



Generating employment in poor and fragile states: Evidence from labor market and entrepreneurship programs

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Industry will be a huge source of job growth
But in the short and medium run this is not a
mass employment strategy for the youth bulge



What role for active labor market and entrepreneurship interventions?

How well do these programs raise the poor's level and productivity of current work, or access new occupations?

1. Skills training (business or vocational)

- Hard to find examples that pass a cost-benefit test

2. Microfinance

- Hard to find examples of poverty alleviation at existing interest rates and transaction costs

3. Business plan competitions and other cash and capital grants

- Broad evidence of high returns to capital

**Jóvenes
en acción**
+ estudio
= mejor futuro

*Muévete, estas son las acciones
para recibir tus incentivos*



Regístrate

**Recibe tus incentivos
de \$200.000 mensuales
y bancarízate**

**Actualiza
tus datos**

Haga clic aquí



**Colombia: 3 months vocational training + 3
months on-the-job training for poor youth**

Reached 80,000 unemployed young people 2002-05



13-15 months after training, little effect on men

Women: Jobs +7%, Hours +3/week, Wages +20%

But still not clear it passes a cost benefit test

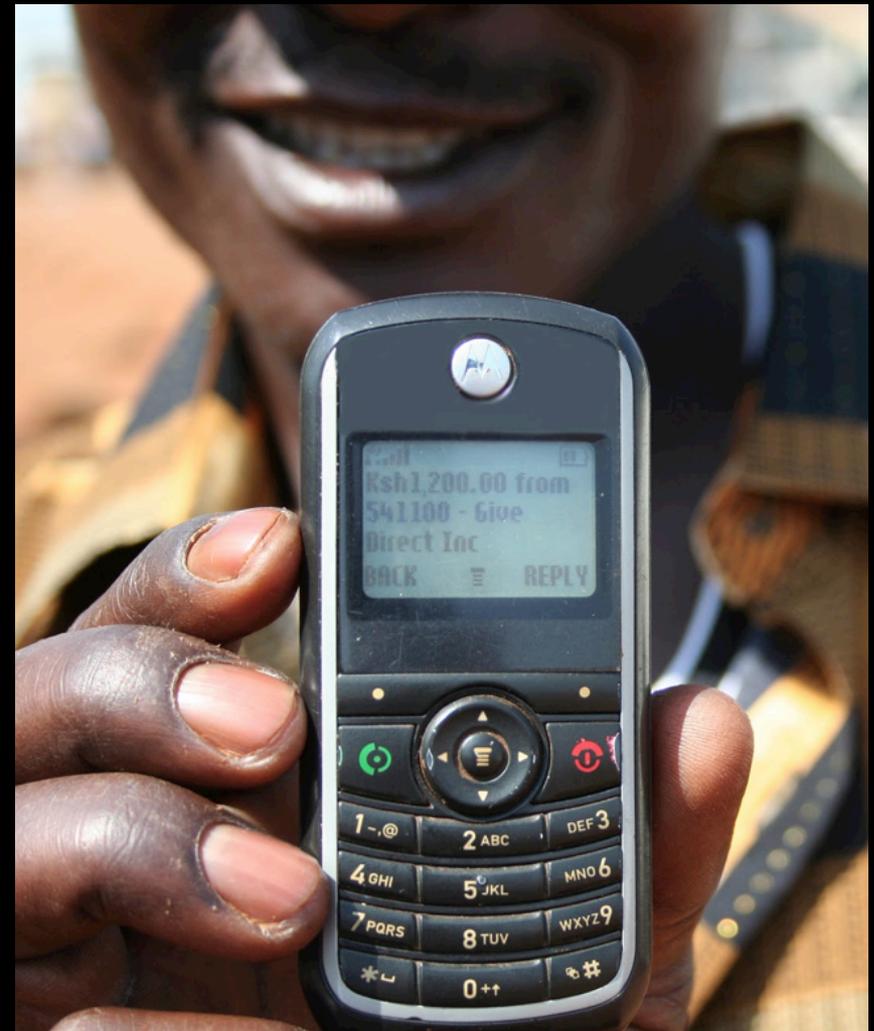
A recurring pattern: training programs do not have positive impacts on men (but sometimes on women)

- Dominican Republic
 - Training + internship had no effect on men (Card et al. 2007)
- Turkey
 - After a quarter million trained, no statistically significant increase in employment or earnings (Hirshleifer et al. 2014)
- Malawi
 - Training and apprenticeships did not pass cost benefit test (Cho et al. 2013)
- 14 evaluations of business skills training
 - From Bosnia to Pakistan to Peru to Vietnam to Uganda, no evidence of increased profits (McKenzie and Woodruff 2015)

However, the poor consistently have high returns to “capital-centric” programs

Evidence from more than a dozen countries and growing:

- Livestock
- Business start-up grants
- In-kind capital to small business owners
- Unconditional cash via mobile phone





Uganda YOP: Cash grants to underemployed young people, to start vocational trades, post-war
Form group of 20 + Write an application + \$8000, or \$400 per person (Blattman et al. 2014)



After 4 years: 15% more work hours,
40% increases in earnings

Some succeed some don't: After 4 years, half practice a skilled trade
Starting 8-year follow up in 2016-17



What about grants 100 times as large?

Government of Nigeria gave away \$60 million.
Had to be a high school graduate and propose
a business plan to apply for ~\$50,000



After three years, almost all run a business and 1/3 have >10 employees

Estimated that the program created more than 7,000 jobs (McKenzie, 2015)

Generally we don't see the same effects from microfinance

- Six randomized control trials fail to find any impacts on business investment or poverty
- Why?
 - Interest rates exceed even high returns to capital
 - Short loan terms
 - Small loan sizes





How does informal employment compare to these manufacturing jobs?

Do most poor people want to be entrepreneurs?

Job applicants at a garment and textile factory in northern Ethiopia



At prevailing wages and working conditions, informal work preferred

- These five industrial firms
 - Pay less than informal sector
 - Carry serious health risks
- People used the industrial jobs as a safety net
 - Used during informal unemployment spells
 - Most people quit within weeks
- Small business grants halved interest in industrial jobs, increased earnings 33%
- For every month spent in an industrial job, 1 percentage point more likely to have a disability



Some implications: A shift to more capital-centric interventions

- At the early stage of industrialization, industrial jobs may not be as desirable and equalizing as the alternatives
- Among poor youth, the returns to capital in self-employment appear to be high
- Long term, access to capital means increasing the affordability and access of investment finance for small enterprise
- Short term, cash transfers and business plan competitions are the most promising tool at hand
- Skills training intervention, where most of the money goes, are hard to get right