

Beyond Aid

The Case for Employment as the Foundation of Poverty Alleviation

Introduction

There are many ways to combat poverty. Each solution addresses a part of this huge, multifaceted problem. Education gives children access to more opportunities as an adult. Health care extends the length and quality of life, enabling individuals to be more productive.

But many of these solutions exist because families don't have the income to provide these solutions for themselves. Charities hand out malaria bed nets and medicine because a family without a job can't afford to pay the \$3 per person cost to keep this deadly disease at bay. Many schools provide free education because the school fees of \$50 per term are too expensive. Organizations donate secondhand shoes and clothes because these are luxuries that many can't afford.

Aid helps families survive and, in some cases, move out of extreme poverty, which the World Bank defines as living on \$2.15 per person per day. But aid doesn't fundamentally change these families' opportunities. Aid doesn't change the economic outlook of the country. In fact, studies have shown that in many cases, foreign aid negatively impacts the economic growth of a developing country in the long term.¹ With an influx of aid programs, countries and their people become slightly less poor, but they fail to escape poverty.

A job, however, fundamentally changes the opportunities that families have. It enables families to pay for what they need. A job not only brings the security of knowing basic needs can be met, but it provides

Foreign aid often negatively impacts the economic growth of a developing country.

¹Many studies on the relationship between foreign aid and economic growth show it is not a linear relationship; as in, as aid increases, GDP growth doesn't necessarily increase - indicating that there is an optimal level of foreign aid for each country, and differing amounts can actually be harmful (Abate, Chala Amante, "The relationship between aid and economic growth of developing countries: Does institutional quality and economic freedom matter?" Cogent Economics and Finance, Vol. 10, Issue 1, April 2022). Some studies (see for example Tang and Bundhoo, "Foreign Aid and Economic Growth in Developing Countries: Evidence from Sub-Saharan Africa," Theoretical Economics Letters, Vol. 7 No. 5, Aug 2017) find that aid helps economic growth but only if the country has a strong policy environment (which is unfortunately not the case in most markets where Sinapis works).

the dignity and the independence to meet needs without having to ask for help.

That's why Sinapis focuses on job creation in these economies. We equip entrepreneurs with the knowledge, tools, and community they need to grow, scale, and access capital. And as they grow, they create jobs. The 3,370 business owners we have served together provide over 12,000 jobs across markets that desperately need economic growth.

These jobs are the key to ultimately changing the future for these countries.

The Case for Job Creation

Employment growth has long been correlated with economic growth across developed economies. In developing economies, this research is still ongoing, but there is evidence of a similar trend. In Kenya, the correlation between employment growth and GDP output over the past 35 years is 0.97,² meaning that the economy grows at almost exactly the same rate as the rate of job creation.

So, where do these jobs come from? In emerging markets, 70% of all formal jobs created over the past decade come from micro, small, and medium enterprises (MSMEs).³ In Kenya in particular, however, 96% of jobs created come from MSMEs.⁴ If small businesses are not creating jobs, the Kenyan economy doesn't grow.

But are all jobs created equal? What kinds of jobs lead to this kind of economic growth? Research shows that the creation of informal jobs, which are unregulated and untaxed, may reduce extreme poverty in a way similar to providing aid. But only the creation of formal jobs is associated with broad poverty reduction and movement toward a more developed economy.⁵

MSMEs that create formal jobs, therefore, are the catalyst for long-term, sustained economic growth.

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²Known as "Okun's Law," the positive relationship between output and the labor market across developed economies has been a standard economic law since Okun's famous 1962 research. This law does not necessarily hold true for all emerging markets, but research conducted by the International Monetary Fund (IMF) found that for all African countries in their sample (including Kenya), there was a positive relationship between GDP growth and employment growth ("Growth and Jobs in Developing Economies: Trends and Cycles," IMF Working Paper, 2017).

³McKinsey Global Institute, "A microscope on small businesses: Spotting opportunities to boost productivity," May 2024. Data is drawn from the World Bank Enterprise Surveys.

⁴McKinsey Global Institute, "A microscope on small businesses: The productivity opportunity by country," May 2024.

⁵There are many studies that highlight these findings. The World Bank's Policy Research Working Paper "Does Employment Generation Really Matter for Poverty Reduction?" (December 2007) finds that only job growth across certain job levels is linked to poverty reduction; an increase in agricultural farm laborers, for example, does not reduce poverty. Another World Bank Policy Research Working Paper, "Does Climbing the Jobs Ladder Promote Poverty Reduction?" (July 2024) finds that increasing the supply of informal jobs is associated with changes in extreme poverty lines (\$1.90 and \$3.20), but only increasing the supply of formal jobs is associated with changes in poverty above the \$5.50 line.

The Ripple Effect of Decent Jobs

To more deeply understand the transformative effect of a job on an employee and their family, in 2024 we conducted a series of surveys and focus groups with a sample of our alumni.⁶ We sought to understand whether the jobs created by our alumni were providing holistic opportunities for employees to thrive. We found the following six indicators of “decent work”⁷ across our surveyed sample of alumni, confirmed through our interaction with specific employees following these focus groups.

1. Fair income

The alumni we surveyed pay above minimum wage to 84% of their employees, and they have increased salaries by an average of 17.5% over the past two years. Despite a difficult economic environment in East Africa over the past several years, these business owners are choosing to take care of their employees. Several alumni highlighted that they intentionally pay higher salaries than their competitors as a way to attract top performers to their business. They have found that fair salaries also lead to better business outcomes.

“I wanted to be an inspiration to competitors ... you should not just focus on money, but build a team, and the results will come.”

Simon Njuguna | ASTUTE ARTISANS LIMITED

Astute repairs and maintains office buildings in Nairobi, Kenya

2. Secure employment and safe working conditions

Two-thirds of the employees working for the alumni we surveyed have been working at least two years with the same company, indicating that these business owners are intent on providing secure, long-term

⁶23 alumni participated in our focus groups (18 in Kenya, five in Uganda). These alumni were chosen based on: 1) having five or more employees; and 2) having demonstrated an intentional focus on employee care. These alumni are not a representative sample of all entrepreneurs that Sinapis supports, as the point of this study was not to showcase the “Sinapis average” but rather to show the effect of decent jobs on individuals and families.

⁷These decent work indicators are borrowed from the Aspen Network of Development Entrepreneurs (ANDE)’s “Measuring Decent Work in the Small and Growing Business Sector” (August 2022). This paper draws on the International Labour Organization (ILO)’s seminal publications on the concept of “decent work” over the past several decades. Official decent work indicators can be found here.

opportunities for their staff. Additionally, 68% of the alumni we surveyed have written policies on safe working conditions.

“I ensure that all my employees are insured under the Work Injury Benefit Act. Their safety is one of my top priorities because we are in waste management, and I would like my staff to access medical care whenever they need it.”

Charity Muthoni | PEARL CLEANING SERVICES

Pearl provides domestic and business cleaning services in Nairobi, Kenya

3. Equal opportunities and treatment for all

Women represent 43% of all formal jobs provided by the alumni we sampled, and youth represent 53%. Nearly all the alumni we surveyed (87%) provide mentorship to their employees, and 48% discipline employees, indicating a strong, shared commitment across these business owners to creating a life-giving culture in their workplaces.

“My focus and passion has been to uplift the youth and women who struggle to find opportunities for productive employment. One of my employees joined as a cleaner and grew to be a high quality stitcher earning double.”

Grace Mbugua | JEILO COLLECTIONS

Jeilo Collections is a high-end leather bag producer in Nairobi, Kenya

Eva Magembe, Founder & CEO of Dubai Supermarkets in Kampala, Uganda, hires single mothers to work at her grocery stores because she finds they are incredibly motivated. At first she was skeptical of the quality of their work, but it has turned into a successful hiring strategy. Providing these single mothers with transport stipends and meals on top of a salary paid on time means that they can provide for their children on their own.

4. Social protection for workers and their families

The jobs provided by our alumni are mostly formal jobs, with 77% of surveyed alumni reporting that they pay taxes for their employees. In economies where only 15-30% of jobs are formal⁸, these jobs guarantee stable, regulated income and social security payments, which are required as part of tax filing. Even though it's not required in East Africa,

⁸Kenya National Bureau of Statistics, 2020 cites 17% in Kenya

52% of the alumni we sampled provide health care benefits to their employees. Beyond this critical social protection, 78% provide meals for their staff during the workday, with most indicating they provide two full meals free of charge.

“I provide housing and meals for my employees out of care and concern because they come from far away. I feel it’s unfair not to do it. It feels good to help a fellow human being.”

Eva Mugo | ABERDARE COTTAGES & FISHING LODGE

Nestled in the Aberdares, Kenya, these peaceful cottages offer retreat and leisure in one of the country’s most breathtaking natural settings

5. Prospects for personal development

To support their employees’ career growth, 83% of the businesses surveyed provide professional training or development funds. One of our alumni shared how an employee obtained a much higher-paying job at another firm because of the development she received at the initial company. She continues to work on a contract basis for the company because of her loyalty.

“I train my employees to produce high quality products and offer excellent service so that our business operations can run smoothly when I am not around. I also do it to prepare them for their next assignment in case they move on to start their own businesses.”

Gloria Komwe | BB COLLECTION

BB is a women’s fashion line based in Nairobi, Kenya

David Monday of Pendeza Shelters prioritizes staff development, which is one reason everyone he hired two years ago has stayed with the firm. David deeply cares about **“the way you treat people, the way you value what they are doing, the way you look at how you want to improve their lifestyle... It does not matter which kind of person it is, but how you can support them.”** Pendeza Shelters builds affordable housing in Uganda using all-recyclable materials.



6. Free expression and organization

While few of the alumni we surveyed had specific policies regarding workers' rights to free expression (14%), several shared stories about how their employees came together to propose solutions to improve the lives of the team.



“My employees decided to introduce a welfare kitty to support each other when needs arise.”

Virginia Ndumbi | VIWATECH AUTO SPARES LTD.

Viwatech Auto Spares offers vehicle service parts and accessories in Nairobi, Kenya



Read
Virginia's
story

Conclusion

These alumni stories show that while creating flourishing workplaces is still a work in progress, the entrepreneurs we serve are indeed creating the types of jobs across East Africa that will lead to sustained economic change in their countries. These jobs bring hope and expanding opportunities for thousands of people - and this is just the start.

Visit sinapis.org to learn more, get involved, or connect with our team