

Final report

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# Final Report

## Vocational training, on-the-job training and resilience to the COVID-19 shock

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### Background

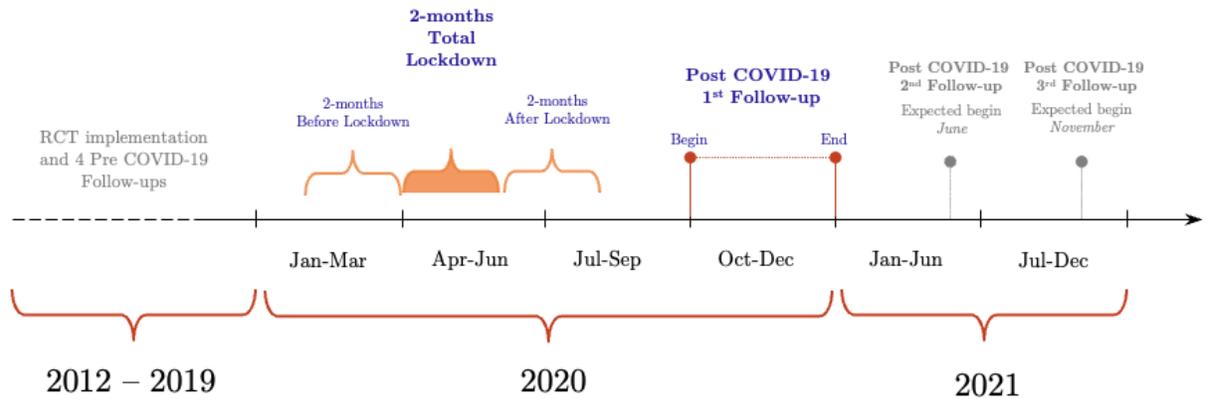
Throughout 2020, governments around the world have put in place restrictions to economic activity and mobility as a response to the global pandemic. This is true also in Uganda, where, to curb the spread of COVID-19, the Government implemented one of Africa's strictest lockdowns. With schools, public transport and non-essential businesses shut down for two months starting in late March, the economic activity halted as rarely before with negative consequences on already alarming rates of youth unemployment and underemployment in the country.

In this final report, we use data from a phone survey with young workers tracked regularly since 2012 as part of an RCT on active labor market policies (Alfonsi et al. 2020) to document how they were impacted by the COVID-19 related lockdown. We targeted 1,700 young workers and successfully traced and interviewed 74% of them. The survey was conducted between October and December 2020 to contribute evidence toward understanding how the pandemic affected young worker's economic and social lives in the short run. With this purpose in mind, we collected data on labor market and relevant socio-economic outcomes, before, during and after the two months long total lockdown put in place by the Ugandan Government (Figure 1).

The workers in our sample are on average 28 years old and 60% of them are male. Importantly, they were economically disadvantaged at baseline, and therefore likely represent a segment of the population at high risk, especially given the weakness of formal social and economic safety nets in several developing contexts. For the analysis that follows we focus on the control group of the RCT described in Alfonsi et al. (2020), who did not receive any active labor market policy.

Evidence on medium and long run effects of the pandemic as well as on how different types of skills training programs evaluated in the initial RCT increase worker resilience to the pandemic will be available in the near future as data from two additional rounds of high-frequency worker follow-up surveys becomes available.

Figure 1. Timeline



## Policy significance

The COVID-19 shock is likely the most severe aggregate shock that Ugandan firms and households alike have suffered in recent times. In a country characterized by high pre-pandemic levels of youth unemployment and underemployment the concern that a complete halt to every non-essential economic activity may exacerbate these problems is well placed. In addition, our workers were economically disadvantaged at baseline, and so they represent a segment of the population that might be particularly at risk. Formal social and economic safety nets are usually limited if not completely absent in developing countries like Uganda. The economic environment is also typically highly volatile. As a result, young workers are often exposed to significant economic shocks. Understanding what exact challenges young workers face and what policymakers can do to increase their resilience to these adverse economic shocks is thus crucially important, especially given the weakness (or complete lack of) formal social and economic safety nets.

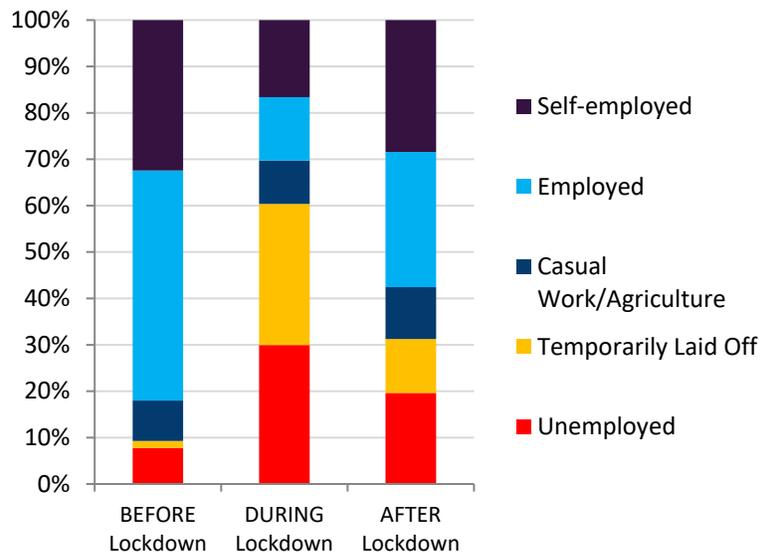
## Data collection

This report builds on the RCT described in Alfonsi et al. (2020) and Bandiera et al. (2020). The RCT was implemented by BRAC Uganda and was aimed at evaluating the impacts of formal vocational training and informal apprenticeships on the labor market outcomes of young workers. The interventions took place in 2013, and we followed up with the sample of 1,700 youth participating in the RCT four times pre COVID-19 outbreak: after one, two, three and four and a half years. The fifth survey round - which this report refers to - took place by phone between October and December 2020 concluding with an attrition rate of 26%. The main outcomes of interest include employment, income, job search, consumption, savings, migration and expectations. Employment and income information is collected for three different periods: before (February, March), during (April, May) and after (June, July) the total lockdown (Figure 1). For this report, we use data from the control group of workers. As described at the end of the report, we plan to evaluate the effectiveness of the labor market interventions at increasing resilience to the shock in future work.

## Main findings

**Sustained employment losses, especially in wage-employment** - Right before the lockdown started the young workers in our sample were doing quite well in terms of employment levels with less than 10% of them being unemployed. The two months of total lockdown were instead characterized by large losses in employment and limited shift to agricultural and casual jobs, suggesting that every sector had stalled. As of June-July 2020, 50% of those unemployed/temporarily laid-off during the lockdown were back in employment and overall, almost 70% of the sample was successfully back to work, thus showing that the recovery in terms of employment is taking place, although slowly. The recovery has however been unequal when it comes to employment type, with wage employment still far below pre pandemic levels, while self-employment has substantially recovered (Figure 2).

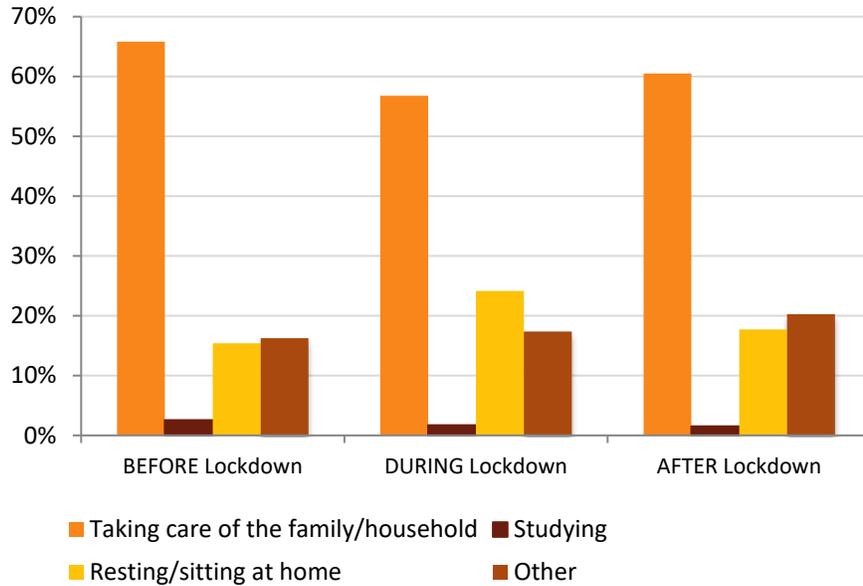
Figure 2. Composition of employment before, during and after lockdown



*Note: This graph shows the employment status two months before, during and two months after the total lockdown, for the full sample of workers.*

**The rise in unemployment during the lockdown was not driven by the need to take care of family members** - Data on how the young workers in our sample allocated their time before, during and after the lockdown suggests that the rise in unemployment is driven by a lack of jobs rather than by the necessity to take care of the family. The trends over time show that among the unemployed the share of people that stay home with no specific activity to carry out increased to 24% during the lockdown. For other types of activities, the shares remained largely constant (Figure 3).

Figure 3. Time use when not involved in any work activity



*Note: This graph shows how unemployed workers spent their time two months before, during and two months after the total lockdown. The sample is different across periods as the number of unemployed follows the pattern in Figure 3. Specifically, we have 98 unemployed individuals before the lockdown, 380 during the lockdown and 248 after. However, the shares remain largely unchanged.*

**Sustained income losses, especially in self-employment** - Overall earnings followed a pattern similar to the one drawn by the employment rates, with large losses reported during the lockdown and a slow recovery as of June-July 2020 when, conditional on working, earnings were only 77% of their pre-lockdown levels (Figure 3). Earnings by type of employment (Figure 4) show very different trends for wage and self-employed workers: wages for employed workers are steady across the period. On the other hand, average profits for self-employed strongly drop during the lockdown with only a partial recovery afterwards.

Figure 4. Average Monthly Earnings Conditional on Working

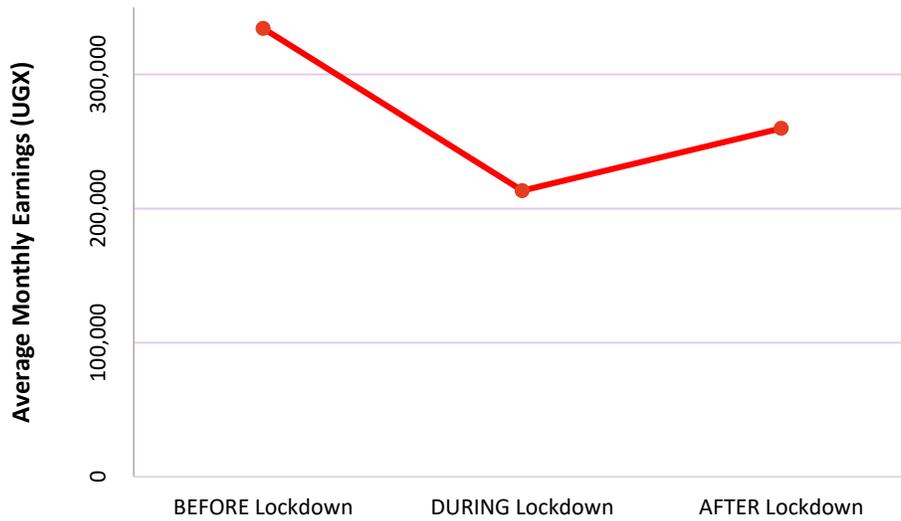
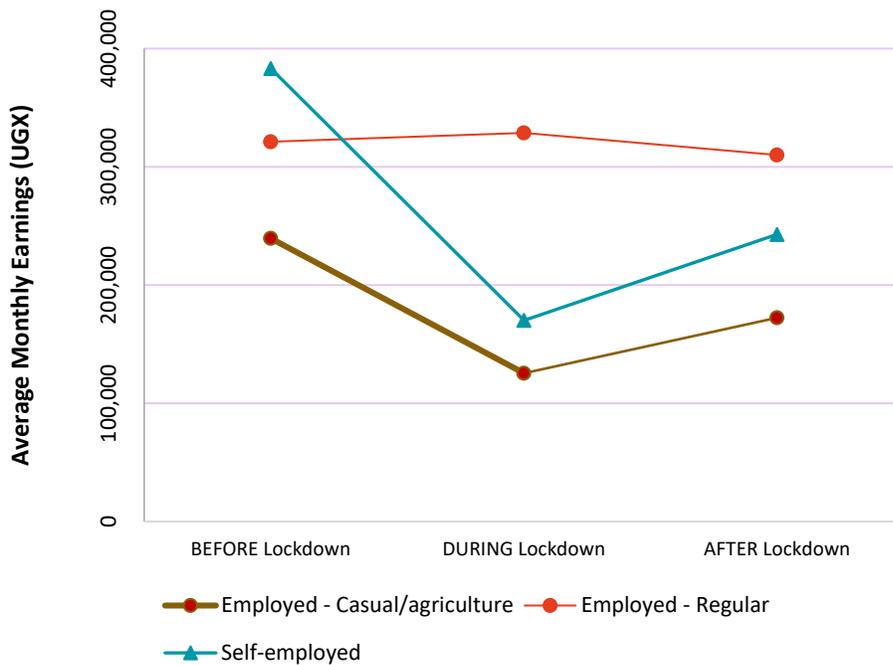


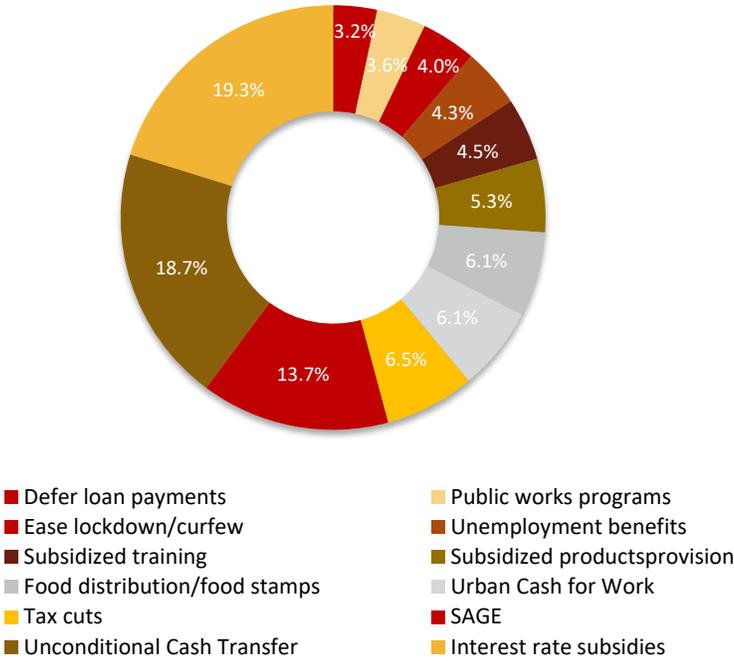
Figure 5. Average Monthly Earnings Conditional on Working, by Type of Employment



Note: Figure 4 and 5 show the average earnings in the three periods of interest for the sample of workers employed at each time. Specifically, before the lockdown 629 workers were wage employed, 409 were self-employed and 110 were involved in casual work. During the lockdown those numbers changed into 173, 211 and 119 respectively. Following the lockdown, they rose back, though not entirely, to 368, 359, 141.

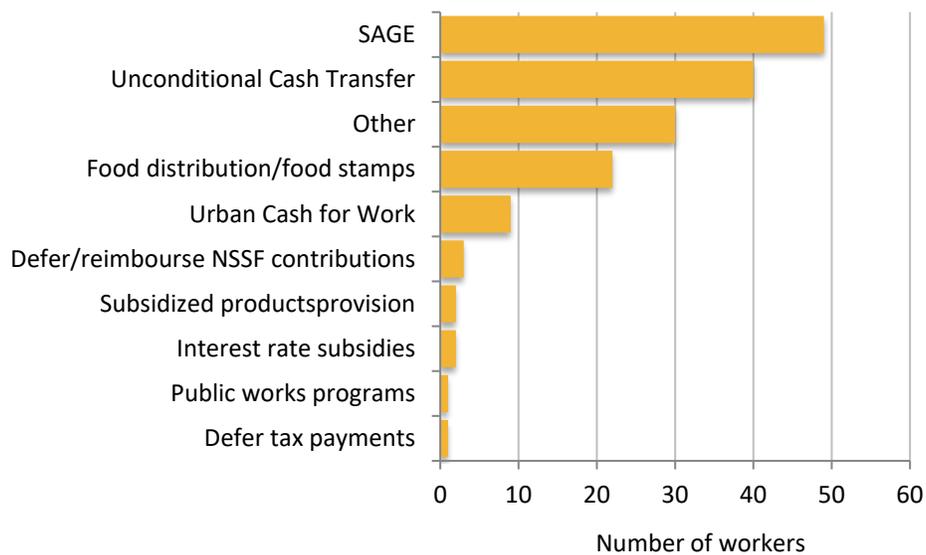
**Liquidity constraints and limited policy awareness** - We asked the workers what the most needed policy would be to support them during the recovery from the COVID-19 crisis. From what emerges, liquidity seems to be the pressing issue. The most demanded policies are interest rate subsidies and unconditional cash transfers (Figure 6). However, despite the drop in incomes and the binding liquidity constraints, only 12% of them applied to any support program since the onset of the pandemic. The most common ones were the Social Assistance Grants for Empowerment (SAGE) Programme, UCTs and food distribution programs (Figure 7). The discrepancies between the number of young workers asking for such policies and those who eventually applied for them point toward a potential issue of low awareness of available programs or potentially cumbersome application processes that act as barriers to access.

Figure 6. Demand for Policies



*Note: Figure 6 shows the answers to the question “What would be the most needed policy to support you as a worker over the COVID-19 crisis?” for the entire sample of 1257 workers.*

Figure 7. Applications to Support Programs



*Note: Figure 7 shows to which specific support program the 12% of workers who applied/is benefitting from one, actually applied to.*

## Policy recommendations

Overall, from our analyses it emerges that our sample of young, disadvantaged workers has been highly affected by the restrictions put in place by the Ugandan Government in order to curb the spread of the COVID-19 pandemic. Unemployment rates rose dramatically from 10% to 60% during the lockdown and while an improvement in employment levels followed the lift of the restrictions, the recovery has been slow, with levels of employment and average earnings still substantially below pre-pandemic two months after the end of the total lockdown.

Income support programs for wage employees and liquidity support for entrepreneurs seem essential in maintaining welfare for some time to come given slow recovery of wages and revenues. Cash transfers to consumers are also needed to stimulate demand increasing firm profits, and to avoid the likely increase in poverty levels produced by the slowdown of the economy.

Similarly, policies that aim to support wages and employment will play an important role in the recovery from the crisis generated from the pandemic. First and foremost, direct financial support to companies employing the youth as well as relief packages for SMEs that include a provision for covering significant shares of the salaries would help recovering job losses. Results from a study from members of this same research team with Ugandan firms shows that small and medium enterprises are very responsive to wage subsidies to hire new workers.

In order to achieve significant results, the expansion of public policies must be matched with an increase in effective communications campaigns about them. Despite the necessity of these measures testified by the high demand for policies such as cash transfers, SAGE or tax cuts, only a tiny share of our respondents applied to any aid program. It is crucial that eligible beneficiaries

are made aware of the support programs in place and of their application procedures, to ensure adequate up-take.

## Next steps

Future analysis will exploit the random assignment of workers to treatments, as in Alfonsi et al (2020), to shed light on how different types of skills training programs boost resilience to the economic shock. The comparison between vocational training on the one hand, and apprenticeships on the other is interesting because the two forms of training might have different effects on resilience to the shock: one of the key results in Alfonsi et al (2020) is that vocational training increases labor market mobility, as it provides workers with transferable skills and with a formal certificate that they can show to potential employers. In addition, in Bandiera et al (2020) we provide direct evidence that vocational training led workers to search harder for jobs, and also to target better firms in their job search. All these mechanisms might facilitate resilience to the economic shock and faster recovery by helping the reallocation of vocational trainees. On the other hand, workers trained on the job likely have more firm-specific skills which might reduce their probability to be fired in the first place (due to match-specific surplus) or might increase their chance to be hired back by the same firm post lockdown.

Additional survey rounds to be conducted over the course of 2021 will also shed a light on the long-term effects of the pandemic on these groups of workers. Having multiple observations post-crisis will allow us to study the dynamics of impacts in the post-crisis period, which is crucial to fully understand the effectiveness of skills training programs in easing the recovery from the economic shock.

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