

EVALUATION FINAL REPORT

For

Somo

Executive Summary



February 2022

Acknowledgement

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Executive summary

Argidius commissioned an Evaluation of Somo project (Somo) to provide an objective assessment of the main Somo services supported by Argidius and how the project added value to the beneficiary entrepreneurs and provide a set of recommendations and lessons that will enhance the Somo value proposition and impact. The Evaluation was conducted between October to December 2021 in Nairobi and Kisumu.

The Somo project (Somo) implements **holistic solution to entrepreneurs** who have a solid socially-oriented business idea and have the drive to launch and grow a business. Somo supports entrepreneurs in 23 informal settlements in Nairobi, Kisumu and Mombasa. They provide a combination of business development services, access to finance, markets and production services and has a long-term commitment to the entrepreneurs they support.

The Evaluation was structured around six key evaluation questions: 1) To what extent is Somo's value proposition unique and addressing the business's needs in informal settlements? 2) Is the Somo selecting and enrolling the right businesses towards maximizing outcomes and impacts? 3) To what extent is Somo delivery model effective in supporting the achievement of the intended benefits? 4) Is Somo providing value for money with the services it provides? 5) What evidence is there that Somo is likely to contribute to the intended outcomes, as well as any unintended or unexpected effects? 6) To what extent are Somo services sustainable. A theory-based evaluation using a mixed-method approach where both qualitative and quantitative data are collected and used simultaneously was applied. Data was collected from 26 participants through in-depth interviews, key informant interviews and focus group discussion groups.

The findings were as follows;

Relevance of the project to entrepreneurs' needs

The Somo project was relevant to entrepreneurs' needs in several aspects including their need for knowledge of business management, access to markets, access to finance, business record keeping and reporting, and reduced production cost for entrepreneurs making food and hygiene products. Training and mentorship were aligned with and addressed their needs for knowledge and skills in business management. Somo Duka was designed to address the entrepreneurs need for access to markets. Entrepreneurs needed money to start their businesses and those who had already started businesses needed to boost with additional money as financial capital and for operations. Somo investment grants, equity and facilitated loans were relevant to this need. The different services are unique, playing different significant and complementary roles and none of the services was found to be more effective than others in creating the intended outcomes.

Overall, the most valued services are access to markets through Somo channels, finance for equipment, stock and operation capital, and DigiKua for recording and reporting business transactions. The entrepreneurs value most the services that are addressing their current needs such as markets and finance among others and so their most valued services shift as their needs change. Buruka training is most valued as the foundation of Somo services, a reference point of changes that businesses were then supported to action with the help of the other follow-on services but as the need for training was already addressed, entrepreneurs' most valued services shifted to

those responding to their current needs. But Future equity with external investors was not one of the most valued services.

The additionality of Somo services includes incorporating soft skills such as confidence-building, customer relationship management and communication into its business management training curriculum to complement technical business management training content. Somo is close to the businesses and entrepreneurs so they understand the challenges they face and how to support them. Other additionality of Somo includes supporting entrepreneurs to register businesses and certification of products.

Somo grants are comprised of the initial investment grant of between US\$ 500 - 2,000 provided to entrepreneurs on joining acceleration and Inuka pitching competition grant of US\$ 1,000 and US\$ 500 given to winners and runners-up respectively. The grants have been instrumental in helping existing businesses meet their capital requirement and stabilize new businesses to start operation. While the amount of the initial grant was sufficient to most entrepreneurs, there were some entrepreneurs whose investment needs were not met by the grant.

Selection and enrollment of entrepreneurs into the Somo project

The process of selection for Buruka training involves online advertisement which Somo makes and interested people fill forms online. The criteria for selection were: Social impact business or innovative business ideas, uniqueness and viability of business. Selected entrepreneurs go through 12 weeks training and they pitch their business ideas in a competition where external judges select businesses to enroll in acceleration. 93% of Buruka training participants graduated between 2016 and 2021, which shows that the right people were selected, however the number of Buruka graduates accepted into acceleration was low. **Only 32% (192 out of 593) of Buruka graduates were accepted into acceleration since 2016. The selection process for acceleration is competitive, based on sound and feasible social impact, health, environment and education business ideas.** The majority of entrepreneurs were youth (86%) and female (51%).

Effectiveness of Somo delivery model

There is evidence that the delivery model, consisting of a combination of services, is effective and contributed to achievement of the intended benefits. The program has improved on entrepreneurs' communication and customers relationship, enabling entrepreneurs to promote their businesses. All entrepreneurs interviewed reported that they gained sufficient knowledge, skills and experience on business management after joining Somo. In addition, the delivery model empowered entrepreneurs to take responsibility over their businesses. It is not a charity-giving intervention. The delivery model is therefore consistent with the achievement of the intended outcomes.

As a result of the Covid-19 pandemic, Somo digitalized the training curriculum. This provided opportunities to entrepreneurs in Buruka training to continue learning, amidst the pandemic, and those in acceleration to engage with Somo staff, advisors and mentors, at least once a week. Whereas the online training was helpful, there were limitations. Participants found it hard to ask questions, others engage in multiple tasks while attending training session and interaction among trainees and the trainers was low. When some of the Covid-19 restrictions were lifted, a blended mechanism of both online and physically training, each twice a month reduced the effects of the forementioned limitations. Other models such as volunteer business advisor/trainer and

entrepreneur mentor/trainer models were also effective. In addition to the delivery model, Somo team has the capacity and capability to deliver the business model. At the present level of service delivery in the existing hubs, there **is sufficient capacity to effectively deliver the project results.** Somo however intends to expand, scale up to other areas, that will lead to more demand for financial and human resources at both operation and management level. Currently, such capacity is domiciled with the Chief Executive Officer (CEO), which creates key-person risk. Two more senior staff positions with similar capacity to the CEO is required to steer the program; effectively make decisions and coordinate with donors and other external stakeholders.

Is Somo providing value for money with the services it provides?

Argidius funded Somo US\$ 548,969 which provided services to 508 entrepreneurs between 2019 and 2021 and produced results such as increased revenue, created jobs, increased access to markets, improved business practices such as record keeping (DigiKua), improved knowledge and skills of entrepreneurs in business management, increased income among others. The average direct cost of services per accelerated entrepreneur is US\$ 3,605. The cost of acceleration per entrepreneur is US\$ 1,447 and Tengeneza is US\$ 3,245. The **379 direct jobs that were created by 162 entrepreneurs in acceleration between 2019-2021 were created at an average cost of US\$ 1,586 per job.** The increase in revenue by US\$ 1,088,480 (Ksh 112,113,401) between 2019 and 2021 was created by a total direct investment of US\$ 600,972. **Therefore, an investment of US\$ 1 created revenue of US\$ 1.8112.** The overall cost of Somo services per entrepreneur is low whereas there are significant results produced for entrepreneurs in acceleration. The overall cost of Somo services per entrepreneur is low and there is value for money compared to long-term results produced for entrepreneurs in acceleration. The cost per participant will reduce as more entrepreneurs use Tengeneza.

Effectiveness of Somo acceleration services

There is **strong evidence that Somo is likely to contribute to the intended outcomes as well as unintended effects.** Somo produced outputs as well as short- and long-term outcomes including employment, growth in revenue, income among others and also created impact on the market and community. From 2019 – 2021, the main outputs achieved were: 508 entrepreneurs enrolled in Buruka, 471 entrepreneurs graduated from Buruka, 162 entrepreneurs enrolled into acceleration, 162 entrepreneurs received investment capital grants, 10 entrepreneurs received Inuka grant, 5 entrepreneurs received external future equity investment and 15 entrepreneurs produced from Tengeneza. These results show that Somo has to a large extent achieved its results at output level and these have significantly contributed to the achievement of the following outcomes.

Trainings, mentorship and coaching that Somo provided improved the knowledge and skills of entrepreneurs in business management. The training helped entrepreneurs improved on their financial literacy and develop soft skills in communication, confidence, relationship and customer care among others. The training also created change in business practices such as record keeping, branding, packaging among others. There was also changed in entrepreneurs' perception and mindset on doing business.

Somo increased entrepreneurs' access to finance, which enabled them to procure equipment, stock for their businesses and secured operation capital. Some businesses got Somo facilitated loans and equity fund that they used to solve their business bottlenecks. Somo services have enabled

entrepreneurs improved quality of some of their products as entrepreneurs have become customer-centric. Of importance was that Somo channels – Somo duka, Somo Soko, branding and packaging contributed to increased access to markets for entrepreneurs' products, which also contributed to increase in revenue.

The total amount of revenue generated since 2016 was US\$ 1,238,455 (Ksh 127,560,845). US\$ 149,975 (Ksh 15,447,444) was generated between 2016 and 2018 and between 2019 to 2021, when Argidius started funding Somo, additional US\$ 1,088,480 (Ksh 112,113,401) was generated. **88% of a total amount of revenue of (US\$ 1,088,490 out of US\$ 1,238,455) was generated by only 40% of businesses**, who each generated more than US\$ 5,000. 34% of businesses generated between US\$ 1,001 and 5,000 and 25% of businesses generated less than US\$ 1,000. The businesses that have been supported for a longer period generated more revenue over time but there is no evidence that some types of business or those dealing in some products generate more revenue than others or the entrepreneurs who generated the most revenue had additional support such as access to Tengeneza and Inuka grants.

359 direct jobs and 3,060 indirect jobs were created by entrepreneurs since 2016 but between 2019 and 2021, there were 271 direct jobs created. Somo increased entrepreneurs' income by 234%, from an average income of US\$ 86 (Ksh 8,911) to US\$ 253 (26,019Ksh) per month. Increase in disposable income in addition to other factors changed the social status of entrepreneurs.

The Tengeneza facility increased efficiency in terms of time spent on production, quantity produced and reduced cost of labor for some products such as shampoos and detergents where Tengeneza has a bigger production container of 100 liters capacity. There was reduced cost of production for food products such as honey, wheatgrass-powder, chili and flour. However, products such as hair conditioner and lotion do not enjoy the efficiency and reduced cost of production. This is because Tengeneza has a small Tian (boiling cane) of only 20 liters capacity yet production takes 3 hours. The reduction in production cost was further undermined by high transport cost that entrepreneurs who live far away from the facility incur.

The acceleration services have also contributed to empowering women, youth and the marginalized communities. 51% of businesses are female founded and 91% are youth founded. All the entrepreneurs are from the marginalized, low-income communities. Finally, Somo required all entrepreneurs to open bank accounts. This increased financial inclusion for some people in the community who would be left out of the banking economy, which was one of the unintended outcomes of Somo services.

Sustainability of the project

The sustainability of Somo services is currently dependent on donor funding as Somo is not charging for their Business Development Services (BDS) that entrepreneurs selected by Somo benefit from. Costs are absorbed by the following donor funding in addition to Argidius: Social Capital Foundation, Marcho Partners, Accenture, KCJF, Polish Aid among others. There are however sustainability strategies which will likely increase the sustainability of Somo services in a near future but currently they do not.

Somo sells products for entrepreneurs and get 12% commission, to cover its costs but it only covers operation cost related to marketing and sales but not staff cost. There are paid trainings which Somo does but does not cover Somo's cost of training as many participants are enrolled for Somo free training and other services. Tengeneza will however generate income to sustain Somo services once there is increased utilization of the facility. At the moment, the production is below its capacity as entrepreneurs are not selling a lot and cannot produce a lot. The sustainability strategy of Somo services is influenced by the entrepreneurs' willingness to pay for the services. Whereas entrepreneurs are willing to pay for services that directly increase their sales and revenue for instance the 12% commission on sales through Somo Duka, and payment for branding and packaging, they are not willing to pay for services that do not directly generate revenue such as training. Only some organizations are willing to pay for their participants.

But at what point of participant business development pathways can Somo disengage with entrepreneurs so that they become Somo graduates? Somo can disengage entrepreneurs after acceleration and when the entrepreneurs have gained access to markets, acquired sufficient working capital and the businesses are profitable. For the entrepreneurs who produce from Tengeneza, Somo can disengage when their products have been certified, the facility has reached economies of scale in which mass production has reduced the unit cost of production and is profitable to produce from the facility. The entrepreneurs who have not yet achieved this level and are likely to achieve, Somo can continue to support them to achieve. Somo can disengage with entrepreneurs who are not justifying the investment, the businesses are not growing and are unlikely to grow. Somo can disengage this category of entrepreneurs when the entrepreneur's revenue is very low, does not have employees, and has not made profit for two consecutive years.

Lessons learned

- 1) Providing whole package of business development services is effective as it addresses challenges that arise during the development pathways of a business.
- 2) The needs for finance for business is an evolving need that continuous access to finance.
- 3) The mode of the 12 percent commission to Somo an innovative good practice.
- 4) Selecting people with commitment and passion for running business secures resilience
- 5) Somo service delivery model empowers entrepreneurs to own and take responsibility over their business growth and failures,
- 6) Somo supervised procurement of items from entrepreneurs' initial startup grant reduces the risk of diversion of funds by entrepreneurs to finance unprioritized activities
- 7) Regular communication with volunteer advisors demonstrates to volunteers that their services are valued which secures their commitment to contribute to Somo's work.

Recommendations

For the Buruka training:

- 1) Enroll the number of participants to Buruka training whom the majority are accepted into acceleration.
- 2) Conduct assessment of the effects of Buruka training on entrepreneurs who did not graduate and graduates who were not enrolled into the acceleration program.

For Somo investment services:

- 3) When preparing to apply for the investment grants, Somo must Regularly consult and collaborate with entrepreneurs before any budget adjustment is made.
- 4) Somo should negotiate with Mkono and Tala to extend their loan repayment period from 6 to 12 months to allow sufficient time to entrepreneurs to profit from it and pay.
- 5) Somo should review and consider dropping out the future equity from external investors from their services and focus on grants and loans as sources of investment funds.

For the Tengeneza service:

- 6) At Tengeneza, Somo should provide large boilers of 100 liters capacity for all hygiene products to reduce cost of production. In addition, using the same container buckets for making different products should be minimized.
- 7) Review the fee structure for Tengeneza services to consider prices based on the market value of the products. Products that have better prices and good profit margins should pay higher than those which have low prices and profit margins.

For Somo organization:

- 8) As Somo scales and expands to new areas, **more senior management positions should be created**, with at least two more senior staff who have similar capacity to the CEO to steer the program; effectively make decisions and coordinate with donors and other external stakeholders, and reduce the risk and uncertainty that can arise from any unexpected absence of the CEO.
- 9) Entrepreneur mentors/trainers should train from the hubs within their locality to reduce on time spent on transit and cost of transport.
- 10) Somo should revise the payment of entrepreneur mentors/trainers from Ksh 2,000 to Ksh 4,000 to compensate for at least two hours of service, considering the time they spend on transit and in the training sessions.
- 11) Prepare individual entrepreneur phased disengagement plan for all entrepreneurs that undergo acceleration services.