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Article

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KEY POINTS

- Skills training programs – one of the most widely used labor market interventions worldwide – have been criticized recently to lack cost-effectiveness.
- Job training programs differ from pure skills trainings: they combine multiple services to address the specific constraints and opportunities for youth.
- Newly available evaluation studies suggest that such programs can have large impacts in low-income countries.
- Two features of low-income countries need to be reflected in program design and success measurement: extremely low skill levels and inexistent wage-employment opportunities.
- In addition, successful programs commonly include
 - (i) incentives for training providers,
 - (ii) financial support for participants, and
 - (iii) gender considerations.

PEGNet

Policy Brief

Job training programs for youth in low-income countries

Jonathan Stöterau

Young people remain particularly disadvantaged in the labor market worldwide – despite improvements in overall employment rates since the global economic recession. The International Labour Organisation (ILO) estimates that in 2018 more than a fifth of the world's youth was neither in employment, education or training. Three out of four of them were women (ILO, 2019). The youth employment challenge is particularly acute in developing countries. One reason is demography, which is creating a large “youth bulge” that is expected to further expand in the future. In Sub-Saharan Africa alone, about six million youth between 15–24 years will enter the labor market each year over the next decade. Already today, youth are accounting for more than 60% of all unemployed in Africa (ibid.).

Bringing young people into the labor market is hence a major policy priority among governments and international donor organizations. A skilled workforce is also considered a fundamental requirement for economic growth and development by raising private sector firm productivity. But even though educational attainment is increasing in developing countries, the quality of that education is often still weak (Evans & Yuan, 2017). Against this background, post-educational skills training programs are one of the most widely used labor market interventions for young people worldwide. Skills trainings are also increasingly offered as a complement to other labor market measures (Kluve et al., 2019). At the same time, training programs have been criticized for being too costly – in particular since evaluation studies have often reported only limited impacts on employment. But the design and mechanisms of training programs differ widely around the world. And earlier programs from high-income countries can hardly serve as a benchmark for the more recently designed programs in developing countries.

This policy brief starts with a short overview of training programs for youth and the current debate about their effectiveness. It then presents new evidence from impact evaluations of training programs in low-income countries that had been

unavailable to review studies until now. On this basis, the policy brief draws out key constraints for youth in low-income settings and highlights features of job training programs that have proven successful.

Skills vs job training programs for youth

Post-educational skills training programs are typically discussed within the framework of Active Labor Market Programs (ALMPs). Such training programs address labor market frictions from the labor supply-side (e.g. workers) and aim to provide participants with skills that are valued on the labor market. A large share of training programs worldwide specifically targets youth in order to facilitate the difficult school-to-work transition period. The definition of “youth” in this regard is country specific, ranging from age 15 to 24, or even 35 years in some contexts.

The key rationale of traditional skills training programs is that of a “skills-mismatch”: The skills which youth obtain throughout their education are insufficient or do not match the skills in demand on the labor market. Most training programs hence focus on cognitive skills, such as technical skills or basic literacy and numeracy skills. Some programs also provide non-cognitive skills, such as behavioral and life skills, which are increasingly regarded as an important factor for labor market success.

Many recent training programs offer more than just vocational or life skills. They recognize that the challenges which youth face on the labor market are multifold. Such comprehensive “job training” programs combine supply-side training components with interventions that address the demand-side (e.g. employment subsidies) or other labor market intermediation mechanisms (e.g. job search/matching assistance). A common approach is to combine two to six months of classroom-based training with workplace-based training in form of an internship or apprenticeship (for example, the Jóvenes programs in Latin America).



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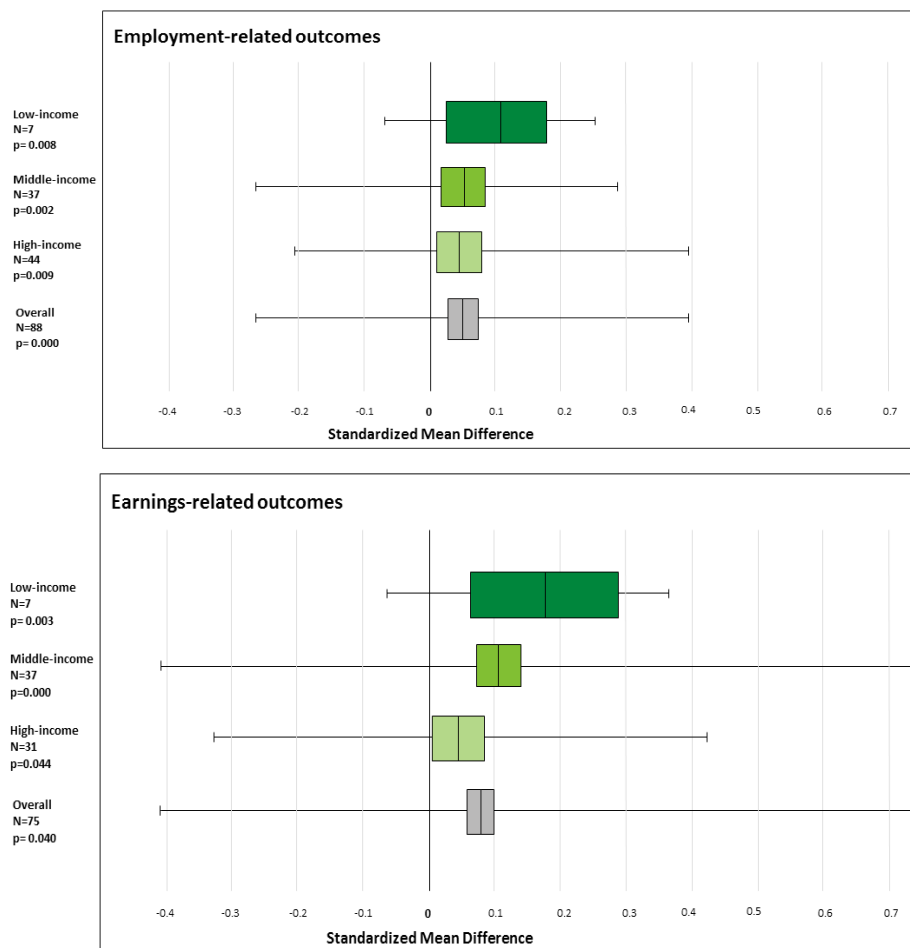


Figure 1: Average reported effect size by country income group.

Note: The figure shows the unconditional, weighted average of reported program effects within each country group based on a random-effects meta-analysis. Boxes represent the 95% confidence interval. Bars represent the minimum and maximum effect size across all studies. Effect sizes are displayed as Standardized Mean Differences, which is a unit-less measure to make effect magnitudes comparable across studies and outcomes. See Kluve et al. (2019) for more details. Source: Own calculations.

Skills training programs are widely used by international organizations and governments in both developing and industrialized countries. According to McKenzie and Robalino (2010), vocational training programs were the most common ALMP used by governments following the global financial crisis of 2007-08. Another study estimates that the World Bank and its client governments invested nearly U.S. \$1 billion per year on 93 skills training programs between 2002 and 2012 (Blattman & Ralston, 2015).

But the popularity of skills training programs among governments and donors in developing countries has recently been criticized. Literature reviews of ALMPs in developing countries often concluded that impacts from traditional vocational training programs are mixed at best (McKenzie, 2017; Blattman & Ralston, 2015). Because training programs are often comparatively expensive, the authors argue that many of them would not pass a cost-benefit test based on private returns. They hence question whether training programs are the best use of public funds. At the same time, the authors recognize that

large differences in the design of programs make it difficult to draw general conclusions.

This impact heterogeneity is also reflected in a meta-analysis based on evaluation studies of youth training programs around the world. Figure 1 displays results based on the sample of 91 studies of training programs included in Kluve et al. (2019). The average impact of all programs in the sample is significantly positive but rather small in magnitude. However, the aggregate is strongly influenced by studies from high-income countries, which constitute a big part of the sample. Impact estimates are significantly larger for programs in developing countries. This concerns particularly the differential impact of training programs on earnings-related outcomes. For low-income countries, however, the evidence base was still scarce when the authors concluded their systematic search for studies in 2016.

Rationale and mechanisms of job training programs in low-income countries

In recent years, rigorous evaluations emerged that provide a better understanding of effective job training programs in low-income settings. The novel evidence provides the important insight that two key characteristics of low-income countries may shape program effectiveness.

First, a majority of the labor force in low-income countries possess very low levels of education. The lack of skills would generally imply that additional human capital has relatively large effects on productivity and earnings (Chakravarty et al., 2019). Accordingly, one could expect the returns to participate in training to be higher in such settings. However, for many youth in low-income countries training opportunities are rare or inaccessible due to credit constraints and social norms.

Second, most low-income countries lack a substantial modern wage sector that could provide employment opportunities upon graduation. Figure 2 shows that the share of wage workers in low-income countries is only 19% on average. In addition, almost 90% of workers in low-income countries are engaged in informal jobs (ILO, 2019). In this context, the private returns of additional vocational skills may be less clear. Hence, one of the main arguments against training programs in developing countries is that many are aimed at improving youth' employability for wage jobs that do not exist (Fox & Kaul, 2018).

Job training programs' impact on wage employment

But emergent evidence suggests that well-designed training programs can successfully bring youth into formal- or informal wage employment, even in low-income settings. Several recent evaluations



Figure 2: Share of employment status among working population by country income group.

(Source: ILO modelled estimates, November 2018)

are particularly informative since they uncover some design features and mechanisms of effective programs.

One study compares the impact of classroom-based vocational vs. workplace-based training offered to disadvantaged youth in urban Uganda (Alfonsi et al., 2017). During both trainings, youth were paid a monthly amount that was roughly comparable to the average wage of unskilled workers in the SMEs. The evaluation showed strong impacts on wage employment and earnings from both training types after three years. Interestingly, the employment impact was 50% larger for vocational trainees (21% vs 14%) and their earnings increased more (34% vs 20%). The authors' analyses suggest that vocational training participants obtained more transferable skills and consequently displayed higher labor market mobility upon graduation.

Another recent study evaluates the impact of supporting poor rural youth to find employment in the urban garment sector in Bangladesh (Shonchoy et al., 2018). The authors find that only offering a one-month long vocational skill training had no impact on employment 18 months later. Simply providing a stipend significantly increased the take-up and employment impact of the training. Further adding a one-month paid apprenticeship was even more successful: employment rates increased by 14 percentage points and wage earnings more than doubled compared to the pure control group.

Direct evidence about the importance of providing income support to low-income youth during training also comes from two studies of work-based training programs. A program in Malawi suffered from unanticipated high dropout rates and did not improve employment or earnings in the months following the training (Cho et al., 2015). A key reason was that participants experienced a significant loss in savings since the provided stipend was not enough

to cover the cost of attending the work-based part of the training. In Côte d'Ivoire, an impact evaluation shows that apprentices experienced losses in labor earnings of around 25% vis-à-vis the control group (Crépon & Premand, 2019). A subsidy, which was roughly half the formal minimum wage and directly paid to the apprentices, was a key feature to enable youth to afford these opportunity costs.

Job training programs' impact on self-employment

Even in the absence of wage employment opportunities, job training programs can improve the employment situation of youth in low-income countries. But the mechanisms and criteria for success are different. For most people in low-income countries, unemployment is simply not an option: by the ILO definition, only 4.3% of Africa's working-age population is unemployed. Yet, underemployment and working poverty are widespread (ILO, 2019). Consequently, significant impacts on the extensive margin (e.g. having paid work) may be difficult to achieve, but significant improvements are possible on the intensive margin (e.g. improving quality of work and incomes).

One example comes from a national skills training initiative in Nepal. The program contracted private sector training operators to provide three months of vocational- and life-skills training, followed by linking graduates to six months paid internships. An impact evaluation finds large positive impacts on non-farm employment, hours worked, and earnings after 12 months (Chakravarty et al., 2019). These impacts were largely driven by women starting self-employment activities inside (but not outside) their homes. For men, the program did not significantly impact the extensive margin of employment but still increased monthly incomes among those working.

A similar program in Liberia, targeted exclusively at young women, provided six months of job or business skills training followed by six months of active placement support. In addition, the program featured stipends contingent upon attendance, free childcare provision, and performance-based contracts for service providers. The impact evaluation reports very strong results after six months (Adoho et al., 2014): young women in supported communities had increased non-farm employment by 47% and earnings by 80% relative to the control group. Again, the program was more successful in increasing self-than wage-employment. Accordingly, the impacts were even higher among women that chose to take the business skills track than the general vocational skills track.

Another recent study evaluates a program targeted at male and female youth from Sierra Leone (Rosas et al., 2017). Almost half of the participants were not able to read or write at baseline. All youth in the program received basic literacy/numeracy training and stipends worth roughly a third of median baseline earnings, paid conditional on attendance. On top, the evaluation randomized youth across three additional components: (i) technical skills training plus on-the-job training; (ii) business skills training; or (iii) a mix of both. Unexpectedly, the program was implemented during the Ebola outbreak which significantly affected labor market outcomes of all groups in the evaluation. Nonetheless, the results suggest that participation significantly increased skills, self-employment, business profits, and monthly earnings in the first six months after the program ended.

For young females living in low-income or fragile countries, so-called “safe space” programs that provide both vocational and life skills trainings in clubs outside school led by female mentors, have proven effective in improving income-generation. One example is the Empowerment and Livelihood for Adolescents (ELA) initiative, which was accompanied by randomized evaluations in several Sub-Saharan countries. In Uganda, the evaluation found that females in communities where the program was offered were 48% more likely to engage in income-generating activities than the comparison group. Annual earnings of female youth increased threefold, which was almost entirely driven by greater engagement in self-employment (Bandiera, Buehren, Burgess, et al., 2018). In South Sudan, the impact evaluation was interrupted by violent ethnic conflicts that affected around half of the sample. Still, preliminary results show that, in communities not affected by the conflict, the program increased the probability of being engaged in income generation among young women by almost 10 percentage points after one year. This was again largely driven by increases in non-farm self-employment (Buehren et al., 2018). In South Sudan, the ELA program coincided with the 2014 Ebola outbreak. In this setting, the key role of ELA clubs was to provide a space for young females away from sexual violence, leading to higher post-crisis school enrollment rates (Bandiera, Buehren, Goldstein, et al., 2018).

Given that self-employment and own-account work are often the main (if not only) option to generate incomes for youth in low-income countries: why do training programs not directly support beneficiaries to enter self-employment upon graduation? The straight-forward approach would be to extend skills trainings with capital transfers for business start-up (cash or grants). Unfortunately, the evidence base so far does not provide clear takeaways about the added benefit of this combination.

Recent studies of programs that combine training with cash grants in low-income countries find that comparatively large short-term impacts dissipated in the long run. Two studies are set in rural and urban Kenya. The first tested the impact of offering rural youth either vocational training vouchers, start-up grants or a combination of both (Hicks, 2018). Vouchers only increased training completion by 36% vis-à-vis the control group and had no earnings effect in the short- or long-term. Women, in particular, cited attendance costs and childcare as take-up barriers. The cash-grant increased self-employment and business profits in the short-term but these impacts

dissipated within three years. The second study in Nairobi randomly assigned young females to receive either an unconditional cash-grant or skills training plus a start-up capital in the form of physical assets (Brudevold-Newman et al., 2017). Both interventions had significant impacts on self-employment and earnings in the short-term but not anymore two years later. Finally, two newly available follow-up studies of earlier impact evaluations further question the long-term impact of (pure) capital transfers. One program offered underemployed youth in Ethiopia either a grant to spur self-employment or a job offer to an industrial firm. The initial evaluation found significant impacts on occupational choice and incomes in the first year. But after five years the authors see nearly complete convergence across all groups and outcomes (Blattman et al., 2019). The other program in Uganda provided one-time cash grants to groups of rural youth that planned to set their members up as crafts persons. The researchers returned nine years later and found that initial positive impacts on employment and earnings had dissipated almost completely (Blattman et al., 2018).

Conclusions

The emerging evidence suggests that large positive impacts of youth job training programs are possible in low-income countries. Successful training programs provide youth with the skills to identify an economic opportunity and enable them to take advantage of it, whether it be wage-employment or self-employment. In contexts where education levels are extremely low, even pure skills trainings can enable youth to unlock their “latent potential” (Chakravarty et al., 2019), which may be underutilized due to various constraints. Generally, programs that are effective also in the long-run offer more than just vocational skills or one-time cash transfers. They combine multiple services - ideally tailored to the specific economic opportunities available to youth upon graduation.

A careful examination of successful programs shows that these share some specific features to address the specific barriers youth face in low-income countries. First, most programs included a specific performance-based payment to training providers or found other ways to ensure a high quality of trainings. Second, credit constraints are an important factor explaining underinvestment in training among youth in low-income settings. Consequently, financial support during the training phase (e.g. stipends or living wages) is a key factor to reduce program drop-out as it allows participants to counter foregone earnings. Finally, gender-specific constraints are particularly severe in low-income countries. Among women, family restrictions and social norms significantly affect the take-up rate of work-based training components. Programs that specifically include gender considerations often show impacts for women in magnitudes that are equal or higher than for men.

Given that many interrelated factors determine employment and job growth in developing countries, training programs alone cannot solve the youth unemployment challenge. Also, short-lived and one-dimensional interventions will not be able to address the many barriers for youth to access wage- or self-employment. But in contrast to conclusions from earlier reviews, recent impact evaluations hold promise that well-designed job training programs can have significant impacts in low-income countries. While such programs may not be cheap, many studies report cost-benefit ratios that can stand the comparison with pure capital transfers.

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