility to Kuza in partner negotiations, almost certainly hastening the pace of partner recruitment. The former help the project adhere to facilitation principles and moderate the enthusiasm of industry experts. There is occasional tension between them, as the two groups have distinct backgrounds, patience levels and notions of what signifies a successful intervention. However, working constructively together produced an intervention that was sound, systemically focused and capable of garnering the buy-in of industry representatives. In other words, tactics were led by the experts, strategy by the theorists.

About the case study authors

The case was written by **MarketShare Associates** (MSA), a socially-driven global consulting firm committed to creating, implementing and measuring innovative economic development programming. MSA has conducted significant research into how to effectively measure job creation that is attributable to a development project's efforts in its paper "Working Paper: Measuring Job Creation in Private Sector Development", and has applied this research in a number of development projects. The in-country research was conducted by an MSA staff member, Tim Sparkman, who was not previously engaged on the Kuza project and so was able to bring a fresh perspective.

About the Lab

Market Systems Development for Decent Work 'The Lab' (www.ilo.org/thelab) is an action research initiative run by the **International Labour Organization** and funded by Switzerland's State Secretariat for Economic Affairs.

The Lab aims to generate knowledge about how to measure and maximise pro-poor employment outcomes through market systems development. The case study series documents experiences from projects that have applied a market systems approach to elements of decent work, in particular to increase employment and improve working conditions.

About Adam Smith International

Adam Smith International is a professional services business that implements economic growth and government reform projects around the world, including through a portfolio of market systems development programmes across Africa and Asia that aim to support long-term poverty reduction at scale.

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