



Out of School Youth Concept

July 2019



Introduction

Due to the high rate of unemployment and the lack of access to practical post-primary education for Out of School Youth (OoSY), Educate! is launching a Disruptive Innovation Unit to pursue innovation in this area.



The Disruptive Innovation Unit aims to create a faster, more affordable and convenient educational path, that will allow a large number of Out of School Youth to gain the skills to succeed in today's economy.

At its core, the model will be designed based on intensive market research and user interviews to maximize product-market fit, ensuring that we create a product our users-youth and parents-want and are willing to pay for.

This "alternative to traditional academic track school" model will be guided by the following core principles:

1. To develop a sustainable alternative to academic secondary school while requiring no integration through existing secondary education systems.
2. Not to exceed the cost of 1 year's tuition at a low- to medium-priced Secondary Education or Vocational Education institution in the same country.
3. To meet the impact bar established by Educate!'s direct in-school programmes.

We are seeking to disrupt the systemic problem of employment among Out of School Youth by answering the question:

“What could be an alternative to academic secondary school?”

Only 40-60% of youth will attend
secondary school in East Africa.

**Building solutions for OoSY opens
up a new horizon of large
potential impact at scale.**



Market Research Summary



Market Trends

We identified market trends that helped us better understand the informal market and its opportunities, regulators, players and potential support partners.



Potential Customers

We looked at our customers' existing challenges & desires, and the gaps in the current products offered in the market, to aid the decision on what potential solution to build!



Competitive Analysis

We analyzed the TVET (Technical and Vocational Training) market providers' & their value propositions' weaknesses and strengths. We also tried to answer the question: What is our window of opportunity?



Opportunities

We looked at the market opportunities, proposed concepts to test based on market research findings.

Market Research Objectives

Secondary Research

- To learn from existing research and models
- To identify gaps and recommendations for primary research

Primary Research

- To identify potential customers within our target market
- To assess the customers' needs and solution expectations
- To evaluate the informal sector and locate competitors and partners
- To identify ideal learning experiences from youth currently enrolled in or who recently completed training programs so that we can design experiences that also meets the needs of our customers pre-, during and post-course
- To assess customer reactions to price of existing solutions and our proposed solution
- To identify the digital skill level of OoSY (Out of School Youth) to inform our product development and delivery
- To determine the appetite for banks and micro-financiers on providing capital and financial literacy so that we can identify early partners
- To assess the viability of our “*alternative to academic secondary school*” idea



Market Research Summary

Research Design

Secondary Research

- Identified local and global research done into OoSY
- Reviewed reports on challenges and recommendations
- Looked at successful local and global models to review program structures and revenue streams
- Reviewed the SEED Program (a three-week bootcamp that Educate! helped design)
- Followed up with researchers directly as needed
- Identified recommendations and gaps for Primary Research

Primary Research

- Identified key stakeholder groups including youth, parents, informal workers, and government
- Identified local models to explore further
- Created research protocols, e.g. interview guides and observation guides, etc.
- Targeted at least 385 OoSY (Out of School Youth) and 12 selective organizations whose models and partnerships we can learn from

Building a Desirable Product for OoSY (Out of School Youth)

We went through the process of identifying if there is a market need for an alternative to academic secondary school for those youth expected to work in the informal sector. Thorough understanding of our market research is a critical aspect in our product development journey.

During our ideation phase, we used the problem we validated from the market research as a starting point to design and test a variety of solutions.

What we've achieved...

01 Problem Fit

- Validated the underlying problem
- Defined the user segment that we want to solve the problem for
- Interviewed 234 OoSY, 170 TVET scholars, and key organizations
- Discovered new insights and validated some of our hypotheses
- Selected key insights to focus on

02 Solution Fit

- Selected a concept solution and defined the critical assumption from the user's perspective
- Created prototype model to test

Unpacking Insights

What we have uncovered about Out of School Youth

Customer Segment

We have defined Out of School Youth (OoSY) as youth who have completed primary school but didn't proceed to secondary school, or joined secondary school but dropped out.

The OoSY would:

- want to be placed in formal employment
- want to start their own business
- want to be placed in formal employment to raise capital then start their business

A parent/guardian would want a solution for his/her OoSY to further their education and/or increase their income, and would be willing to spend \$150 for the product.

Pains

- Unemployment leading to restricted income
- Lack of family financial support

Gains

Wants/Needs

- To generate income/revenue
- To be treated with respect
- To create employment

Measures of success

- Get any form of employment
- Get an accredited certificate
- Get capital for business
- Be treated with respect

Desires

- An increase in their chances of getting employment
- Skills to enable them to start and run their own business
- Ability to take care of their families
- A quick skill to gain money immediately
- Improvement on their social status
- Financial freedom
- Career/Education advancement
- Skills to transform others' lives

Poverty is the major reason for dropping out of school.

67.8% (158 out of 234) **dropped out of school because their parents could not afford to pay for their school fees.**

Unpacking Insights

Diving into the macro environment of an OoSY

Technical and Vocational Educational & Training (TVET)

We've identified TVET's value proposition of as the following:

- TVET courses are affordable compared to other institutions
- Hands-on skills through short-term courses can enable one to get employment or self-employment
- TVET accepts learners with low entry grades including lack of a secondary completion certificate

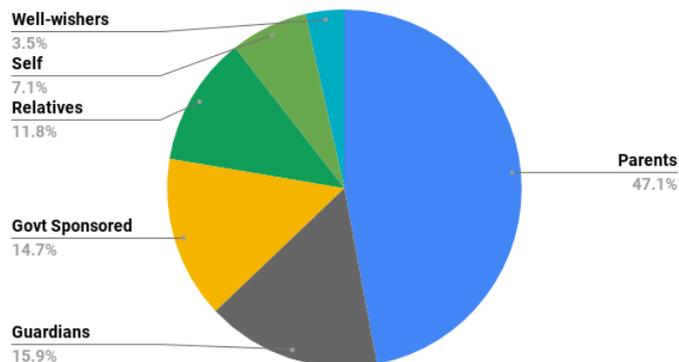
Pains

- Financial constraints
- Shortage of tutors
- Inadequate learning materials
- Tutor incompetence affecting content delivery and learning experience
- Unconducive learning physical environment
- Inadequate time for mentorship
- Inflexible course programs
- Negative influence from peers

Gains

- New skills gained for employment or self-employment
- Friendly peer-to-peer interactions
- Practical approach to learning
- Friendly teacher-to-learner interactions
- Supportive tutors
- Adequate physical infrastructure within their learning environment

Type of Payers of TVET Courses



\$280 is the **minimum** price for a TVET course for 3 months. The average price for a TVET course is **\$559**.

52.9% of students currently enrolled in TVET consider the price of a TVET course to be expensive

Informal Sector Case Studies

The two biggest opportunities in the macro environment of an OoSY

Boda Boda Industry

According to Standard Media: “The boda boda (motorcycle taxi) industry is emerging as one of the biggest drivers of the economy, with operators generating Ksh219 billion (\$2.19 Billion) in revenue in 2017.”

There are approximately 600,000 commercial motorcycles on Kenyan roads, with each making \$10 a day on average, according to statistics released by the Motorcycle Assemblers Association of Kenya (MAAK).

This translates to Ksh600 million (\$6 million) in daily revenues and Ksh219 billion (\$2.19 Billion) annually.

In 2016, about 146,000 motorcycles worth Ksh8.2 billion were imported, down from 182,000 motorcycles worth Ksh10.7 billion brought in a year earlier.”

Kiosk (Retail) Industry

“An estimated 22% of traditional stores in Kenya are *dukas*, or small local shops, followed by tabletop kiosks, market stalls, cosmetic outlets, telecom kiosks and pharmacies.

“The ubiquitous informal segment is a significant channel for reaching consumers over the medium term, with Nielsen reporting that 95% of Kenyan shoppers frequent *dukas*, 92% shop at kiosks and 89% shop at supermarkets.” – *Oxford Business Group Study...*

“Our figures indicate that formal retail penetration in Kenya is at almost 18%, demonstrating that there is more than 80% of space, with an optimum value of almost 60%, that is still waiting to be exploited,” Alfred Nganga, a retail specialist with Ogilvy & Mather Kenya, being interviewed by Oxford Business Group.

**Kiosk owners make
\$300 to 400 per
month on average.**

**Boda Boda Drivers
in urban areas
make \$300 to \$600
per month on
average.**

Digital Lenders

Diving into the macro environment of an OoSY

From a 2017 study by Financial Sector Deepening Kenya (FSD): “In the past 7 years, digital loans have transformed the market for credit in Kenya. Mobile phones, identity-linked digital footprints, automated credit scoring, agent networks and credit information sharing – the building blocks of digital credit – have enabled providers to deliver loans quickly and at scale.

“The sheer growth of the digital credit market is confirmed by supply-side figures. M-Shwari – Kenya’s first digital banking product offered by the Commercial Bank of Africa (CBA) & Safaricom – supplied over 20 million loans to 2.6 million borrowers in its first two years.”

While commercial banks in partnership with mobile network operators were first to offer digital loans, a growing number of startups such as Tala and Branch are also offering loans through apps.

In a 2018 study by FSD, they established that loans that are private and short-term in nature are meeting a demand for credit in the informal sector that other formal providers have not been able to satisfy.

The study found that amongst a segment of new M-Shwari customers with low credit scores, digital loans are helping families pay for schooling and cope with emergencies, but gainful impacts on their income or wealth are not evident.

The primary impact findings for M-Shwari:

- *Access to instant, low-value loans over a mobile phone enhanced people’s ability pay for education. Those who qualify for M-Shwari are approximately 5 percentage points more likely to have spent on education.*

Banks have avoided the informal space because it's opaque – there often aren't enough financial records to determine whether a business is credit worthy or an entrepreneur is capable of paying back a loan.

But as transactions become more digitized, particularly with the increasing ubiquity of mobile banking, that is changing.

The #1 reason that adults under 30 obtain digital loans is to invest (in a business or farm).

Concept

Our solution to solve the challenge at hand



The Customer's Description

Out of School Youth (OoSY) are youth who have completed primary school but did not attend secondary school or dropped out of secondary school.

Our OoSY customers are between 18-26 years old.

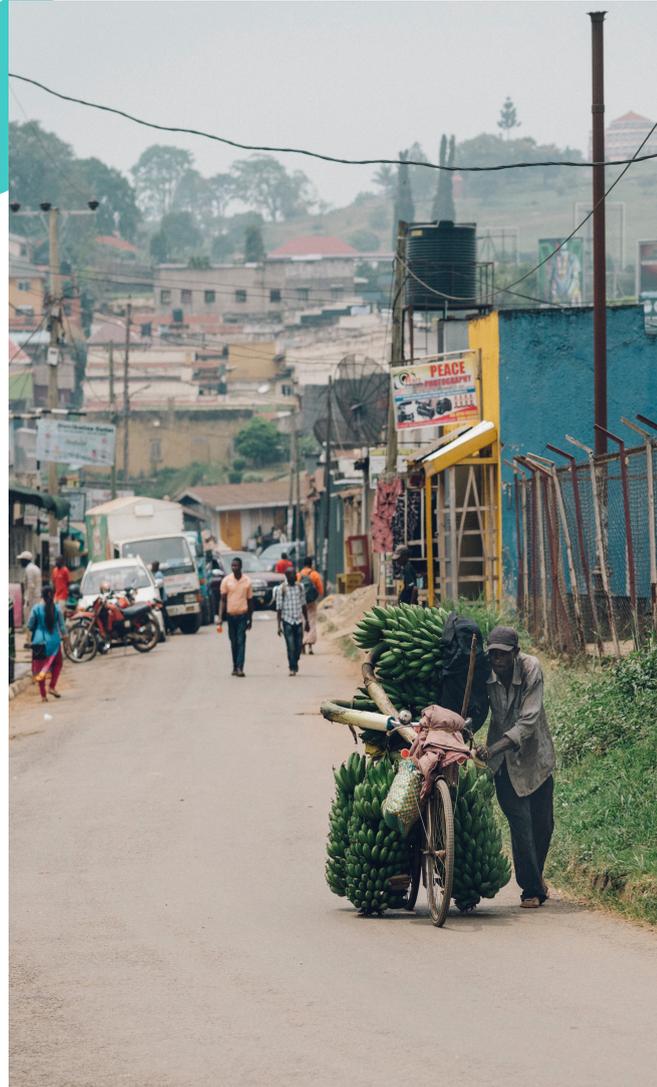
The OoSY is willing to learn a quick skill and gain money immediately through entrepreneurship – either by getting into the Boda Boda industry and/or retail of fast moving goods at a Kiosk.

This helps them be financially stable and be able to support their families.

Note: Due to Kenyan labor law stating that youth under 18 years old cannot work (even though many do), we are not starting with those younger than 18.

Concept

Our solution to solve the challenge at hand



The Customer's Problem

Obstacles (BLOCKED BY)

- Lack of employment
- Restricted income
- Lack of capital
- Lack of financial literacy skills like Saving
- Poor communication skills
- Lack of entrepreneurial skills
- Early family responsibilities due to teen pregnancy

FEARS

- Looking for employment due to a lack of a secondary certificate – already knows what rejection feels like
- Poor communication skills
- Lack of entrepreneurial skills

FRUSTRATED WITH

- Inability to support family financially
- Lack of family's financial support
- Lagging behind technologically

Potential Incentive to Participate

We want to formalize the informal sector by providing OoSY with an **Educational Score** which could comprise of his/her:

- grade on the Educate! Boda Boda or Retail course/program
- credit score (repayment of the loan)
- sales revenues for the business
- saving habits and monthly income.

We have identified that digital lenders act as “employers” for the informal sector by providing short-term loans to OoSY to start their own business. This provides a monthly salary for the OoSY from the business’ revenue.

We know that OoSY are willing to learn a quick skill and gain money immediately through entrepreneurship – for example, by getting successfully running a boda boda and/or retail of fast moving goods at a kiosk. They could potentially earn a monthly income of as much as \$300 to \$600 per month. This will help them be financially stable and support their families and dependents.

Based on the distribution of loan default rate findings for men and women across urban and rural areas, we will begin by focusing on the *Boda Boda* program for urban men and the kiosk program for rural women.

Educate! will (obtain permission to) share the graduates’ **Education Score** with digital lenders who will then select individuals to give loans to start either a *Boda Boda* or kiosk Business.

The Educational Score can potentially be used by more formal institutions like micro-finance, banks, later into health insurance companies and eventually universities & colleges who will use the score to admit them to further their education.





Building a Desirable product for OoSY

Solution

Our first step will be to offer a one to three month *Boda Boda* or kiosk course that enables the OoSY to gain leadership and entrepreneurial skills. Upon completion of the course, Educate! will attempt to share the program graduate's education score with digital lenders, to see if they are willing to give preferential loan access for our grads to start either a *Boda Boda* or Kiosk Business. This will help driven OoSY be financially stable and to be able to support their family.

The price of the program will be **\$150**, with 60% expected paid upfront and 40% broken into 2 monthly payments beginning from Month 2.
(1st payment \$90, 2nd Payment \$30, 3rd Payment \$30)



Long Term Vision for OoSY

Our Vision

This first iteration begins with the Boda Boda and retail kiosk industries as they are the two biggest markets. In the future, this can grow to serve different industries and markets, creating various employment tracks/verticals that our OoSY solution can train against.



Accepted Customer Assumptions

- Our target audience are Out of School Youth (OoSY) aged 18-26 years.
- Out of School Youth are youth who have completed primary school but did not attend secondary school or dropped out of secondary school.
- OoSY want to learn a quick skill and gain money immediately.
- The opportunity to gain income in the informal sector is through self employment.
- Academic certification is not a value proposition for our customer segment.
- Out of school Youth (OoSY) want short courses/bootcamps.



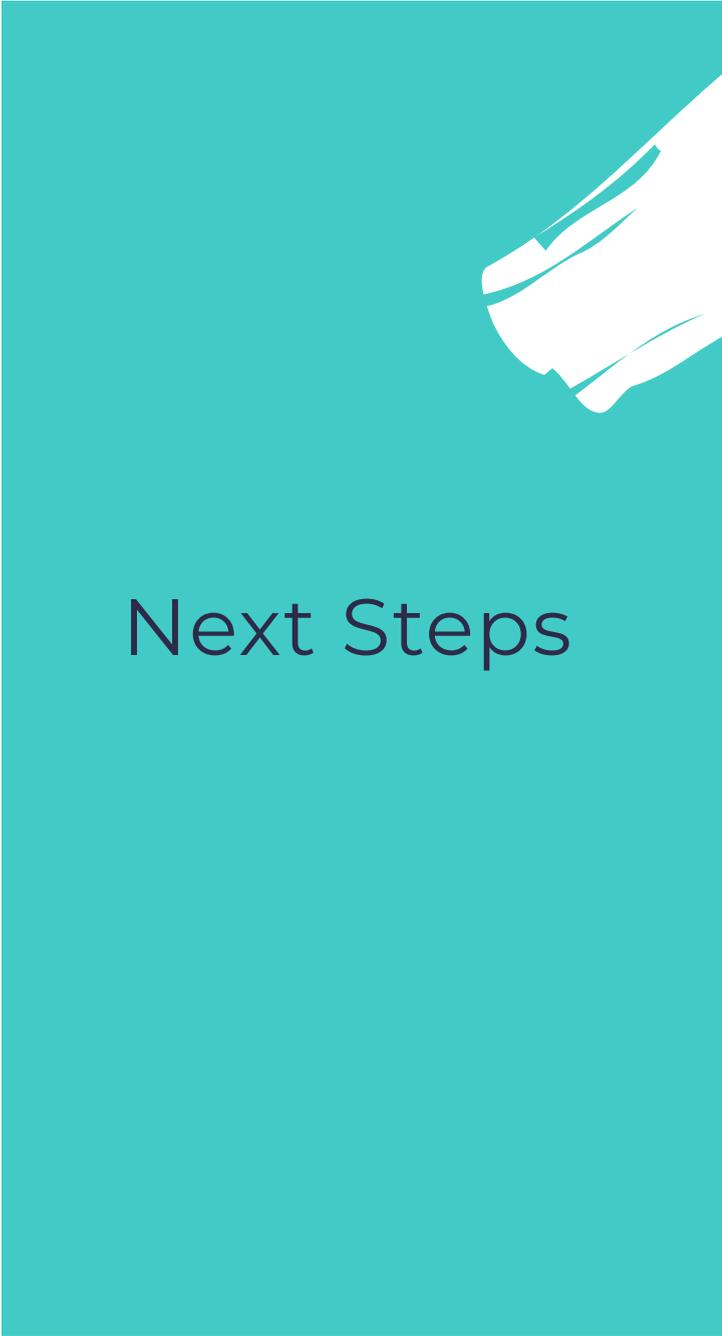
Accepted Macro Assumptions

- Market size of OoSY in Kenya is 6.4 million and addressable market is 1.8 million OoSY who want to start a business. (Based on our research only 29% of the 6.4 million OoSY are interested in starting their business and our course is fundamentally an entrepreneurial program).
- Transportation and Fast Moving Consumers Goods (FMCG) industries are among the top income & employment generating verticals in the informal industry that we have found and will start with.
- TVET institutions are viewed as an “alternative to secondary school” and the value proposition for TVET institutions involves affordability, hands on skills through short courses compared to secondary schools and low barrier to entry (low entry marks).
- The minimum price of a 3-month TVET course is \$270.
- Youth have an appetite for starting a business and taking loans.
- 7.7% of OoSY (18 out of 234) want employment to generate capital to start their own business.
- 36.7% of adults under 30 take a loan use their loan to start a business.



Accepted Macro Assumptions

- The Informal sector is Kenya's biggest employment sector, **employing over 87% of adults in Kenya.**
- In the informal sector; wholesale and **retail trade**, hotels and restaurants industries continued to **absorb the highest number of employees**, accounting for **59.7 percent of total employment.**
- Manufacturing follows as the 2nd biggest employer, with the Community, Social and Personal Services industry in 3rd. Transportation & Communication is the **4th biggest industry employer in the informal sector.**
- Boda Boda & Kiosk businesses in Kenya **generate a minimum of \$300 per month.**
- The growth of Digital Lenders in Kenya is phenomenal, and they are vital in formalizing the informal sector through small loans to informal “employees”, driving digital transactions that build their credit scores to access more funds for their businesses and meet their day to day needs.



Next Steps

Going back to our users and key partners to get feedback around the solution we want to design for them. We will do this through these activities:

- Running focus groups to go through a solution validation process where they will give us their direct feedback
- Testing our various prototypes with users and key partners
- **Once we have established that we can solve the customer's problems with our prototyped solution, we will move forward to pilot this solution in Q4 2019**



EDUCATE!