from EVIDENCE to POLICY

THE WORLD BANK
IBRD • IDA

Learning what works for better programs and policies

November 2019

UGANDA: How long do the effects of cash grants last?

SKILLS AND JOBS

Training vouchers and microfinance tools are often used by multilateral organizations, non-governmental organizations, and governments to increase employment and business opportunities in low- and middle-income countries. An alternative is putting cash directly in the hands of the poor themselves, leaving them to decide how best to use the money for income-generating activities. One of the assumptions underlying these programs is that poor people can generate high returns to capital but often have trouble saving money and accessing credit. Giving people cash enables them to bypass these obstacles to starting or improving a business. Recent studies have found that simply giving people cash can improve incomes, at least in the first few years, and the cash is very rarely squandered or misused. However, very little is known about the effectiveness of start-up grants in the long run. For example, is cash an effective way to help poor individuals start businesses and earn more money? How long do the positive impacts last? When earnings do rise, does this translate into better health and education for the children of cash recipients?

Photo by Glenna Gordon

To find out what works best for creating employment opportunities and raising incomes, researchers supported in part by the Spanish Impact Evaluation Fund (SIEF 1) evaluated a Government of Uganda program that gave young men and women cash grants to start skilled trades outside of agriculture. Two and four years after grants were distributed, recipients were more likely to be practicing a skilled trade and they were earning significantly more than their peers who hadn't received grants. But when researchers went back nine years after the cash grants were disbursed, they discovered most of the impacts had faded out. Although grant recipients had more durable assets and were more likely to work in a skilled trade, those who hadn't received the grants had caught up in terms of hours worked, earnings, and consumption. These results add to the growing body of evidence on the limited long-term effectiveness of cash transfers for increasing earnings, although they may successfully improve earnings and consumption in the medium to short run.

This brief summarizes the results in a 2018 working paper by Christopher Blattman, Nathan Fiala, and Sebastian Martinez, "The Long-Term Impacts of Grants on Poverty: 9-year Evidence from Uganda's Youth Opportunities Program." The authors organized and implemented the study with the non-profit research organization Innovations for Poverty Action. 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.

Context

The gradual end of civil war in Uganda in the mid-2000s and the weakening of armed conflicts in neighboring countries allowed the Ugandan government to increase its development efforts in the north of the country. The Northern Uganda Social Action Fund, known as NUSAF and created in 2003 with World Bank funding, distributed grants for infrastructure construction, income support, and livestock. NUSAF was expanded in 2006 with a new Youth Opportunities Program, which offered cash grants to groups of young adults for income-generating projects in an attempt to help them find work outside of the informal agricultural sector. The program targeted young adults roughly between the ages of 16 and 35 and sought to offset difficulties people faced finding credit in northern Uganda, where there were almost no formal lenders and few active microfinance organizations. Loans that were available, usually from non-profit microfinance associations and moneylenders, were short-term and carried annual interest rates of 100 to 200 percent. As a result, it was nearly impossible for people to get the start-up capital needed for training or starting a small business.

Applicant profile:
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 came from Uganda's very poor and undereducated. One fourth hadn't finished primary school and incomes at baseline averaged about a dollar a day—or 20 percent below the international poverty line of $1.25 a day at the time (it's now $1.90).

Evaluation

Researchers partnered with the Ugandan government to evaluate the effectiveness of the Youth Opportunities Program. To qualify for the money, young adults had to organize in small groups and submit a proposal for a grant to cover training programs and the tools and materials they needed to run a business, either together with others in the group or on their own. While facilitators were available to help youth organize into groups, 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 the grants were distributed. 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. The average grant was US $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.

The evaluation took place during the government's second phase of disbursing of grants, when 535 eligible groups applied for 265 grants. Applicants were randomly assigned to receive a grant, and those not picked were tracked as a control group. Researchers followed a random sample of five individuals in each group, or 2,675 individuals. They conducted a baseline survey in early 2008, a first follow-up survey between mid-2010 and mid-2011, a second follow-up survey four years after the program in mid-2012, and finally a third follow-up survey in mid-2017, nine years after the program. Researchers were able to track 91 percent of members after two years, 84 percent after four years, and 87 percent after nine years.

Findings

After four years, most recipients of the unsupervised grants were more likely to be working in skilled trades and earning substantially more money than those in the control group.

Young adults who had received the grants were earning 38 percent more than their peers who hadn't received the grants. This increase in earnings seemed to be driven by recipients' choice of occupation and the number of hours they worked. 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 control group, one of the factors that helped increase their incomes. In addition, those who received the grants were 40 to 50 percent more likely to have registered a business, paid business taxes, kept business-related records. In addition, consumption of food and use of medicines was 11 percent higher for those who had received the money, and they had more durable assets, such as better houses and livestock.

In that same period, women experienced the most gains.

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. This difference in gains for men and women likely arose because women's incomes were much lower than men's at baseline, so there was much more potential for the grants to increase their earnings.

Overall, young adults who received the grants stuck to their stated business plans, using most of the money for vocational training and for acquiring materials to run a business.

Men and women who received the grants were 53 percentage points more likely to enroll in vocational training, compared with the control group where only 15 percent of individual enrolled in vocational training. Among those who received the grants, the rate of training was similar for men and women. The most popular training programs were, in descending order of popularity, tailoring, carpentry, metalwork, and hairstyling.

Most of the funds, however, were spent on business materials, such as tools and other goods needed for their work, and skills training. In the first two years after the grants were distributed, grant recipients had business materials that were 2.3 times as valuable as those of control group members. By four years, the control group had caught up a bit, but the grant recipients still had business assets that were 1.5 times higher in value.

After nine years, however, the impacts on earnings and employment hours faded out for both men and women. The control group caught up with those who had received the cash grants.

Between the fourth and ninth years, those in the control group considerably increased the number of hours they worked, from just under 11 hours per week at baseline to about 45 hours per week nine years later, about the same number of hours as the group that had received the grants nine years earlier. The control group started to make more money by working more hours in non-agriculture work and low-skilled labor businesses, and their earnings had caught up with the earnings of those who had received the grants. At the same time the control group was advancing, the earnings of grant recipients failed to grow as fast as they had done in the first fours after the program

The main lasting economic impacts after nine years were on assets and job choice.

Nine years after the program was implemented, grant recipients and those who hadn't received the cash had statistically indistinguishable earnings and consumption. However, those who had received the grants were more likely to be working in a skilled trade and they maintained a relatively small advantage in assets, such as livestock and the quality of their housing.

However, on average, having more assets and better jobs didn't translate into much better health or education for grant recipients or for their children.

Most recipients were in their twenties and bearing or raising small children when they received the grants. In the first four years of the grant, when income gains were highest, the average sample had 1.6 children and researchers hypothesized that recipients would invest more in their children at a young age and that in turn, their children's health and education would improve relative to children of those in the control group. This wasn't the case. Based on what men and women in the program reported, receiving cash grants didn't have an effect on number of children they had, on their children's mortality rates, or on malaria prevalence. Researchers also found little change in child school enrollment or how much schooling children received.

But children who were born after their mothers received a grant were more functional – based on physical skills such as walking, talking, and using the toilet – compared to children of men who received the grant or children of women who didn't get any money.

Conclusion

Improving the labor productivity of young adults is an important policy priority in many low- and middle-income countries. Many countries are working with vouchers, training programs and microfinance to raise employment opportunities for young adults.

The findings of this study, which draw on long-term data, suggest that cash grants given with little oversight can be invested well and help people earn more money faster. Nine years after the grants were distributed, those who hadn't received the money caught up with cash recipients in terms of earnings and expenditures. There also were no long-term impacts on the physical or mental health of the grant recipients, nor on the health or education of their children. Despite this fade-out of effects, the program did seem to permanently alter career choices as recipients were much more likely to be employed in a skilled trade.

It is possible that adjustments to the cash grants program or different targeting could bring about a different result. For example, the program may have been more effective in a context where potential entrepreneurs had less access to capital or where labor productivity and wages were lower in other sectors. Long-run effects may have been sustained if the returns to capital investment had been higher. Understanding the answers to these questions will be important for policymakers designing economic development programs in low- and middle-income countries in the future.

The Strategic Impact Evaluation Fund, part of the World Bank Group, supports and disseminates research evaluating the impact of development projects to help alleviate poverty. **The goal is to collect and build empirical evidence that can help governments and development organizations design and implement the most appropriate and effective policies for better educational, health, and job opportunities for people in low and middle income countries.** For more information about who we are and what we do, go to: http://www.worldbank.org/sief.

The Evidence to Policy note series is produced by SIEF with generous support from the British government's Department for International Development and the London-based Children's Investment Fund Foundation (CIFF).

THE WORLD BANK
IBRD • IDA

THE WORLD BANK, STRATEGIC IMPACT EVALUATION FUND
1818 H STREET, NW, WASHINGTON, DC 20433