RESEARCH BRIEF

# Impacts of Industrial and Entrepreneurial Jobs on Youth • The Long-Term Impacts of Grants on Poverty

*Based on BFI Working Paper No. 2019-65, "Impacts of Industrial and Entrepreneurial Jobs on Youth: 5-year Experimental Evidence on Factory Job Offers and Cash Grants in Ethiopia," by Christopher Blattman, Ramalee E. Pearson Professor of Global Conflict Studies, UChicago's Harris School of Public Policy; Stefan Dercon, professor of economic policy, Oxford University; and Simon Franklin, assistant professor of economics, Queen Mary University; and BFI Working Paper No. 2019-41, "The Long-Term Impacts of Grants on Poverty: 9-Year Evidence from Uganda's Youth Opportunities Program," by Christopher Blattman, Ramalee E. Pearson Professor of Global Conflict Studies, UChicago's Harris School of Public Policy; Nathan Fiala, assistant professor, University of Connecticut; and Sebastian Martinez, principal economist, Inter-American Development Bank*

**KEY TAKEAWAYS**

- ✓ Most poverty intervention programs are based on giving people what they need in the short term
- ✓ Recent studies in Uganda and Ethiopia reveal the impact of job plans and cash grants on recipients' wellbeing
- ✓ Findings reveal that while there is a short-run impact for those receiving a job or a cash grant, those effects are erased over time

The old adage about fighting poverty is that if you give a man a fish, you feed him for a day; but if you teach a man to fish, you feed him for a lifetime.

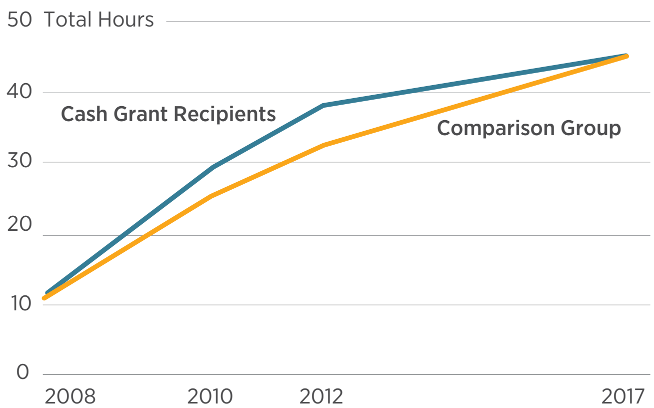
Except that it is not always that easy. You can teach a man to fish, but he might still need equipment, like a fishing rod, a boat, and a net. He will also need the infrastructure to provide access to good fishing waters, and the means to travel to and from bodies of water.

Most poverty reduction programs operate on the give-a-man-fish plan: if people are not consuming what they need to consume—whether that is food, clothing, or housing—then give them those things. That's how most poverty interventions operate within the United States and around the world. However, in recent years, researchers have implemented randomized evaluations of people in developing countries to determine whether it is better to incentivize people to take a longer view and, for example, offer them entrepreneurship-type grants. Christopher Blattman of UChicago's Harris School of Public Policy, along with his colleagues listed at the top of this article, is at the forefront of this research. Two recent papers that review programs in Uganda and Ethiopia reveal that while grants can offer a head-start to recipients, over time, non-recipients catch up to those who benefited from a grant. These findings, which counter conventional wisdom, offer important insights for policymakers considering programs to alleviate poverty.

Becker Friedman Institute
FOR ECONOMICS AT UCHICAGO

5757 S. University Ave.
Chicago, IL 60637
Main: 773.702.5599
bfi.uchicago.edu

**Uganda** • Total Hours Worked in Past Week Across Time




## A tale of two countries

Boosting employment and business opportunities is a challenge for policymakers around the globe. In many countries, particularly those with a history of conflict, getting young people into steady jobs is also considered as a means to promote stability. Many development organizations and governments encourage youth entrepreneurship with solutions like training vouchers or microfinance tools. However, these programs are often complicated to implement and monitor, requiring additional money, resources, and time.

An alternative is putting cash directly in the hands of poor households, leaving them to decide how best to use the money for income-generating activities. Recent studies have found that simply giving people cash can lead to improvements in various measures of well-being, including consumption, assets, food security, and psychological health. Furthermore, the cash is very rarely squandered or misused. However, very little is known about the effectiveness of start-up grants on the lives of the poor over the long-term.

These two papers describe two programs—one each in Uganda and Ethiopia—that, while different in scope, broadly address the question of the long-term impact of cash grants and job offers on recipients, as well as those who receive no payments or jobs.

## Uganda: Jumpstarting entrepreneurs

In Uganda, the government launched the Youth Opportunities Program (YOP), which provided cash transfers to groups of young adults with the goal of encouraging trade-based self-employment. To qualify for the grants, young adults, aged 16 to 35, had to organize into small groups and submit a proposal to YOP, either on their own or with others in the group, for a grant to cover training, tools, and materials they needed to run a business of their choice.

The average applicant group had 22 members. The average grant was $7,497 per group, or about $382 for each group member (in 2008 dollars), with the money deposited in a group bank account. On a per-person basis, grants generally ranged from $200 to $600, or about one year's income for a young adult. Groups were responsible for creating a five-person management committee and doing their own budgeting and allocating. The money was given to the group, and the management committee distributed it according to the group's plan. Once the transfer was awarded, the government did not monitor the use of the money.

The researchers partnered with the government to conduct a randomized evaluation to measure the long-term impact of the YOP on young adults' employment, income, assets and other measures of well-being, such as education and health outcomes. Among 535 eligible groups that applied, 265 were randomly selected by lottery to receive the cash grants. The other groups did not receive a transfer and formed the comparison group. To measure impacts on employment, income, assets, and other measures of well-being such as children's health and education outcomes, researchers surveyed participants two, four, and nine years after the program. Despite the long period of time between the cash grant and the nine-year survey, fewer than 16 percent of the sample were lost in the last round of data collection.

The results tell an evolving story over time, with higher returns for grant recipients in early years but with similar earnings over time. After four years, young adults who had received the grants were earning 38 percent more than their peers who hadn't received the grants. The boost in earnings seemed to be driven by recipients' work in skilled trades—they were 65 percent more likely to be working in a skilled trade such as carpentry, tailoring, metalworking or hairstyling. Overall, they were working 17 percent more hours than those in the comparison group.

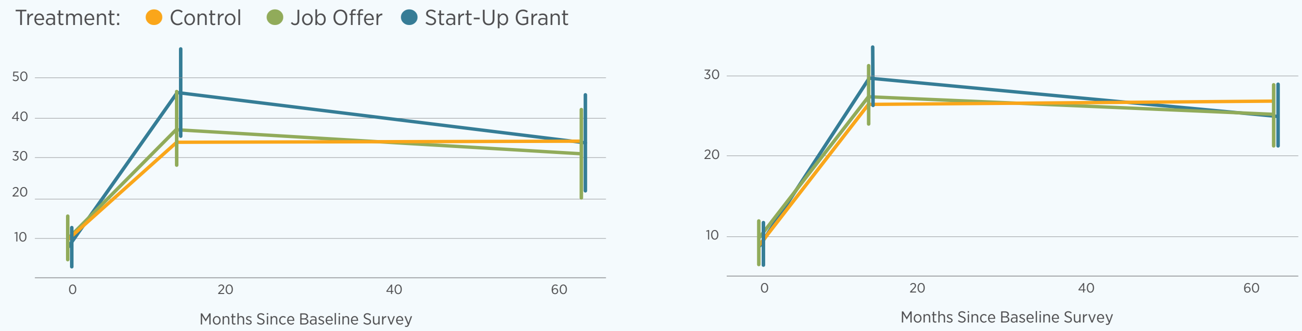
In addition, those who received the grants were 34 percent more likely to have registered a business and 40 percent more likely to have paid business taxes and to have kept business-related records. In addition, consumption of food and use of medicines was 11 percent higher for those who had received the money.

In that same period, women were benefitting the most. After four years, incomes for young women who received the grants were 73 percent higher than women in the control group. In contrast, incomes for men who received the grants were 29 percent higher than incomes of those in the control group. The difference for men and women was mainly driven by women's incomes being much lower than men's at the beginning of the study, so the grants gave them a bigger boost.

**Ethiopia** · Progression of Income and Hours Worked Across Time by Treatment Status

(a) Mean Income in Past Week Across Time for All Cohorts

(b) Mean Hours Worked Across Time for All Cohorts




Note: ITT effects added to control the mean for total real earnings (profits plus wages) in the past week.

Note: ITT effects added to control the mean for hours worked per week.

However, after nine years the impacts on earnings faded out for both men and women. Between the fourth and ninth years, the recipients' peers in the comparison group considerably increased the number of hours they worked, from just under 11 hours per week to more than 43 hours per week nine years later. While they had not moved into higher-skilled jobs, they were making more money by working more hours in non-agriculture work and low-skilled labor businesses, and their wages had caught up with the wages of those who had received the grants.

## Ethiopia: A job vs. a cash grant

In Ethiopia, the question before researchers regarded the impact of industrial sector development and the jobs they offered, and the extent to which workers prefer these jobs over others. For this program, between 2010-2013, researchers randomly assigned mostly female jobseekers to receive an industrial job offer or an unconditional cash transfer, meant to spur self-employment.

As background, over the past two decades, manufacturers have been looking to Ethiopia as a potential new hub for export-oriented industry, given its size, low wages, proximity to Europe, and foreign-investment friendly regime. It is one of the fastest growing economies in the region—with GDP growth of roughly 10 percent per year from 2006 to 2016—and has become a growing export hub in horticulture, textiles, and leather. Despite this growth, 27 percent of the population continues to live on less than US$2 per day in purchasing power parity terms (PPP), and 85 percent of the workforce is employed in agriculture.

Researchers partnered with Innovations for Poverty Action, the Ethiopian Development Research Institute, and five industrial firms to evaluate and compare the impacts of industrial firm employment offers and unconditional cash transfers (or "start-up grants"). The research team randomly assigned 947 job applicants to one of three groups:

- **Formal employment offer**. Applicants randomly assigned to this group received a job offer at one of the five firms. The positions involved working on production lines—bottling water, picking and packing produce and flowers, cutting fabric, or sewing shoes—and could involve heavy machinery or simple tools. The jobs required 45 to 50 hours of work over 5 or 6 days per week and typically paid a daily wage of US$1 to US$1.50. While the workplaces were professional and well-maintained, health risks were common, including: air quality due to dust particles or chemical fumes, discomfort and fatigue; and occasional safety hazards.

- **Start-up grants**. Applicants randomly assigned to this group received an unconditional cash grant of nearly 5000 Birr (roughly US$300). While the grant was framed as a business start-up fund, the researchers made clear throughout the intervention that grantees were free to use it as they saw fit—for savings, consumption, or investment. Grantees also received five days of business training and planning delivered by professional skills trainers and received individual mentoring. To receive the cash grant, they were required to complete at least three days of the training.

- **Comparison**. Applicants randomly assigned to this group received no employment effort, nor did they receive cash or job training assistance.

Researchers surveyed households after the initial offers of employment, 11 and 13 months after the program began, and five years later to determine the impact of the two employment options. They also visited the factories and farms to conduct qualitative interviews with workers and managers. The results were similar to those in Uganda. Despite short-term impacts of the start-up grant program on occupational choice, income, and health in the first year, these effects largely dissipated over time. After five years, researchers saw an almost complete convergence in earnings, employment, and health across all groups. Overall, these results suggest that one-time and one-dimensional interventions may be ineffective in overcoming barriers to wage- or self-employment.

## Conclusion

Helping young adults find jobs and earn higher wages is a goal of policymakers in emerging economies, where high rates of unemployment keep families in poverty. Many countries are working with vouchers, training programs, and microfinance to raise employment opportunities. The findings from these two research programs, which are some of the longest-run evidence on cash transfers available, suggest that capital grants given with little oversight can be invested well, lead to long-term gains in skills and assets, and help people earn more at a faster rate. However, the findings also show that effects on earnings and business outcomes may dissipate over time.

The researchers findings from the Uganda program suggest that it is possible that adjustments to the cash grants program or different targeting could bring about larger or more sustained impacts. For example, there is some evidence that the most sustained impacts of capital grants come when offering them to people with high entrepreneurial productivity and low initial wealth. It is also possible the program would be more effective in a context where potential entrepreneurs have less access to capital. Understanding the answers to these questions will be important for policymakers designing economic development programs in emerging economies in the future.

In Ethiopia, offers of an industrial job did not lead applicants to experience better economic outcomes relative to the comparison group—they did not have higher weekly earnings and their wages were also lower and hours longer than those who found informal employment. Most of those offered formal employment ultimately quit their industrial jobs; after five years, participation in factory work fell from 18 to below 12 percent. These findings are consistent with the observation that these were unpleasant jobs, used by individuals as a last resort or safety net. For those receiving start-up grants, one year after the program was delivered, recipients of start-up grants reported increased earnings and a nearly 10 percent increase in consumption over the comparison group. These results were largely driven by increased work hours, mostly through self-employment and retail trades. After the first year, 41 percent of the start-up grant group were engaged in self-employment. However, these income, productivity, and self-employment boosts disappeared after five years. It seems the cash acted as a temporary boost to earnings, rather than a permanent lift out of poverty.

For policymakers looking for a quick fix for a long-term rise out of poverty, these programs offer sobering results. You can give people a jumpstart, this research suggests, but those effects lapse over time.

**CLOSING TAKEAWAY**

The findings from these two research programs, which are some of the longest-run evidence on cash transfers available, suggest that capital grants given with little oversight can be invested well, lead to long-term gains in skills and assets, and help people earn more at a faster rate. However, the findings also show that effects on earnings and business outcomes may dissipate over time.

**READ THE WORKING PAPERS**

NO. 2019-65 · APRIL 2019

**Impacts of Industrial and Entrepreneurial Jobs on Youth: 5-Year Experimental Evidence on Factory Job Offers and Cash Grants in Ethiopia**

bfi.uchicago.edu/working-paper/201965

NO. 2019-41 · SEPTEMBER 2018

**The Long Term Impacts of Grants on Poverty: 9-Year Evidence from Uganda's Youth Opportunities Program**

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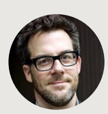

***Christopher Blattman***
*Ramalee E. Pearson Professor of Global Conflict Studies, Harris School of Public Policy, University of Chicago*
harris.uchicago.edu/directory/christopher-blattman

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*Written by David Fettig, BFI Senior Writer and Editor*