

Creating Jobs for Youth in Uganda

Effects of alternative skills development methods on employment and earning

Introduction

The African continent has the youngest population in the world. According to the World Bank, 200 million people in Africa are between 15 and 24. In Uganda, 78 percent of the country is below 30 with 56 percent below the age of 18. Like other countries in Sub-Saharan Africa, Uganda's economic growth in recent years has not been accompanied by sufficient job creation. As a result, its youth population is experiencing significant problems in accessing stable employment, and rates of un[der]employment remain worryingly high.

In an effort to increase youth employability, policy makers have recently emphasized skill-development programs. In particular, the expansion of formal Vocational Training programs is high on the agenda of most Sub-Saharan African governments, NGOs and international agencies. Despite the growing policy interest in such programs, few studies directly compare the effective-

ness of alternative methods of skills development – for example formal vocational schools versus apprenticeship and on-the-job training programs.

As most individuals in developing countries are employed in Small and Medium-Enterprises (SMEs), analysing the reaction of SMEs to different kinds of training programs, and better understanding their constraints to expansion more broadly, is crucial for the design of policies tailored to generate employment. A key policy question to consider: *Does an increased supply of skilled labour lead to net job creation or do newly trained hires crowd out existing workers?*

At the heart of this research project is a comparative assessment of the effectiveness of various skills development programs in creating net employment, as well as an evaluation of the cost-effectiveness of interventions easing different constraints on SME expansion.

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This preview is based on an ongoing research by BRAC in collaboration with London School of Economics (LSE) and University College London (UCL).

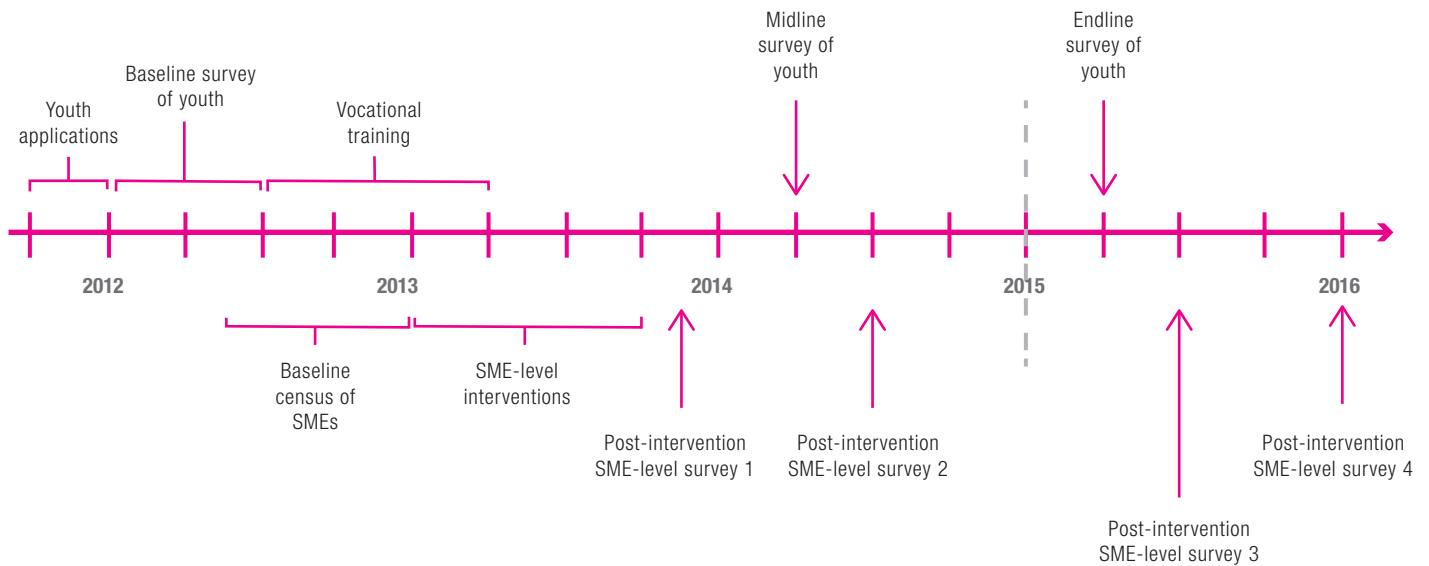
Evaluation

Between 2012 and 2015 BRAC Uganda Research and Evaluation Unit, in cooperation with partner researchers at The London School of Economics (LSE) and UCL in London, have evaluated a number of interventions combining formal Vocational Training, Apprenticeship, Firm-worker Matching and Promotion of credit products to SMEs, by assessing their impact on both youth employability and SME expansion in Uganda.

The Expansion of Small Firms and Job Creation program was implemented as a

Randomized Control Trial (RCT) in 15 urban areas across Uganda and involved a total of 2,306 SMEs and 1,714 youth. Eligible firms had been operating for at least two years in one of the eight sectors selected for the study (motor-mechanics, electrical wiring, welding, plumbing, construction, hairdressing, tailoring, catering) and had between one and 15 employees. Eligible applicants were youth from poor households aged between 18 and 25 years old. They had completed primary or lower secondary education but were out of school and unemployed at the time of their application. The timeline of the study is shown in **Figure 1** below.

Figure 1. Study Timeline



The RCT included five different interventions targeting both SMEs and youth. **Table 1** provides a short summary of each of the treatments.

Table 1. The Treatments

TREATMENT NAME	TREATED SUBJECTS	TREATMENT DESCRIPTION
Credit to firms	SMEs	Firms were visited by BRAC staff and were provided information about BRAC Small Enterprise Program (SEP), a loan program especially designed for small and medium enterprises with high growth potential. Interested firms were left a leaflet containing specific information about the loan product and the contact details of the relevant local BRAC credit officers.
Only Training	Youth	BRAC sponsored Vocational Training for about 500 youth, who attended a six-month residential training at various formal vocational training institutes across Uganda. The cost of training was about USD 400 per student.
Training and Matching	Youth and SMEs	Firms were visited by BRAC staff and were given a list with details of youth that had just completed the BRAC sponsored 6-month training program at a vocational training institute. Firms were then asked whether they were interested in meeting and hiring any of the workers on the list.
Only Matching	Youth and SMEs	Firms were visited by BRAC staff and were given a list with details of untrained youth that were randomized out of vocational training. Firms were then asked whether they were interested in meeting and hiring any of the workers on the list.
Apprenticeship	Youth and SMEs	Firms were provided with a list of untrained youth and were offered a subsidy to employ and train one of the workers from the list for 6 months. The total amount of the subsidy was UGX 120,000 (about USD 35) per month. BRAC recommended a split of the subsidy of UGX 90,000 for the trainee and UGX 30,000 for the owner.
Wage Subsidy	SMEs	Firms were visited by BRAC staff and were offered a subsidy to employ and train one new worker of their choice for 6 months. The total amount of the subsidy was UGX 120,000 (about USD 35) per month. BRAC did not recommend any split of the subsidy.

Results

Both Vocational Training and Matching and Apprenticeship increased youth employment one year after the training. As a result, income more than doubled for trainees in these interventions.

Vocational Training and Matching increased the probability of youth having been engaged in a work activity in the month before the survey by 21%. Apprenticeship increased the same figure by 25 percent. In addition, both interventions more than doubled the income of trainees: monthly earnings increased by 140 percent and 170 percent among youth in Vocational Training and Matching and Apprenticeship treatments, respectively.

Most jobs created through the program were in formal skilled occupations.

One year after the training, only 20 percent of applicants in the control group were engaged in an occupation requiring vocational or technical skills. The same figure rose to 35 percent for individuals in Vocational Training and Matching and to 30 percent for youth who received Apprenticeship. These two interventions also increased the likelihood of trainees having engaged into a written formal contract with their employer. Vocational Training Only also had a significant impact on youth involvement in skilled employment. However, such effect seems to be the consequence of workers shifting away from unskilled and into skilled occupations, rather than previously unemployed individuals engaging in a work activity. This is reflected in the lack of impact of this intervention on overall employment.

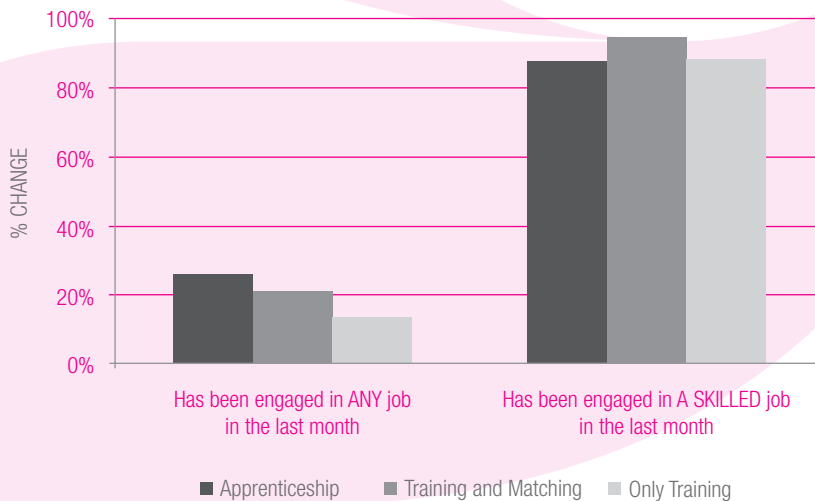


Figure 2. Change in Employment between Baseline and First Follow-up relative to Control Group

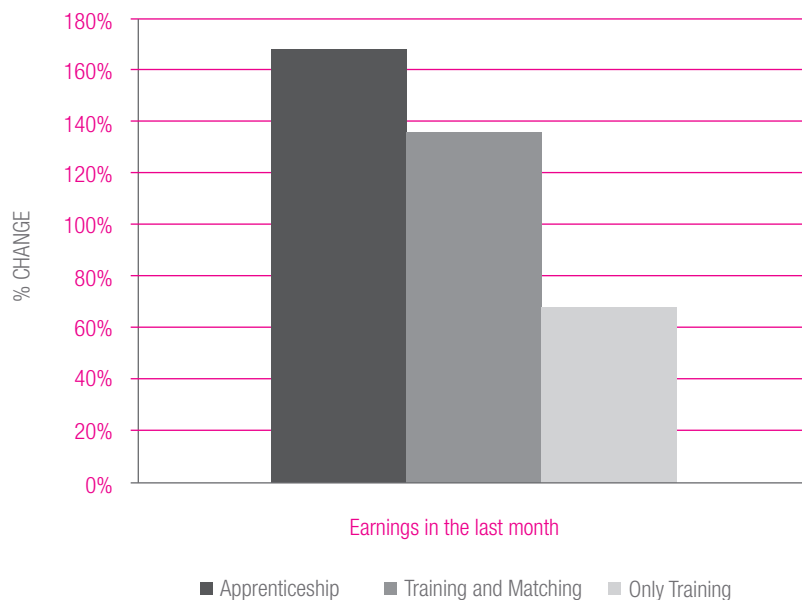


Figure 3. Change in Earnings between Baseline and First Follow-up relative to Control Group

Despite having expressed interest in Training and Matching, Matching Only and Credit at baseline, only very few firms actually took up these treatments.

Firms in Training and Matching reported not being in need of additional workers as the main reason for non-compliance at the time when the treatment was offered. In Matching Only, firms cited both not being in need of additional workers and the fact that the matched workers lacked skills as the main reasons for not being interested in hiring them. Compliance in Credit instead was low mainly due to firms reporting not being in need of a loan.

When offered a wage subsidy, the number of firms willing to hire a new worker notably increased. However, only Wage Subsidy had a positive and significant impact on firm size.

Respectively 38 percent and 81 percent of businesses in Apprenticeship and Wage Subsidy treatments hired a new worker through the program. At follow-up, 14% of the firms in Apprenticeship had hired and retained an employee at the end of the 6-month subsidy period. Despite this, Apprenticeship had no significant impact on firm size, suggesting that this intervention caused crowding out of other (potential) workers in the targeted firms. By contrast, 57% of firms in Wage Subsidy hired and retained new workers, and this translated into a significant increase in the number of employees at follow-up. Overall, the Wage Subsidy treatment generated 123 new jobs in the economy, and thus contributed substantially to net job creation. However, the data show that neither of these treatments had an impact on either profits or revenues.

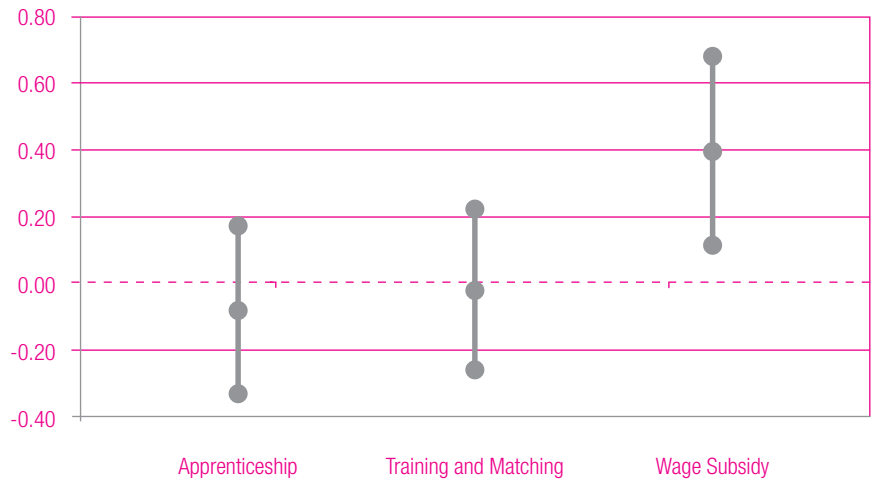


Figure 4. Impact of Treatments on Net Employment at Second Follow-up (Coefficients and Confidence Intervals)

Apprenticeship created greater employment and higher income than training at vocational training institutes, and that too at a lower cost.

Policy lessons

Both Vocational Training and Matching and Apprenticeship appear to be successful policy tools for reducing unemployment and the incidence of low productivity, low pay jobs. However, Apprenticeship seems to be more cost-effective.

Despite the cost per individual of Apprenticeship being about half the cost of formal Vocational Training, Apprenticeship had the largest impact on both youth employment and earnings. These results seem to point at Apprenticeship as a more cost-effective method to increase youth employment in the medium-term.

The higher impact of Vocational Training and Matching relative to Vocational Training Only seems to be driven by the indirect effects of the matching intervention, rather than by its direct effects:

Only very few trainees in Vocational Training and Matching were directly hired by matched firms. So the stronger impact of this intervention might originate from indirect consequences of having participated in the matching, such as a change in the job search strategies or labor market expectations of trainees.

The next follow-up survey will aim at better disentangling the mechanisms behind this finding and thus will allow drawing more definite conclusions on the policy desirability of combining Vocational Training with Matching interventions.

On the firm side, providing SMEs with wage subsidies to hire new employees seem to have a positive effect on net employment creation.

However, the amount of the subsidy needs to be carefully considered when designing the program, as this might influence the choice of the firm owner of whether to take up the subsidy in the first place, and whether to use it to expand the size of the business rather than to crowd-out other workers. Regarding the other treatments, the low take-up of the Matching interventions seems to indicate that firms do not face significant labor search constraints in this context. Similarly, the lack of positive results of the Credit intervention suggests either that firms are not credit constrained or, more likely, that simply providing them with information about existing credit products might not be an effective way of easing such constraints.

BOTTOM LINE

Evidence from the Small Firms Expansion and Job Creation for the Youth in Uganda suggests both Apprenticeship/On-the-job Training programs and Formal Vocational Training programs successfully increase youth employability and earnings. However, Apprenticeship programs seem to be overall more cost-effective at improving youth employment outcomes.