

# Improving Business Planning among Cash Transfer Recipients

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Boosting Outcomes of a Cash Transfer Program in Ethiopia using Behavioral Design

**ideas42 partnered with the Government of Ethiopia and the World Bank to support self-employed cash transfer recipients of the Urban Productive Safety Net Program (UPSNP) to start and/or expand their businesses as a means of improving their livelihoods. As part of the UPSNP, recipients receive basic business and skills trainings, as well as a one-time grant to help them get started with their businesses. To boost the impacts of these business trainings and grants, we designed and tested a suite of behaviorally informed interventions to aid recipients in realizing their business goals by planning ahead, preparing, and taking the steps necessary to start or expand their business.**

## Problem

Over the past 15 years, Ethiopia has experienced one of the fastest economic growth rates in the world, which has helped to reduce poverty in both rural and urban areas.<sup>1</sup> Despite its progress, rapid population growth, alongside recent armed conflicts, fuel and food price shocks, and recurrent droughts have increased the vulnerability of the urban population to poverty. In 2016, the Government of Ethiopia introduced the UPSNP, a comprehensive social protection program created to reduce urban food insecurity, poverty, and vulnerability. Recipients of the UPSNP that are able to work receive monthly income transfers conditional on their participation in a public works program, which provides the recipients with cash in exchange for their labor, while those that are unable to work receive unconditional transfers.

Recipients participating in the public works program select a livelihoods pathway, either wage employment or self-employment, they'll pursue during and after graduation from the program. They are also required to save 20 percent of each of their transfer payments toward their selected pathway. Recipients under the self-employment pathway receive training on entrepreneurship and business development to develop a plan to launch or expand their business. At the end of their second year of the program, recipients are provided with a \$500 grant plus their accumulated savings to invest into the launch and/or expansion of their business.

Starting or expanding a business is a high effort and risky venture that requires recipients to take complex steps and overcome structural barriers. While recipients may have the intention to start and/or expand their businesses, many find it challenging to take the preparatory steps necessary to overcome these barriers prior to receiving their grant. Recipients living in chronic scarcity face additional challenges in

## Highlights

- ▶ Behaviorally designed interventions, including an allocation planning activity, increased the likelihood that recipients made plans to allocate their money towards business expenses by 6%.
- ▶ Implementing behavioral interventions were approximately 5.7 times more effective at helping recipients establish a plan for allocating their money than simply giving them the equivalent cash amount it costed to implement them.

<sup>1</sup> See IMF Ethiopia Country Report

meeting their basic family needs, making it even harder for recipients to make the complex budgeting and spending decisions necessary for their business.

## Solution

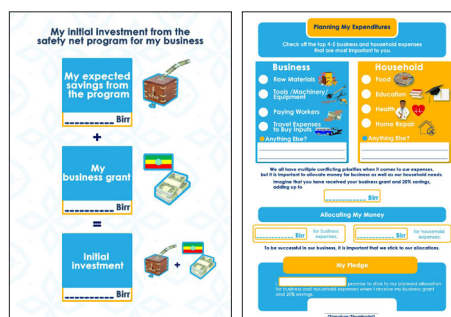
To understand the challenges faced by recipients in starting and/or expanding their businesses, ideas42 conducted interviews and focus groups with recipients and program staff, as well as reviewed program data. Research revealed that recipients were not taking any of the preparatory steps necessary to be able to effectively use the grant when they receive it. To help recipients overcome this, we designed and introduced behaviorally designed interventions into the UPSNP’s public works program’s self-employment pathway. The table below outlines the behavioral barriers we found self-employed recipients often faced when starting or expanding their business and the corresponding solutions we designed to address them.

Figure 1: BEHAVIORAL BARRIERS AND SOLUTIONS

### BEHAVIORAL BARRIER

**Lack of budgeting support:** Although budgeting is difficult for everyone, cash transfer recipients, often living in conditions of chronic scarcity, face additional challenges as their pressing, immediate needs are more salient than saving for a future investment. Because of this, recipients reported it difficult to budget their business grant, in particular, how they should prioritize and allocate their money towards their business given competing household needs, once they received it.

### SOLUTIONS



**Allocation planning activity:** We designed a budgeting activity that allowed recipients to decide on their priority expenses for their business, but also their household if necessary. Once they identified their priorities, they could then create a plan for how much they would allocate their business grant and savings money towards these priorities once they received it. They also signed a pledge to stick to their planned allocations as a commitment.

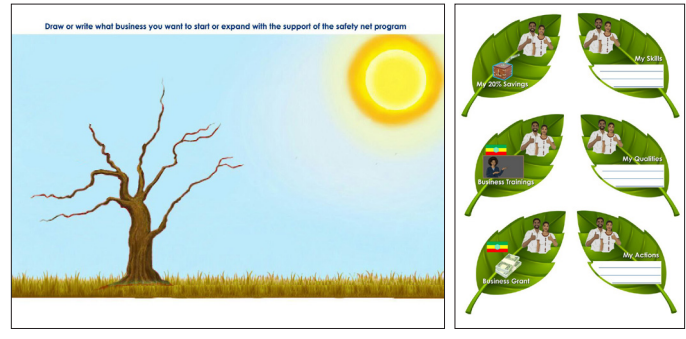


**Partitioning tool:** We designed a pouch with two pockets, one for household expenses and one for business expenses, to help recipients separate their money when they receive their grant and accumulated savings. *The impact of this design was ultimately not evaluated during this partnership due to program timing.*

**BEHAVIORAL BARRIER**

**Lack of affirmation:** Social safety net programs, such as the UPSNP, are often framed as additional support for “poor” households, and recipients often reported that they couldn’t be successful in their business without government support. These factors may unintentionally reinforce the identity of some recipients as “needing support”, thus limiting their beliefs of what they are able to achieve.

**SOLUTION**

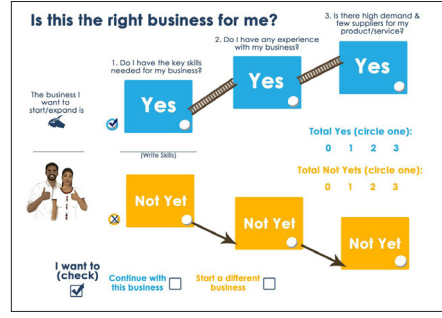


**Self-affirmation activity:** We designed a self-affirmation activity where recipients were given a picture of a tree with no leaves and were prompted to write down the skills, attributes, and actions they could contribute to their businesses and add them to the tree. This activity aims to reaffirm the recipients of the qualities they already have that enable them to be successful.

**BEHAVIORAL BARRIER**

**Planning fallacy:** Selecting the right business to pursue is a difficult decision that requires a lot of thought and research. Recipients living in chronic scarcity may lack the cognitive bandwidth required to consider all of the relevant factors necessary to plan and select the most appropriate business for their skillset, experience, and market conditions.

**SOLUTION**



**Guide to choosing the right business:** We designed a guide that walks recipients through a series of questions to evaluate their choice of business given their skills, attributes, and existing market conditions. *The impact of this design was ultimately not evaluated during this partnership due to program timing.*

**BEHAVIORAL BARRIER**

**Misalignment of mental models:** The program structure requires recipients to complete the two-year program prior to receiving their grant. As a result, recipients reported it difficult to make plans for their business before they received the funds to do so.

**SOLUTION**



**Road map of steps:** We designed a road map of the steps necessary for starting or expanding a business that recipients could use to think about and prepare for their businesses prior to receiving their grant.

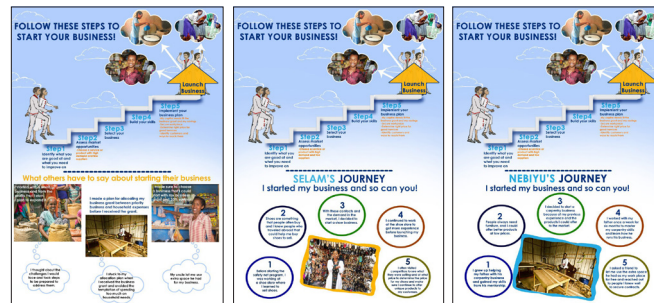
**BEHAVIORAL BARRIERS**

**Uncertainty about business steps:**

Starting a business is difficult and complex. Recipients often reported feeling uncertain about the various steps necessary to start and grow their business.

**Lack of social proof:** The behavior of our peers can influence our decisions and actions. Cash transfer recipients don't often see their peers launching or expanding their businesses, which may make it less likely for them to do so.

**SOLUTION**



**Posters with examples of businesses:** We designed posters that outlined the steps to starting a business, which included “role models” of other recipients who had successfully started a business as part of the program.

**Results**

From February to July 2022, we tested these behavioral interventions in five locations across Ethiopia with 2,350 recipients. Half of the recipients were randomly selected to receive the behavioral interventions in addition to the typical program offerings, while the other half participated in the program as usual. We implemented the interventions a month prior to the grant disbursement in April 2022. Two months after grants were disbursed, we collected data from recipients to measure the impact of the intervention on the recipient’s level of self-confidence and agency, whether recipients had planned and allocated money towards their business, and how they had prepared for their business by taking preparatory steps.

The evidence shows that the behavioral designs, and, in particular, the allocation planning activity increased the likelihood that recipients made plans to allocate their money towards business vs household expenses by 6% compared to those that did not receive them. This means that the designs made people more likely to think ahead, plan, and budget their grant and savings towards their business and/or household expenses. Despite the increase in planning behavior, we did not find significant impacts on increased self-confidence two months after the intervention or on preparedness for business through taking preparatory steps, likely due to the volatile economic conditions in Ethiopia. These behavioral interventions also provide a cost-effective way to help recipients make a plan for spending their grant, with estimates suggesting that they were approximately 5.7 times more effective at getting recipients to make a plan than simply giving them the equivalent cash amount it costs to implement them.

**Takeaway**

Behaviorally informed interventions can have a positive impact on cash transfer recipients, in particular for those trying to start or expand a business, even in contexts rife with uncertainty and conflict. Our findings strengthen existing evidence around the impact, cost-effectiveness, and value of goal-setting and plan-making activities when delivered in conjunction with cash transfer programs, including the UPSNP, for improving the outcomes and ultimately livelihoods of cash transfer recipients.