

# Are Cash Grants (Just) a Jump-Start?

*Long-term evidence on the impacts of start-up grants in Uganda*



Recent research suggests giving cash directly to the poor can have a range of benefits for recipients in the first few years, including increased consumption, assets, and food security, but little evidence exists on the long-term effects of cash transfers, particularly as a way to spur entrepreneurship and increase earnings. To shed light on this question, researchers conducted a randomized evaluation in Uganda of a government self-employment program that provided cash grants of about \$400 per person to groups of young adults to start a skilled trade. An IPA research team followed up after two, four, and nine years—providing some of the longest-term rigorous evidence on how start-up cash grants impact measures of poverty.

## Key Findings

- » Four years after grants were distributed, recipients were more likely to be practicing a skilled trade and earning 38 percent more than their peers who hadn't received grants. The boost in earnings seemed to be driven by recipients' work in skilled trades.
- » Nine years after the cash grants were disbursed, most of the business and earning gains had dissipated, but grant recipients still had more household assets and were more likely to be practicing a skilled trade.
- » The fade out of business and earnings effects was driven by changes in the comparison group: those who hadn't received the grants had started working, and earning, a lot more—in fact, they had caught up to the grant recipients in hours worked and income.
- » The grant had some positive impacts on health outcomes, but only for the children of women who had received the grant: children of grant-recipient mothers displayed better physical skills such as walking and talking, relative to male-recipients and to the comparison group.
- » In sum, start-up grants served the purpose of providing better jobs and businesses—but they did not offer sustained gains in earnings as earlier findings suggested.

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### PARTNERS

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Northern Uganda Social Action Fund  
Vanguard Charitable Trust  
World Bank

### TIMELINE

2008-2017

### COUNTRY

Uganda

### SAMPLE

2,675 youth in 535 groups

### STUDY TYPE

Randomized Evaluation

# The Challenge

## HIGH RATES OF YOUTH UNEMPLOYMENT AND LOW EARNINGS

Boosting employment and business opportunities is a challenge for policymakers around the globe. In many countries, particularly those with a history of conflict, getting young people into steady jobs is also considered as a way to promote stability. Many development organizations and governments encourage youth entrepreneurship with solutions like training vouchers or microfinance tools. However, these programs are often complicated to implement and monitor, requiring additional money, resources, and time.

An alternative is putting cash directly in the hands of poor households, leaving them to decide how best to use the money for income-generating activities. Recent studies have found that simply giving people cash can lead to improvements in various measures of well-being, including consumption, assets, food security, and psychological health. Furthermore, the cash is very rarely squandered or misused. However, very little is known about the effectiveness of start-up grants on the lives of the poor over the long-term.

# The Program

## CASH GRANTS TO START A SKILLED TRADE

Twenty years of insurgency, instability, and conflict led to high rates of poverty and unemployment in northern Uganda, but by 2005 a measure of peace and stability had returned to the region. The centerpiece of the post-conflict recovery plan was a decentralized development program called the Northern Uganda Social Action Fund (NUSAF). In 2006, the government launched a new NUSAF component: the Youth Opportunities Program (YOP), which provided cash transfers to groups of young adults with the goal of encouraging trade-based self-employment.

To qualify for the grants, young adults, aged 16 to 35, had to organize into small groups and submit a proposal to YOP, either on their own or with others in the group, for a grant to cover training and tools and materials they needed to run a business of their choice.

The average applicant group had 22 members. The average grant was \$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.

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. Once the transfer was awarded, the government did not monitor the use of the money.



# The Evaluation

## CASH GRANTS VS. NO CASH GRANTS

Researchers partnered with the Government of Uganda to conduct a randomized evaluation to measure the long-term impact of the YOP on young adults' employment, income, assets and other measures of well-being such as education and health outcomes.

Due to vast oversubscription, among 535 eligible groups that applied, 265 were randomly selected by lottery to receive the cash grants. The other groups did not receive a transfer and formed the comparison group.

To measure impacts on employment, income, assets, and other measures of well-being such as children's health and education outcomes, researchers surveyed participants two, four, and nine years after the program. Despite the long period of time between the cash grant and the nine-year survey, IPA lost fewer than 16 percent of the sample in the last round of data collection.

## Findings

**After four years, most recipients of the cash grants were practicing skilled trades and earning substantially more money than the those in the comparison group.**

Young adults who had received the grants were earning 38 percent more than their peers who hadn't received the grants. The boost in earnings seemed to be driven by recipients' work in skilled trades—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 comparison group. In addition, those who received the grants were 34 percent more likely to have registered a business and 40 percent more likely to have paid business taxes and to have kept business-related records. In addition, consumption of food and use of medicines was 11 percent higher for those who had received the money.

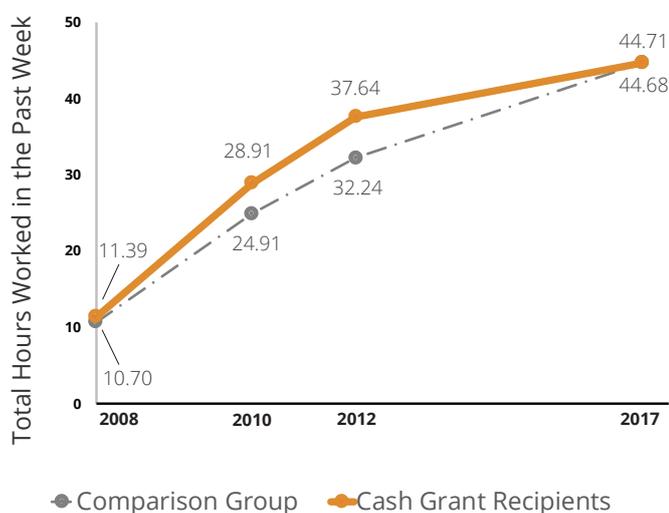
**In that same period, women were benefitting the most.**

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. The difference for men and women was mainly driven by women's incomes being much lower than men's at the beginning of the study, so the grants gave them a bigger boost.

**After nine years, however, the impacts on earnings faded out for both men and women.**

Between the fourth and ninth years, the recipients' peers in the comparison group considerably increased the number of hours they worked, from just under 11 hours per week to more than 43 hours per week nine years later. While they had not moved into higher-skilled jobs, they were making more money by working more hours in non-agriculture work and low-skilled labor businesses, and their wages had caught up with the wages of those who had received the grants.

**TOTAL HOURS WORKED IN PAST WEEK  
ACROSS TIME**



**Still, some impacts were sustained after nine years: recipients still had more assets and were more likely to be working a skilled job.**

Nine years on, cash grant recipients were still more likely to be practicing a skilled trade and they retained the assets they had invested in years before, such as roofing, livestock, fruit trees, and work tools.

Since owning assets is associated with higher earnings over people's lifetimes, it is possible the importance of these assets could emerge even further down the line.

**Regarding why earnings stagnated, researchers found that those who received the grants didn't continue to reinvest their earnings in their businesses and that some businesses shut down.**

While it is not clearly understood why grant recipients didn't reinvest their earnings, the lack of reinvestment helps explain why the start-up grants didn't send many people on a growth trajectory in skilled enterprise.

**Overall, the grants didn't lead to much better health or education for recipients or for their children on average.**

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 those of their peers.

Based on what men and woman in the program reported, receiving cash grants didn't have an effect on number of children they had or on the health or mortality rates for their children. Researchers also found little change in child school enrollment or how much schooling children received.

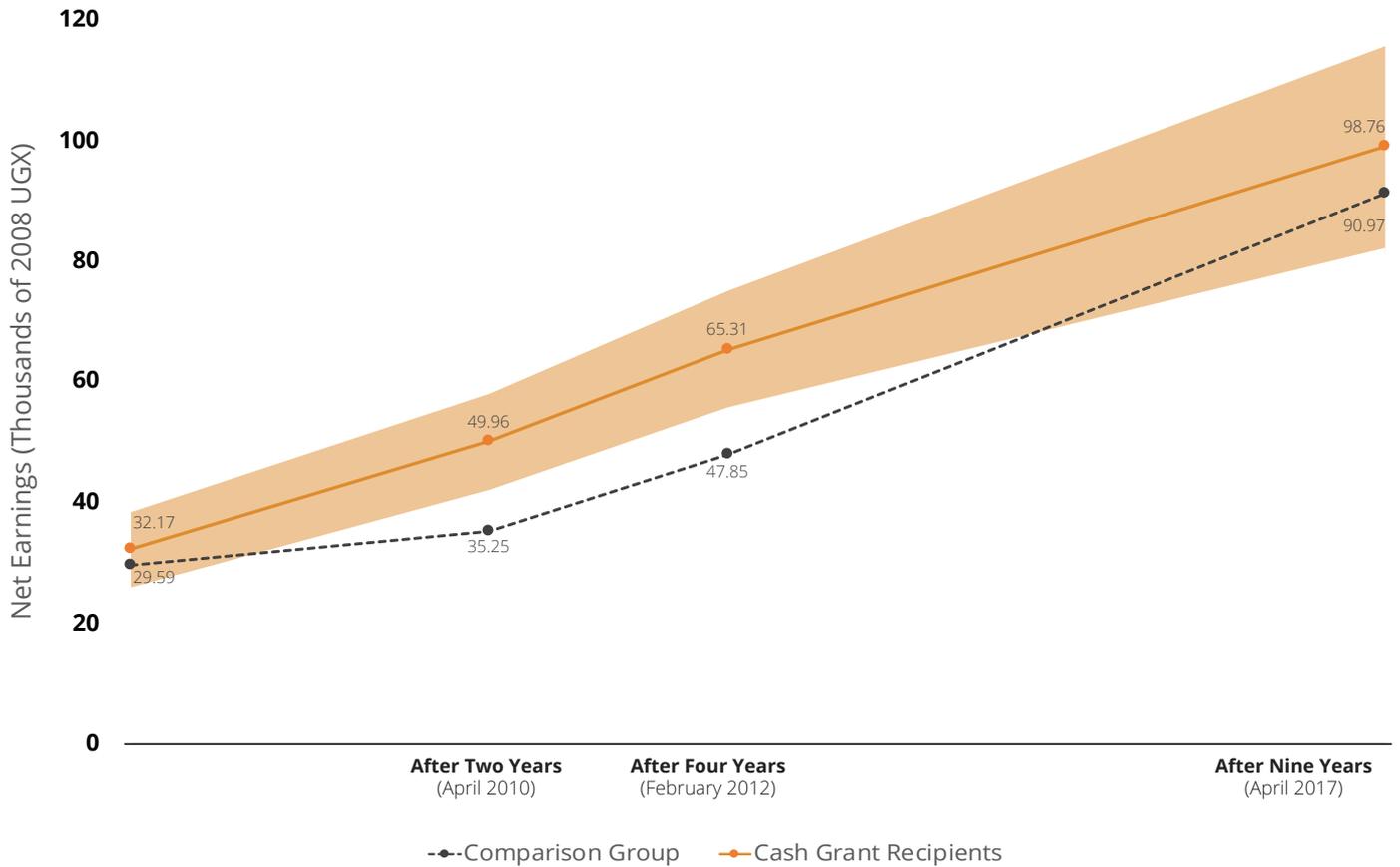
**Yet children who were born after their mothers received the grant were healthier, based on physical skills such as walking, talking, and using the toilet, than those of men who received the grant or of children of those in the comparison group.**

This finding is in line with other evidence that suggests giving cash grants to women of childbearing age can have positive impacts on their future children's health.

**Although, over time, incomes of recipients converged with that of their peers in the comparison group, the program still delivered positive returns. For every dollar "invested" over a year, the young adults earned \$1.74.**

Grant recipients earned roughly \$665 more than those in the comparison group over the nine years, almost twice the size of the grant. This estimate does not include administrative costs, which are unknown, but provides further evidence that the cash was not simply spent, but invested in a productive way.

## NET EARNINGS OVER TIME



*Shaded orange area indicates 95% confidence intervals.*

## Conclusion

Helping young adults find jobs and earn higher wages is a goal of policymakers in emerging economies, where high rates of unemployment keep families in poverty. Many countries are working with vouchers, training programs and microfinance to raise employment opportunities.

These findings, which are some of the longest-run evidence on cash transfers available, suggest that capital grants given with little oversight can be invested well, lead to long-term gains in skills and assets, and help people earn more faster. However, the findings also show that effects on earnings and business outcomes may dissipate over time.

It is possible that adjustments to the cash grants program or different targeting could bring about larger or more sustained impacts. For example, there is some evidence that the most sustained impacts of capital grants come when offering them to people with high entrepreneurial productivity and low initial wealth. It is also possible the program would be more effective in a context where potential entrepreneurs have less access to capital. Understanding the answers to these questions will be important for policymakers designing economic development programs in emerging economies in the future.

**PUBLICATION:** Blattman, Christopher, Nathan Fiala, and Sebastian Martinez. "The Long-Term Impacts of Grants on Poverty: 9-year Evidence from Uganda's Youth Opportunities Program." No. w24999. National Bureau of Economic Research, 2018.

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