Can Cash Grants Help Create Jobs and Stability?

Policymakers throughout the world struggle to boost employment. Creating jobs—or giving people the right training to get jobs—is not only good economics, but especially in developing countries, it may be a way to reduce social instability and with it the threat of crime and unrest. In the push to figure out what works, development organizations and governments are looking beyond the more traditional voucher and microfinance tools to decentralized programs that give cash grants and leave it to recipients to decide how to use the money. But can you give young people a lump sum and, with only limited supervision, expect them to build a profitable business? And, assuming they do, does this in turn improve social cohesion and reduce the chances of aggression or unrest?

At the World Bank, we are committed to ending poverty and we are working to help meet the United Nations Millennium Development Goals, including eradicating extreme poverty by raising incomes and making sure everyone has decent employment. To help policymakers judge the effectiveness of different approaches to building employment opportunities, the World Bank sponsored an evaluation of a Government of Uganda program that gave young men and women cash grants to start new businesses or get training. Based on mid-term results two years after the intervention, the Ugandan program made significant impacts: Beneficiaries reported large increases in skilled employment and incomes, and modest gains in social cohesion and stability. In the constrained credit markets of many developing countries, where available financing is usually short-term and can carry a 200 percent plus annual interest rate, the poor often have few viable options for getting the start-up money they need for skills training or small business development. At the same time, it may not always be feasible for governments to set up grant-making programs that require extensive oversight. As this impact evaluation shows, there are other options. In certain circumstances, unsupervised cash grants can be used successfully with poor entrepreneurs, something policymakers will want to consider when looking to boost employment and income among young adults.

Case Study: Uganda

Researchers and Innovations for Poverty Action (IPA) partnered with the Ugandan government to evaluate the effectiveness of the Youth Opportunities Program, introduced in 2006 to raise incomes and employment among young adults aged 16 to 35 in the country’s northern region by offering them cash grants for training and business materials. To qualify, young adults had to organize in groups of 10 to 30 people and submit a proposal for a grant to cover training programs and what tools and materials they needed to run a business. Groups had an average of 22 members each and they could plan a business together or each on their own (mostly they proceeded on their own). While they did have access to a facilitator to help organize, build budgets and apply, these facilitators played no role after the application phase, and there was no formal mechanism of follow-up or accountability for the funds after disbursement. Most group members planned to go into tailoring, carpentry, metal fabrication, mechanics or hairdressing.

Groups were responsible for creating a five-person management committee and doing their own budgeting and allocating. The management committee handled disbursing the funds and was accountable only to other members of the group. Because groups rarely kept records, it was not possible to measure how exactly the money was distributed within groups. Sometimes they made bulk purchases for materials such as tools; other times they gave money directly to members.

The average grant received was $7,108 per group, or about $374 for each group member, with the money deposited in a joint

Did You Know...

Uganda has a labor force growth rate of nearly 3 percent a year. But the formal sector is able to absorb only one-fifth of new entrants to the labor market. And 37 percent of people live on less than $1.25 a day.

Source: World Bank data
bank account. On a per person basis, the grant was 20 times more than young adults were earning in a month. Overall, grants generally ranged from about $200 to $450, in Ugandan shillings.

Prior to the evaluation, the Government disbursed hundreds of grants in a first large phase. Researchers studied the second and last phase of grant-making, when an additional 265 grants were available. Of the 535 eligible groups that applied, those not picked were tracked as a control group. Researchers followed a random sample of five individuals in each group, or 2,675 individuals, conducting a baseline survey in early 2008 and an end line survey between mid-2010 and mid-2011, about 12 to 18 months after most groups had finished their training programs. Taking into account group disbanding or members moving away, researchers were able to track 99 percent of the groups and 87 percent of the targeted individuals.

**Background**

The gradual end of civil war in Uganda over the last decade and the weakening of armed conflicts in neighboring countries allowed the Ugandan government to increase its reach and work to develop the regional economy in the north. The Northern Uganda Social Action Fund, created in 2003, offered grants for infrastructure construction, income support and livestock. The fund was expanded in 2006 to help young adults find work outside of the informal farming sector. The new Youth Opportunities Program provided large cash grants to self-created groups of young adults so they could get vocational training and buy materials to start or expand a small business. The program sought to offset difficulties young adults faced finding credit in northern Uganda, where loans—mainly offered by small associations and moneylenders—generally carried an interest rate of about 10 percent a month and were for one month to three month periods.

**The Findings**

Young adults who applied for the program spanned Uganda’s very poor to those who would be considered “middle class.”

Applicants were self-selected, so they may have been more motivated to work and more likely to have the skills and aptitude to benefit from such a program. Nonetheless, many were drawn from Uganda’s very poor and undereducated: More than one-quarter had not finished primary school and more two-fifths said they had no income or employment. Prior to starting the program, more than half their reported time was spent on chores and agricultural activities and, on average, they reported weekly revenues of about $4, which put them exactly at the international poverty line of $1.25 a day.

Fears that the money would be mismanaged or misappropriated were unfounded. Overall, young adults who received the unsupervised grants stuck to their stated plans, using the majority of the money for vocational training and to acquire materials to run a business.

Nearly 80 percent of those who received the cash transfer enrolled in vocational training, with levels similar for men and women, compared with 17 percent of the control group. The most popular training program was tailoring, followed by carpentry, metalworking and hairdressing. About 13 percent of those who got grants re-enrolled in secondary school, compared with 10 percent of those in the control group.

This brief summarizes the results of a mid-term report by Christopher Blattman, Nathan Fiala, and Sebastian Martinez, “Employment Generation in Rural Africa: Mid-term Results from an Experimental Evaluation of the Youth Opportunities Program in Northern Uganda.” (http://www.poverty-action.org/project/0189) The evaluation was funded in part by the World Bank’s Spanish Impact Evaluation Fund (SIEF), Gender Action Plan (GAP), the Bank Netherlands Partnership Program (BNPP), and Yale University. These findings are preliminary, and final, long term impacts will be collected and analyzed in 2012 with another round of data collection.
Groups functioned well, with less than two percent reporting that the leader took all or most of the funds.

Among the concerns about giving cash grants is that leaders will take all the money for themselves. This occurred in only four of the groups—1.7 percent of the total—indicating that this is an uncommon occurrence. While group leaders did seem to receive a disproportionate share of the grant, they did not take so much that other members suffered lower returns. Most of the groups that received the grants were still functioning after the grant period ended, with 82 percent of members of treatment groups reporting that they felt their group cooperates well.

Not only did grant recipients enroll in training programs at a higher rate, but also they spent more on business materials than the control group.

Since starting their business, grant recipients spent 4 to 5 times more than control group members on new acquisitions of business equipment. Two years after the grant was given, recipients valued their stock of business assets at $390, compared with $158 for the control group (at 2010 market exchange rates).

More than one year later, grant recipients were more likely to be doing some type of skilled work than those who didn’t get money.

Some 68 percent of grant recipients were working in a skilled trade, compared with 34 percent of the control group. They also spent 22 hours more per month on market activities than those in the control group, and 19 hours more per month on all economic activities—an increase in employment levels of a third.

Perhaps unsurprisingly, those who received grants—and thus were more likely to be working—spent less time on household chores. Women, in particular, spent 18 hours less on chores over a four-week period, compared with a five hour drop for men. However, there was no decline in time spent on subsistence activities.

Incomes also were higher for those who had received grants…

On average, grant recipients had 50 percent higher net incomes over the control group, translating to an extra $9 a month. Male and female incomes both increased by similar amounts. There is huge variation incomes and success, but the members of groups that received the grant are doing better at almost every point of the income distribution.

…and they also saved more.

The amount of money saved was about 50 percent greater for the treatment group, though this is variable and not statistically robust. Consumption, based on a wealth index, was also significantly greater.

Based on the average grant amount of about $374 per person, the returns on investment were about 2.9 percent a month—or 35 percent a year (non-compounded).

Giving cash grants did not only provide young adults with access to capital that they otherwise would have trouble getting, but it made good business sense. Even with money being spent primarily on vocational training and tools, returns reported were close to the 40-60 percent “high” returns reported for microenterprises in Sri Lanka, small businesses in Mexico and traditional crop farmers in Ghana.

While about a third had some experience with borrowing money, the amounts they had previously borrowed usually were too small to cover the costs of a training program or to build a business.

Eleven percent had saved money in a bank account or association over the six months prior to the baseline survey, with a median savings of $22. A third had a loan outstanding at the time of interview, generally around $5.50 and mainly from friends and family. When asked about their ability to borrow, about 37 percent believed they could get a loan of up to $55 and 11 percent of applicants thought they could get a loan of up to $555, with 18 percent saying it would come from family and 82 percent from institutions.
In addition to the economic gains, there were modest gains in community cohesion

Those who received grants were 4.4 percent more likely to attend community meetings and 8.9 percent more likely to be a (junior) community mobilizer. They also reported 4.7 percent more social support from family and community. These improvements are generally small and on the margins of statistical significance, and often most robust among males. But they consistently point to small improvements in social cohesion across the board, for both genders.

In a post-conflict environment, peace and stability are crucial objectives of the program. Men who received the program significantly reduce interpersonal aggression. But women’s aggression is higher.

More interesting and puzzling is the contrasting impact on aggression by gender. Men and women were asked about hostile behaviors (such as threatening others, or engaging in fights) and also disputes with family, neighbors, leaders and police. Men who received grants had a 31 percent—self-reported—decline in aggressive behavior relative to the control group, while women reported a 42 percent increase. Although these remain rare events, the proportional impact on changed behavior is large. Also, among both men and women, the “hostile behaviors” are driven by some of the most serious forms of aggression we measure: physical fights, threatening others, and disputes with leaders and police.

What can we make of these findings? The decline in male aggression is consistent with theories that tie aggression to stress levels, low social standing, and perceived injustice. Higher employment and incomes could reduce exposure to and minimize the effect of such potential risk factors.

The increase in female aggression is more puzzling, and is a subject of ongoing study. One hypothesis is that women increase their participation in the market and thus are exposed to more opportunities for conflict than women in the control group, especially if participants’ market activities lead to increased sexual harassment.

Conclusion

Helping young adults find jobs is a key goal of policymakers in emerging economies, where high rates of unemployment are a potential social and economic problem. Many countries are working with vouchers, training programs and microfinance to raise employment opportunities. Uganda, which over the past decade emerged from a brutal armed conflict in the north, has been working to alleviate poverty and raise jobs options in this hard-hit region. In a new approach, the government funded a program that gave unsupervised cash grants to young adults who drew up business plans explaining what they would do with the money.

As this impact evaluation shows, giving young people cash grants can, at least in some cases, help spur economic activity. These young adults, who were motivated enough to meet the requirements for grant application, showed more self-discipline and focus than might have been expected. Given the focus by many development experts on microfinance, which generally carries tight controls and high interest rates, this impact evaluation shows that young adults can have high returns on investment when they are given access to capital.