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# Republic of South Sudan Youth Startup Business Grant Program

Volume I: Program Rationale, Design and Implementation

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## EXECUTIVE SUMMARY

***This report presents the rationale, design and implementation of the South Sudan Youth Startup Business Grant Program.*** The first of its kind in the conflict-torn South Sudan, the program aims to create opportunities for the South Sudanese youth, especially young women. It is a response to growing and undeniable issues among the youth. Throughout the report, these issues are identified, leading to the rationale to address them through a grant program that is designed and implemented based on what have been learned in existing literature and to fit in the context of a conflict-affected country.

***South Sudan is in dire need of initiatives to provide opportunities for the youth.*** Conflicts, violence and instability have left the South Sudanese youth in a vulnerable state. Making up nearly 35 percent of the total population, the youth (ages 15 to 35) find themselves in declining livelihoods and desperate situations. Almost 30 percent consider themselves inactive with the number even higher for young women living in rural areas. Nonetheless, this vulnerable, desperate population of South Sudan is sometimes overlooked. It is unfortunate but not surprising since immediate issues, such as stability and food security, are generally considered more urgent. While these are indeed pressing issues, long-term prosperity cannot be achieved without the involvement and preparedness of the youth. This is particularly true in the case of South Sudan, as desperate and hopeless young populations are prone to violence. Therefore, addressing the wellbeing of the youth by creating economic opportunities is an important component in reaching peace and stability.

***In response, the Youth Startup Business Grant Program offers opportunities for selected youth beneficiaries.*** The program offers a grant in local currency equivalent to USD 1,000 to about 1,200 youth, 60 percent of whom are women, through a business startup competition. The design is intended to achieve a balance between reaching out to the most vulnerable population and awarding those who have the required characteristics to succeed in starting up a business or acquiring productive skills and absorbing the benefits of the program. Beneficiaries participate in a one-week long training for life- and business-skills before they obtain access to the grant in a commercial bank account. The grant is unconditional and – while aimed towards (self-) employment and skill upgrading – can be used for any expenditures at the discretion of the beneficiary.

***The Youth Startup Business Grant Program is designed based on existing literature and lessons learned from past programs.*** As commonly discussed in the literature of business startups in developing countries, credit constraint is assumed to be a cause to the lack of business activities. By offering grants, this program is designed to provide access to capital in the hope that it will increase investment and business performance among the beneficiaries. This has been supported by various studies in the past. Additionally, the literature suggests that, when accompanied by trainings, a cash grant is more likely to have an impact. Therefore, this program adopts “practical” skills trainings in consideration to the growing evidence for the effectiveness of such trainings. What is also found effective in various fields is the employment of text message reminders, which will be used in the program in an attempt to boost performance.

***The program is accompanied by an impact evaluation to inform the design and expansion of such programs in fragile countries. Since there is limited literature on such programs in conflict-affected countries, the impact evaluation will fill in the gap and provide further evidence for future programs in similar situations. The full-fledged impact evaluation is designed as a randomized control trial utilizing over-subscription to the program. An additional component of the study is designed to measure the effectiveness of the text message reminders. The impact evaluation aims to inform decision makers and other stakeholders whether cash grants can be a successful intervention in a country like South Sudan.***

***First results from the baseline survey reflect the design features of the program; but a decisive conclusion requires follow-up data planned for 2016. The baseline survey shows that participants of the program are more and better educated than the population in general. This is no surprise as the program was designed to attract literate youth. In spite of their current struggle, the potential beneficiaries of the business startup program project positive outlook for their future and express their ambitions for a better life. This is encouraging for the success of the program in which case an expansion of such a program in South Sudan could potentially have great effects on youth employment and the future livelihoods of the population. While many issues such as violence and insecurity may likely persist, it is hoped that the business startup grant program is a beginning step in the right direction.***

## 1 PART I: Rationale for Cash Grants in South Sudan

1. **A Youth Business Startup Program offers new opportunities for selected youth beneficiaries in South Sudan accompanied by an impact evaluation.** The program offers a local currency equivalent grant of USD 1,000 to about 1,200 youth (60 percent women). Beneficiaries participate in a 1-week long training for life- and business-skills before they obtain access to the grant in a commercial bank account. The grant is unconditional and – while aimed towards (self-) employment and skill upgrading – can be used for any expenditures at the discretion of the beneficiary. The program is evaluated by an impact evaluation utilizing an over-subscription design where beneficiaries and control group are randomly selected among eligible applicants.

2. **This report derives the rationale for the intervention, narrates the implementation and describes results from the baseline survey.** The program is specifically designed to create desperately needed opportunities for the youth in the fragile context of South Sudan. The call for applications was made in autumn 2014 attracting more than 6,000 applications. After eligible applicants were determined, beneficiaries and the control group were randomly selected in late 2014. In spring 2015, all beneficiaries and the control group were visited by enumerators to conduct interviews – before respondents knew whether they will receive the grant. The training for beneficiaries was conducted in April and May 2015 while the grants will be disbursed in June and July 2015. The first follow-up survey is due in early 2016, which will allow to assess the immediate impact of the intervention. Additional surveys are planned in yearly intervals.

3. **The first part of the report motivates the program of a business startup grant in South Sudan.** South Sudan is an extremely fragile country with active conflict in parts of the country. The first section describes the fragility of South Sudan in detail with a focus on its negative impact on ability of the private sector to provide jobs for the youth in South Sudan. The second section takes a closer look at the youth in South Sudan utilizing the latest data from the High Frequency Survey in South Sudan (2015). The fragility and the desperate situation of the youth in South Sudan demand a social protection approach to create ‘good’ work for the youth. The third section argues that a business startup grant for the youth can provide such opportunities at large scale. After the second part of the report reviews evidence for this claim, the third part presents details of the program implementation and provides a profile of the applicants and – in more detail – of the beneficiaries. A second volume of this report is envisioned for 2016 to present the results of the impact evaluation aiming to provide evidence of the success of such programs in fragile countries like South Sudan.

### 1.1 Fragility in South Sudan

#### 1.1.1 Background

4. **As a new nation, South Sudan has the dual challenge of dealing with the legacy of over 50 years of conflict and continued instability, as well as huge development deficits.** The country has some of the lowest human development indicators in the world, continuing violence and instability, and minimal levels of infrastructure development. Formal institutions are being built from a very low base and the capacity

of government to formulate policy and implement programs is limited, but growing. South Sudan also has oil resources, which if used effectively, could support progress in development.

5. **Nonetheless, the December 2013 conflict and the protracted humanitarian crisis have eroded development gains from independence.** Over ten thousand people have died, nearly 2 million people have been displaced. Some 120,000 civilians are still sheltered in over-burdened UN peacekeeping bases. The cost of conflict falls disproportionately on women and children.<sup>1</sup> Humanitarian agencies warn that around 2.5 million people currently face ‘crisis’ or ‘emergency’ levels of food insecurity. An additional 3.5 million people are in ‘stress’ status, making South Sudan one of the most food insecure countries in the world.<sup>2</sup>

6. **Continued efforts at negotiating a peace treaty by the Intergovernmental Authority on Development (IGAD) in Ethiopia, have been largely unsuccessful.** For example, agreements on cessation of violence have been routinely violated by both the government and the rebels within days of signing. Some progress has been achieved in resolving internal differences within the Sudan People’s Liberation Movement (SPLM)<sup>3</sup>: one of the main causes of the conflict. However, little progress has been achieved in terms of agreeing on a peace deal as dialogue has stalled on power sharing arrangements within a transitional government of unity.<sup>4</sup> In an effort to move forward the peace negotiations, IGAD has put in place an expanded mediation mechanism<sup>5</sup> and has prepared a draft proposal for a final peace agreement. As of the date of this report, the new mechanism has yet to demonstrate tangible results.

7. **The current crisis in South Sudan represents a failure in both nation and state building.** It is being driven by the following five issues: a) failure to share power and extend the political space; b) absence of security sector reform and citizen security; c) failure of rule of law and national reconciliation efforts; d) pervasive governance and development deficits; and e) economic mismanagement and deteriorating population welfare.

8. **The most immediate cause of the conflict was a political dispute that spiraled out of control.** However, at its heart, the conflict is driven primarily by a failure to share power and extend the elite pact to an “inclusive enough”<sup>6</sup> coalition. Specifically, the SPLM was incapable of managing the brewing power struggles between President Salva Kiir and the former Vice President Riek Machar in a democratic and

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<sup>1</sup> World Food Programme. 2015. “WFP Situation Report #76.” World Food Programme: Juba.

<sup>2</sup> Integrated Food Security Phase Classification. <http://www.ipcinfo.org/ipcinfo-countries/ipcinfo-eastern-middle-africa/south-sudan/en/>; United Nations Office for the Coordination of Humanitarian Affairs. <http://www.unocha.org/south-sudan/>

<sup>3</sup> A parallel process was undertaken in Arusha Arusha to resolve internal differences within the SPLM resulted in a unification plan agreed by all major stakeholders in January 2015.

<sup>4</sup> The opposition has steadfastly refused to sign the Protocol on Agreed Principles on Transitional Arrangements, arguing that the formation of a transitional government should be negotiated by the warring parties and not dictated by regional powers.

<sup>5</sup> This would include, in addition to the IGAD countries, the African Union, UN, EU, Troika and China, and possibly South Africa and Tanzania.

<sup>6</sup> Coalitions are “inclusive enough” when they involve the parties necessary to restore confidence and transform institutions and help create continued momentum for positive change; and when there is local legitimacy for excluding some groups—for example because of electoral gains, or because groups or individuals have been involved in abuses. See World Bank 2011.

peaceful manner. One of the reasons being that it had not yet transformed into a sufficiently developed political party with established and respected rules and procedures.

9. **After independence, the leadership largely prioritized consolidating support within the SPLM and the government.** As such, the leadership failed to accommodate diverse demands for inclusion emerging from peripheral groups and areas outside of Juba. Similarly, the Transitional Constitution fails to accommodate these demands, as it tends to concentrate power in the central government and the executive. Traditional authorities, while formally recognized, have been increasingly marginalized both in terms of power and respect. The development and promulgation of the permanent constitution, in which the public has had very little or no contribution, has also stalled. Past elections for the presidency, legislative assembly, governorships, and state assemblies which could have served as a mechanism for expanding the political space, also failed to do so by perpetuating the dominance of the SPLM.<sup>7</sup>

10. **Furthermore, once a power struggle began within the SPLM, it spilled over onto the army, which could not withstand the political pressure.** Lack of security sector reforms (SSR) and incomplete disarmament, demobilization, and reintegration (DDR) efforts in South Sudan have meant that the Sudan People's Liberation Army (SPLA) remained a collection of localized militias led by an ethnic coterie of generals,<sup>8</sup> and lacked discipline, an esprit de corps, and a centralized command structure. Instead, loyalty is dependent on personal ties to commanders and payouts. As such, once the political crisis spilled over onto the military, it was unable to withstand the pressures of political power struggles, and broke up along the ethnic lines upon which it was constituted.

11. **A lack of DDR efforts and a proliferation of small arms continues to militarize the population.** Since independence, budget constraints and disagreement between the government and donors over the objectives and modalities of DDR in South Sudan have brought DDR planning to a halt.<sup>9</sup> Meanwhile, the SPLA has grown in size at a rate that has outpaced its very modest DDR caseloads. As of early 2012, about 327,000 small arms were in circulation among known state and non-state actors.<sup>10</sup> New shipments of millions of dollars of arms to both the government and the rebels, as well as the use of child soldiers, will make DDR even more difficult in the future. This has had particular implications for the pastoralist communities, which are routinely involved in cattle raiding.<sup>11</sup>

12. **A cycle of violence has become the norm for addressing grievances in the absence of meaningful national reconciliation and effective rule of law.** Although the recent conflict has been characterized by

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<sup>7</sup> During the candidate selection process, many accused the SPLM of handpicking parliamentary and gubernatorial candidates. As such, formal political pluralism remains limited, as SPLM holds between 77 and 100 percent of seats in the national and state assemblies. Women's participation similarly remains restricted – in 2011, women held only 23 of 132 state minister posts, 1 of 10 Governor positions, and 1 of 82 Country Commissioner posts. See Republic of South Sudan 2012.

<sup>8</sup> South Sudan has more full generals than the US army; and on a per capita basis, the most in the world.

<sup>9</sup> The National DDR Council, chaired by the president, began work in October 2012, but efforts were hampered by fiscal austerity measures. Consequently, plans to demobilize 150,000 people over the next six to eight years, starting with a pilot of 4,500 across ten training areas were scaled down to a pilot of 500 people in one center.

<sup>10</sup> Republic of South Sudan 2012.

<sup>11</sup> While cattle raiding in South Sudan have been a source of communal violence for decades, the recent crisis is concealing, and at times promoting, smaller, localized conflicts over cows. Since the conflict, cattle herders in peaceful areas are buying easily accessible guns due to fears that violence will spread to their homes. Others are exploiting the insecurity to settle old scores and steal millions of dollars worth of cows.

many as an ethnic conflict, there is in fact nothing inevitable about the recent inter-ethnic violence. In reality, different ethnic groups have long history of co-existing peacefully and prosperously. Moreover, the sources of discontent within the SPLM were not ethnically based. However, the absence of meaningful reconciliation at the national level, and effective rule of law at the community and individual levels have allowed traditional grievances between individuals and communities to fester, resulting in a lack of trust and social cohesion. Against this backdrop, spoilers of war have found it easy to deliberately manipulate ethnic identities for political gains. The situation has been exacerbated by a Government crackdown on civil society and media since the conflict, which has shrunk the public space for open discourse, thereby further weakening social cohesion and peaceful conflict resolution mechanisms.

**13. Lack of access to basic social services, coupled with gross mismanagement of public, has resulted in widespread frustration among the population.** Declining effectiveness in service delivery is directly linked to low levels of government expenditure in the social sector. The shutdown in oil production and border closure with Sudan in 2012 led to sharp decline in government income, as oil revenues constituted 82 percent of South Sudan’s GDP and 98 percent of the public income. While fiscal reforms following the oil shutdown led to improvements in non-oil revenue collection,<sup>12</sup> it still remained insufficient to cover requisite government expenses. During this period, priority was given to the security sector over service delivery, such that only 10 percent of the oil revenue went to infrastructure and 7 percent to education, while 38 percent was spent on military and security services.<sup>13</sup> And although transfers to states and local governments improved slightly from 26 percent in 2012 to 28 percent in 2013, 76 percent of the transfer were for recurrent costs and wages, leaving a meager 24 percent of transfers to fund development programs.<sup>14</sup>

**14. Limited institutional and human capacity of the civil service has also hampered effective delivery of services across the country, which is roughly the size of France.** While there were some improvements in the years following the Comprehensive Peace Agreement, basic infrastructure remains highly inadequate as South Sudan has only 300 km (186 miles) of paved roads and most of the country is linked by dirt tracks, which are impassable during the summer rain season. Furthermore, limited delivery capacity has meant that the population at large, 83 percent of which lives in rural areas, remains cut off from access to social services.<sup>15</sup> Sentiments of marginalization have been further exacerbated by the incomplete decentralization, which is perceived to benefit specific groups over others,<sup>16</sup> as well as widespread corruption and a lack of accountability of the ruling elite.

**15. In addition to the on-going conflict, a looming macroeconomic crisis threatens to further destabilize the country.** It is estimated that the recent conflict cost the country at least 15 percent of its potential GDP in FY14 due to lower oil production, displacement of people, loss of assets and livelihoods

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<sup>12</sup> Between July 2011 and October 2012, monthly revenue from taxes, customs and fees increased quadrupled from SSP 17 million to 73 million. See Republic of South Sudan 2012.

<sup>13</sup> Smith 2014.

<sup>14</sup> UNDP 2014a.

<sup>15</sup> World Bank 2014d.

<sup>16</sup> Local government policy in South Sudan has made ethnic identity the ‘de-facto’ basis of creating local government units.

opportunities, especially in agriculture, and destruction of market infrastructure. Moreover, due to the declining global oil prices, real GDP is expected to drop by 8 percent in FY 2014-15. This, coupled with a lack of expenditure control, could potentially result in a fiscal deficit of 4.5 billion South Sudanese Pounds (SSP), equivalent to USD 1.5 billion or 10 percent of GDP.<sup>17</sup> With no significant fiscal reserves, and limited ability to access international borrowing, a high fiscal deficit will be hard to finance.

**16. Declining oil prices, and commensurate reduced government revenue, is deteriorating overall wellbeing of the population.** It is putting pressure on government capacity to deliver services and finance recurrent expenditures such as salary payments. Of particular concern is the inability or delayed salary payments of the security sector, whose wage bill constitutes nearly 70 percent of the total wage bill. Lower oil prices also create a large deficit in the external accounts, putting food security at risk, as the country is dependent on imports to meet its food security needs. To date, the Government has opted to finance the deficit by borrowing from the Central Bank leading to a surge in inflation.<sup>18</sup>

**17. High levels of poverty, income inequality, and lack of employment opportunities, particularly for the youth, continue to hamper growth and shared prosperity.** Lack of viable employment opportunities in productive sectors due to poor absorptive capacity of the economy, including in an underdeveloped agricultural sector, make it difficult for many to improve their economic wellbeing. Moreover, it is estimated that the on-going conflict have resulted in some 700,000 additional poor people living in considerably deeper poverty conditions.<sup>19</sup> Additionally, the current drop in oil prices could push over 300,000 more people into poverty. The impact will be disproportionately larger on urban poverty given that the urban population is more directly connected to market economy and trade. In addition to the increase in poverty, about 42 percent of the population will be subject to consumption losses of at least 10 percent.<sup>20</sup> Displaced people will be particularly hit hard as their wealth has been greatly reduced due to loss of property and access to land.

### 1.1.2 Private Sector Employment and the Impact of Fragility

**18. High dependence on oil revenues has resulted in little diversification of the economy.** The oil sector generates most of the country's national income but employs relatively few people. Estimates of employment in the oil sector vary from 30,000 to 50,000, which represents approximately 1 percent of South Sudan's labor force, while oil revenues contribute approximately 60 percent to GDP.<sup>21</sup> Lack of diversification of the economy has meant that there are few opportunities and niches for private sector growth.<sup>22</sup> It has also resulted in great burden on the highly underdeveloped non-oil private sector to generate the overwhelming majority of jobs, which it is ill equipped to do in the near term.

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<sup>17</sup> World Bank 2015.

<sup>18</sup> Average inflation has remained low until October 2014, but has surged in the following two months, accelerating to 20 percent and 10 percent in November and December, respectively (year-on-year). See World Bank 2015.

<sup>19</sup> World Bank Food Security Note 2014.

<sup>20</sup> World Bank 2015 Oil Note

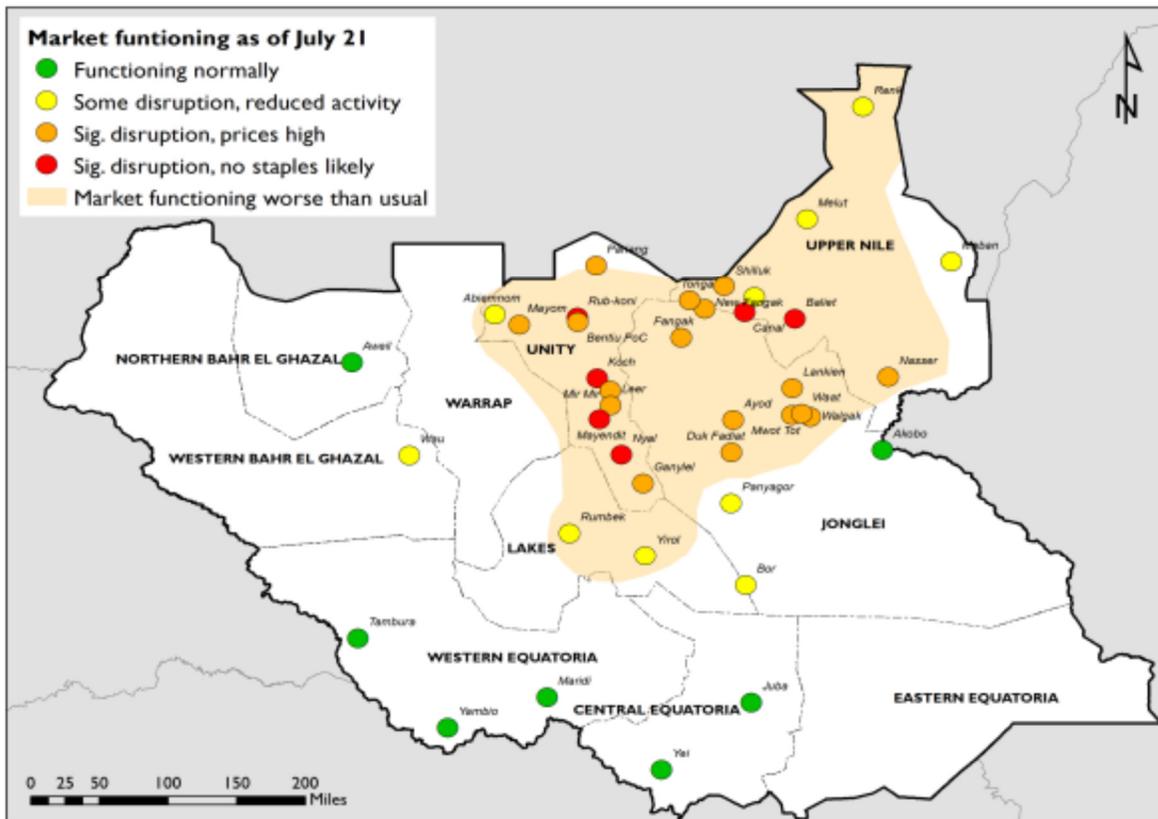
<sup>21</sup> Jobs and Livelihoods Report

<sup>22</sup> World Bank Trade Strategy Report, 2014.

19. **Poor economic governance has also adversely affected private sector growth and created market instabilities.** Currently, there is a dual exchange rate system in South Sudan with a fixed official rate, which is kept artificially appreciated, and a depreciated parallel market rate, which reflects more accurately the value of the South Sudanese Pound (SSP). Preferential access to the official exchange rate distorts competition and favors businesses with close government relationships. The uncertainty about access to foreign exchange at the official rate and large volatility of the parallel market exchange rate – especially in recent months – hamper investments reducing growth prospects in South Sudan.

20. **Limited infrastructure in terms of roads network and value chain linkages, as well as on-going insecurity, continue to depress economic activities especially trade.** Even before the conflict, transport and transit costs were relatively high in South Sudan given that it is a landlocked country with very poor road conditions. As a result of the conflict and ensuing insecurity, transport and transit costs have worsened significantly, particularly in the conflict-affected states. In fact, continued violence is discouraging the South Sudanese from becoming productive citizens, as economic rewards remain highly uncertain with continued insecurity. For example, farmers are unlikely to invest in (surplus) production given the risk of looting by armed forces, malfunctioning (or missing) markets, and insecurity and crime affecting the main trade routes. Rather, the on-going violence perpetuates dependency on humanitarian aid, and is further undermining local trade and economic activities.

Figure 1: Market Functioning in South Sudan (2014)



Source: World Bank. 2015. "South Sudan: Impact of the Crisis and Role of Social Safety Nets."

21. **An infant financial market restricts access to credit further weakening investment.** The lack of appropriate collateral as well as corresponding institutions like land registries inhibit a functioning credit market. Even when credit is available, it is prohibitively expensive due to the high risk associated with doing business. In order to operate in this environment, firms must absorb both high fixed costs, such as infrastructure and overhead, and high variable costs, such as licensing and inputs, limiting their ability to expand and create jobs.

22. **Low investment and labor market rigidities impede job creation.** South Sudan's labor regulations are in transition, and therefore, are subject to frequent discretionary decisions. Termination of employment for national workers is quite difficult as it requires the prior approval by the Ministry of Labor, Public Service and Human Resource Development. Accordingly, firms reconsider before hiring nationals; while national workers have lower performance incentives with such a high barrier to be fired.

23. **The current generation born into war often became reliant on humanitarian aid, and has had hardly any opportunities to invest in its future in terms of skills and work experience.** Consequently, levels of literacy are low; education limited and work experience often non-existent. Such low levels of human capital create challenges for companies to hire adequately skilled South Sudanese, especially given the inflexible labor regulations, as detailed above.

## 1.2 Youth in South Sudan

### 1.2.1 Demographic Characteristics

24. **A profile of the youth in South Sudan is extracted from the High Frequency Survey (2015) in South Sudan.** Most demographics and socio-economic indicators for South Sudan are based on the National Budget Household Survey 2009. With South Sudan being exposed to multiple shocks since then, demographics and socio-economic characteristics have changed much. This section utilizes the latest data available for South Sudan collected in 2015 by the High Frequency Survey – a World Bank led project implemented by South Sudan's National Bureau of Statistics (Box 1).<sup>23</sup>

#### Box 1: South Sudan's High Frequency Survey

In fragile and conflict-affected states (FCS), "stresses" originating from social, economic, political and security dynamics can quickly compromise stability, throw countries back into conflict and reverse development progress (World Bank, 2011). Growing dissatisfaction with economic welfare at the household level as well as other socio-economic indicators can indicate destabilizing pressures in a

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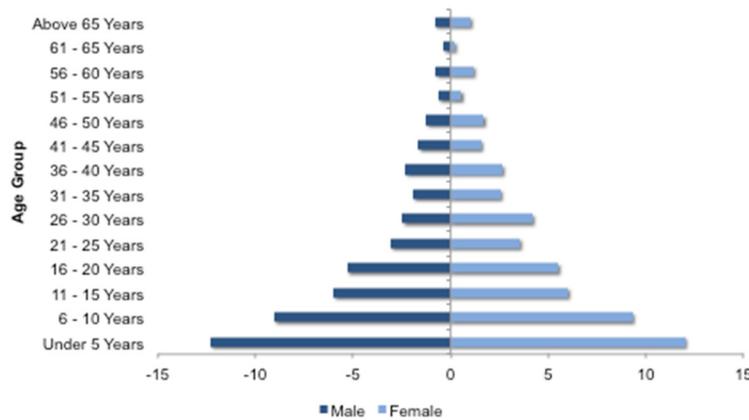
<sup>23</sup> Data collection is still ongoing but the sample was randomly split into two. The exposition in this section presents preliminary data from the first half of the sample. Thus, statistics are likely to change numerically.

country. In such contexts, it is vital to monitor and detect potential “stresses” by closely tracking key indicators reflecting economic, social, and security conditions.

The High Frequency Survey in South Sudan is an effort to monitor demographics, socio-economic indicators and perception data of the population in South Sudan to provide evidence for policy decisions, inform development project design and alert stakeholders in the case of emerging new stresses. The design of the High Frequency Survey is informed by a two-year pilot in South Sudan.<sup>24</sup> The survey uses tablets to collect data in face-to-face interviews.<sup>25</sup> Given the fragile environment, advanced techniques are used for designing, monitoring and analyzing the data.<sup>26</sup> The sample includes urban and rural areas and is representative at the state level for the six states, which are least affected by violence: Eastern Equatoria, Central Equatoria, Western Equatoria, Northern Bahr El Ghazal, Western Bahr El Ghazal and Lakes. The questionnaire includes a rapid consumption module<sup>27</sup> to allow estimating poverty numbers, which will be available in the second half of 2015.

25. **Almost 35 percent of South Sudan’s population is between 15 – 35 years of age, which is defined as youth.** South Sudan’s population is young. More than half of the nation’s population is below 15 years of age, almost 35 percent are between 15 and 35 and only 15 percent are above 35 (Graph 1).

**Graph 1: National Demographics, by Age Group and Gender**



Source: Authors’ calculations based on High Frequency Survey (2015).

26. **South Sudan’s young population is mainly rural.** In addition, South Sudan’s youth has a slightly skewed gender ratio towards a larger number of women (Figure 2). Among the youth, more than two-thirds are between 15 and 25 years of age.

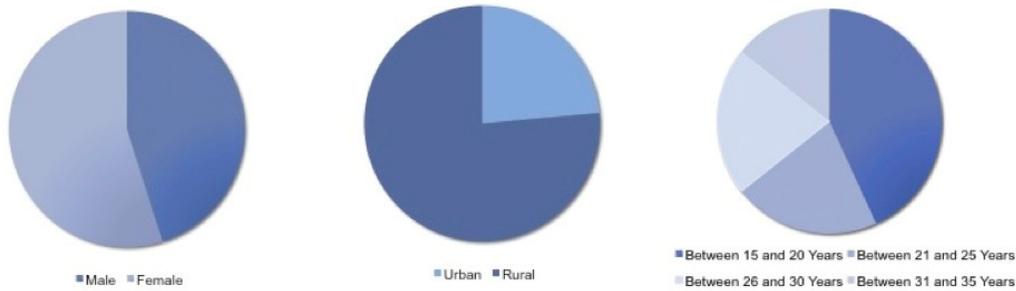
<sup>24</sup> World Bank (2015): Monitoring Welfare and Perceptions in South Sudan 2012 – 2014: Findings from the High Frequency South Sudan Survey.

<sup>25</sup> World Bank (2015): Challenges and Opportunities of High Frequency Data Collection in Fragile States.

<sup>26</sup> World Bank (2015): Innovating Data Collection and Monitoring in Fragile States.

<sup>27</sup> Pape & Mistiaen (2015).

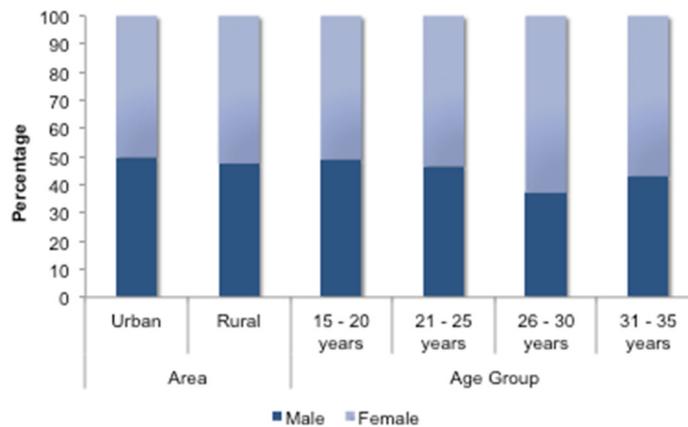
**Figure 2: National Demographics for Youth (by Gender, Area & Age Group)**



Source: Authors’ calculations based on High Frequency Survey (2015).

27. **The gender distribution is further uniform among different categories of youth.** Across categories such as area and age groups within the young population, there is a fairly even balance among the male and female population (Graph 2).

**Graph 2: Gender Distribution Among the Youth**



Source: Authors’ calculations based on High Frequency Survey (2015).

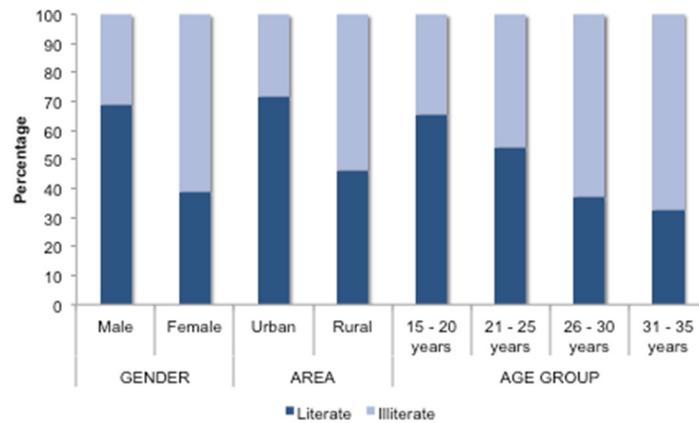
### 1.2.2 Education

28. **Literacy levels among the youth are higher than the population as a whole.** The literacy rate for youth in South Sudan is 59 percent, compared to overall literacy rate of 48 percent. Although this is much lower than the world’s average literacy rate, there is a positive trend of higher reading or writing proficiency among the young population in South Sudan; indicating that past improvements in education are working to a certain extent.

29. **Young women and youth in rural areas have comparably lower literacy rates.** The majority of young men is literate (69 percent) while only a minority of women can read or write (39 percent). Similarly, more than half of the rural youth is illiterate, while approximately three-quarters of urban youth can at

least read or write. Among the young population, those between the ages of 15 – 20 years are more likely to have either reading or writing proficiency than those older than 20 years (Graph 3).

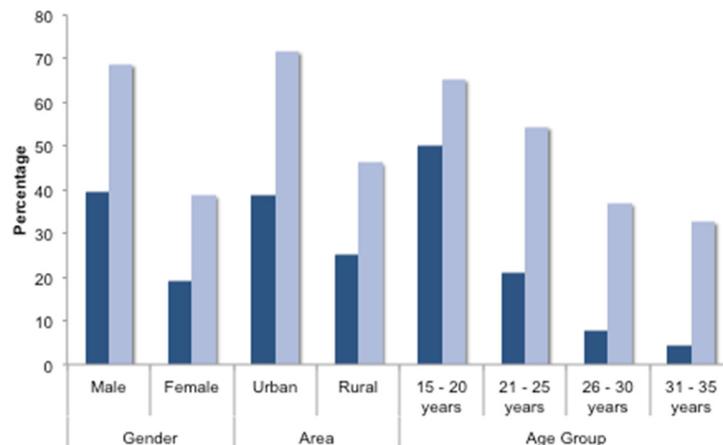
**Graph 3: Literacy Levels among Youth**



Source: Authors’ calculations based on High Frequency Survey (2015).

30. **Current education enrollment does not close the gender gap in education for young women.** Across primary, intermediate, secondary and university levels of education, women have a low current enrollment ratio of 20 percentage compared to young men with almost 40 percent. Past education enrollment shows a similar gender gap with only 40 percent of young women having ever attended education relative to almost 70 percent of young men. Thus, the alarmingly high gender gap in education from the past is not closed with current education attendance and policies. Similarly, youth living in rural areas is disadvantaged in access to education where only 25 percent compared to 40 percent of urban youth is currently enrolled in education (Graph 4).

**Graph 4: Current (dark blue) and Past Education (light blue) Enrollment of Youth**

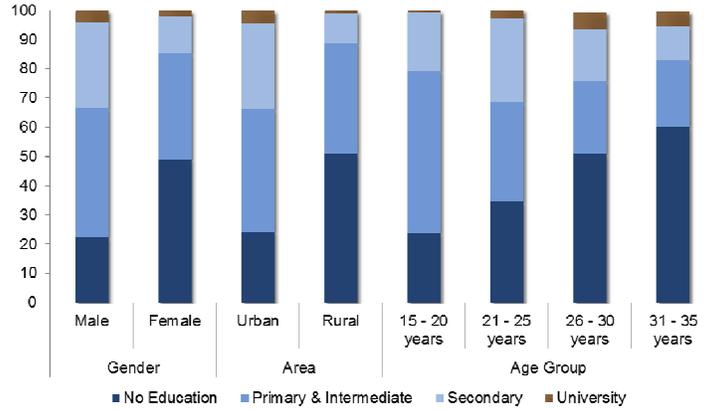


Source: Authors’ calculations based on High Frequency Survey (2015).

31. **Also the level of education shows a significant gender gap; generally university education is extremely low.** More than half of young women do not finish any formal education in contrast to less

than 25 percent of young men. Even if young women finish a formal education degree, it is most likely to be only primary or intermediate education. Exactly the same pattern can be observed for education in rural and urban areas. In general, less than 5 percent of the youth have obtained a university degree, and the numbers are very low even in the higher age groups of 26 – 30 years and 31 – 35 years (Graph 5).

Graph 5: Highest Education Levels among Youth

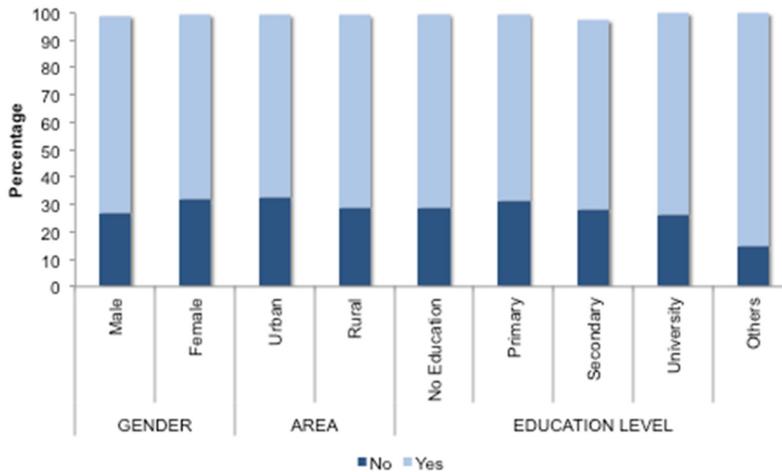


Source: Authors’ calculations based on High Frequency Survey (2015).

### 1.2.3 Employment

32. **Almost 30 percent of the youth identified themselves as currently inactive.** The levels of inactivity are consistent across all categories of youth (Graph 6), irrespective of their gender, area of residence, or level of education. More alarmingly, the level of inactivity is uniform among the university population, as well as among the urban population, which are categories with better access to opportunities. We define inactive as those who were not engaged in any economic activity over the past 12 months, are currently not enrolled in any educational activity, and are not looking for a job either.

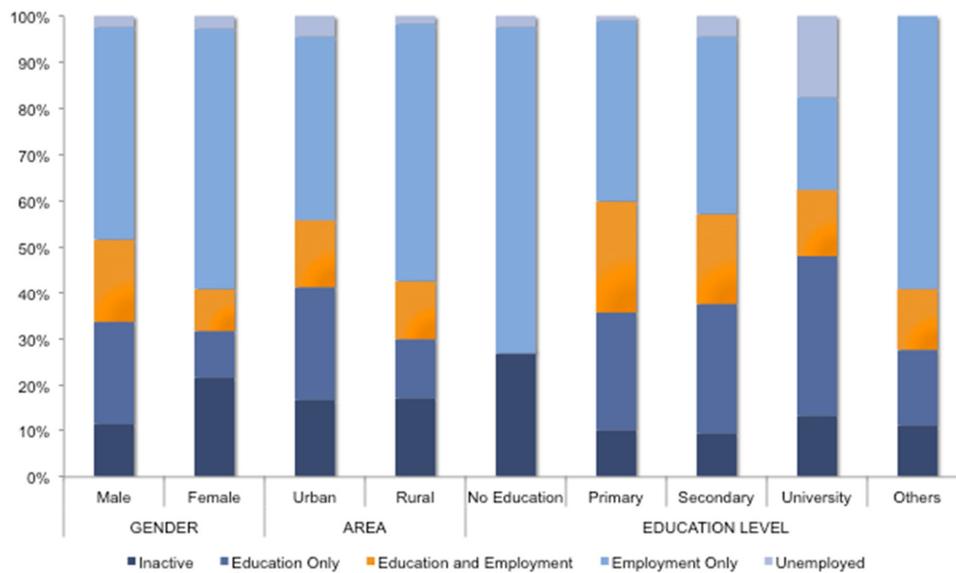
Graph 6: Activity Status for Youth



Source: Authors’ calculations based on High Frequency Survey (2015).

33. **Higher proportion of women, residents of rural areas, and those with no education identified themselves as currently inactive.** While women often face social restrictions from actively seeking employment opportunities, the seasonal nature of agriculture and dependence on business cycles are prime reasons for labor inactivity in the rural areas. Among those currently pursuing education, most of them take some form of employment activity in parallel. This trend is consistent across all categories, irrespective of gender, area of residence or level of education (Graph 7). Although comparatively healthy employment levels were reported for women as well of those in rural areas, there might be difference in the types of employment. Similarly, rural areas reported better levels of exclusively employment only, but the nature of employment between urban and rural areas is different.

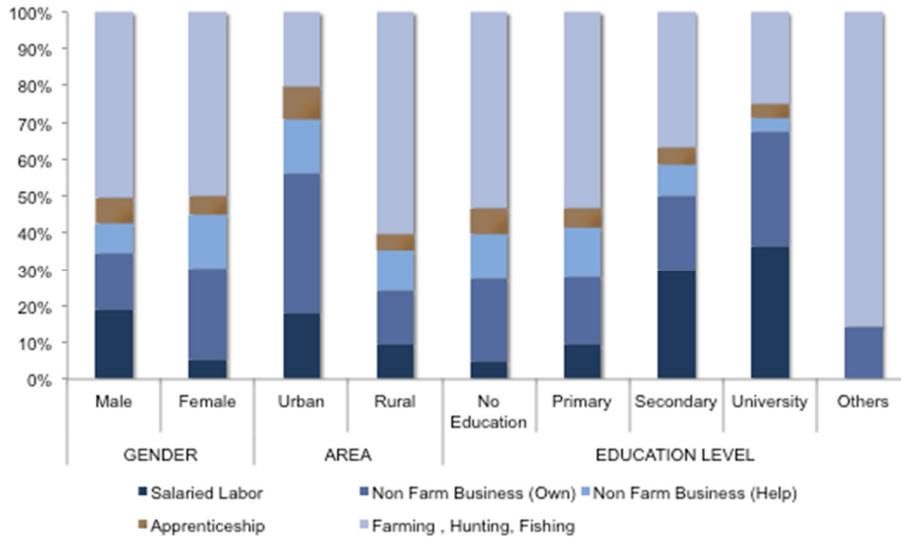
**Graph 7: Labor Characteristics for Youth**



Source: Authors’ calculations based on High Frequency Survey (2015).

34. **Among those who reported themselves as employed, activities such as farming, hunting and fishing were major modes of employment.** More than 50 percent of the employed youth work as farmers, hunters and fishermen. About further 21 percent operate some form of non-farm business. Salaried labor forms a mere 11 percent of the overall employed labor force. Proportion of salaried people is higher among those with secondary or university education. Most of the urban youth operate some kind of non-farm business.

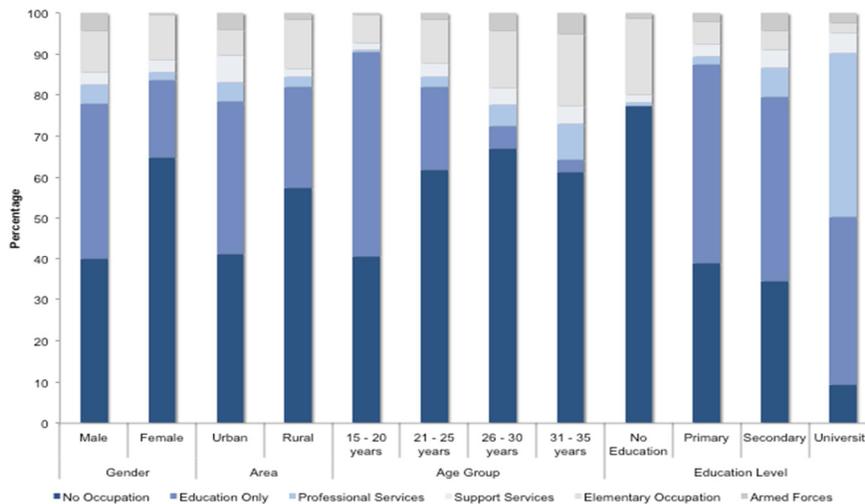
Graph 8: Primary Activity for Youth



Source: Authors' calculations based on High Frequency Survey (2015).

35. **The labor force of South Sudan is primarily ill equipped for most formal sector employment activities.** Only 3 percent of the overall youth workforce identifies themselves as employed in professional or managerial services, or can work as technicians. A further 5 percent comprises of those working in support services such as clerical jobs. Among women and those living in rural areas, more than half of the young population has no form of main occupation.

Graph 9: Main Occupation Categories Among Youth

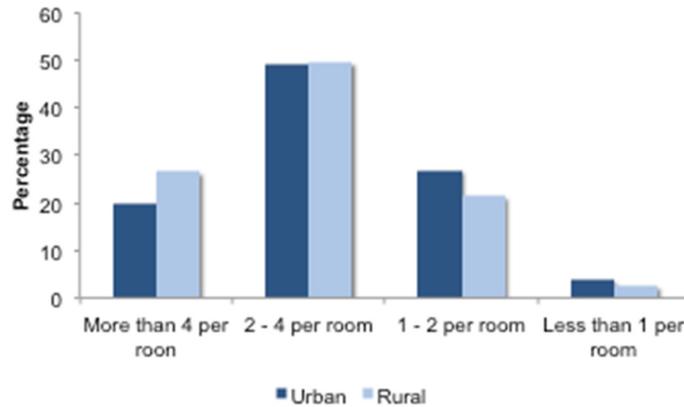


Source: Authors' calculations based on High Frequency Survey (2015).

### 1.2.4 Living Conditions

36. **The youth lives in over-crowded dwellings.** The majority lives in dwellings with 2 to 4 household members per room. Less than one third of households have less than 2 household members per room. Over-crowding is slightly more enhanced in rural areas (Graph 10).

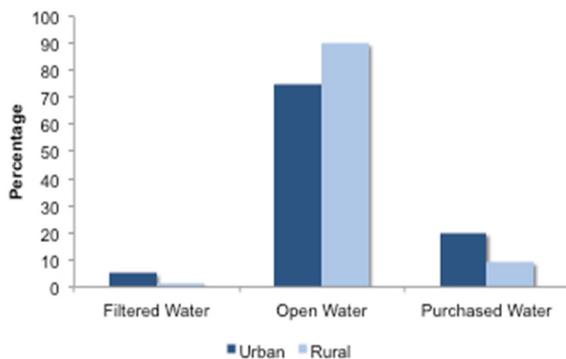
Graph 10: Overcrowding in Household



Source: Authors’ calculations based on High Frequency Survey (2015).

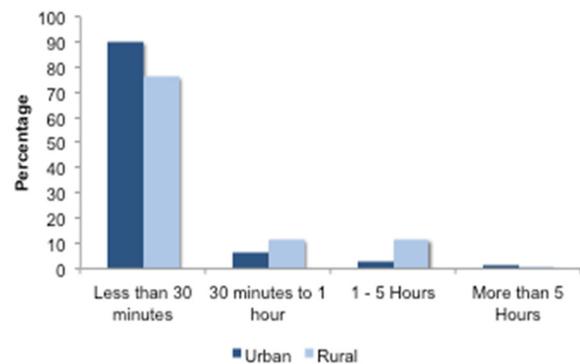
37. **Most households with youth access drinking water from open sources such as wells, ponds, and rivers.** Only a minority of households purchases drinking water (Graph 11). Almost no households at all use filtered water. Apparently, open water is abundant in South Sudan; the time spent in procuring drinking water is less than 30 minutes for about 80 percent of the young population (Graph 12). Thus, only a limited amount of time is spent on accessing water; but the quality of the water is likely to be low.

Graph 11: Sources of Drinking Water



Source: Authors’ calculations based on High Frequency Survey (2015).

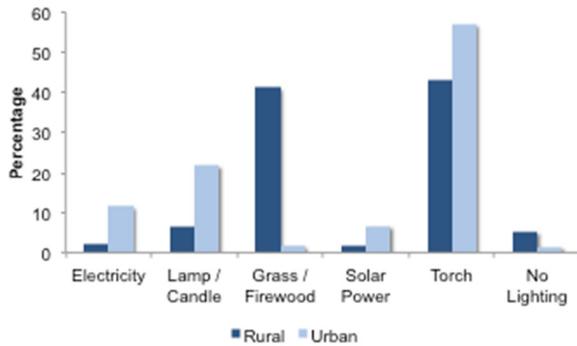
Graph 12: Time Spent in Procuring Drinking Water



Source: Authors’ calculations based on High Frequency Survey (2015).

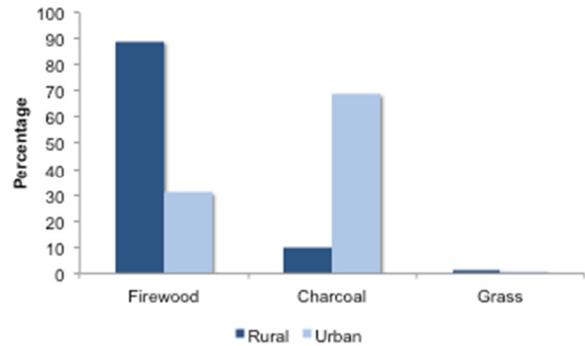
38. **Only 6 percent of the youth have access to electricity, whether public or private.** In rural areas, most households use firewood or grass for lighting purposes, while torches are more often used in urban areas (Graph 13). Cooking is predominantly done by firewood in rural and charcoal in urban areas (Graph 14).

Graph 13: Sources of Lighting



Source: Authors’ calculations based on High Frequency Survey (2015).

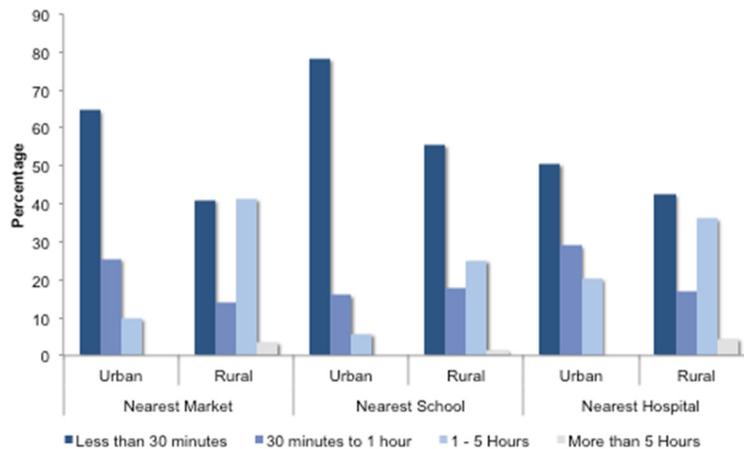
Graph 14: Sources of Cooking



Source: Authors’ calculations based on High Frequency Survey (2015).

39. **Accessibility to markets, hospitals and schools is comparatively better in urban areas.** Schools can be accessed within 30 minutes for about 80 percent and 55 percent of the urban respectively rural youth. Access to markets is better in urban areas where 65 percent of the youth needs less than 30 minutes to reach a market compared to 40 percent of rural youth. Hospitals can be accessed under 30 minutes by 50 percent and 45 percent of the urban respectively rural youth. Thus, a large urban / rural gap exists for market and school access while hospitals are usually further away with – surprisingly – a smaller urban / rural gap (Graph 15).

Graph 15: Access to Markets, Schools and Hospitals, by Urban and Rural.



Source: Authors’ calculations based on High Frequency Survey (2015).

### 1.3 Rationale for Focusing on Youth Employment

#### 1.3.1 Status of Social Safety Nets in South Sudan

40. **Given the repeated shocks that affected South Sudan and the chronic vulnerability of the population, social safety nets (SSNs) programs can play a key role in improving resilience.** Non-contributory social safety nets programs provide a bridge between short-term humanitarian activities and

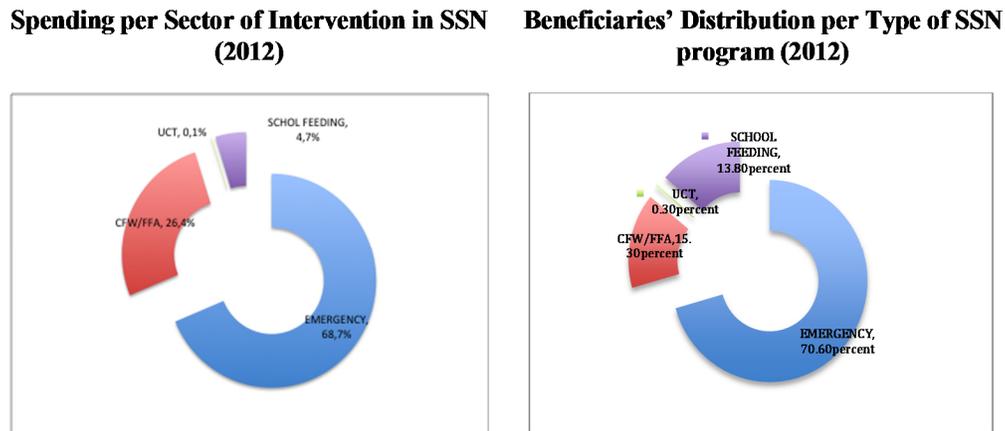
more sustainable, longer-term development efforts, while also addressing fragility and stability concerns. Well targeted SSNs in South Sudan has the potential to provide short-term alternative employment to frustrated, unemployed youth and help to smooth their consumption gaps. Such programs could also help to gradually redress the balance for historically marginalized segments of the population.

41. **The Government’s vision on social protection is detailed in the National Social Protection Policy Framework.** The overall goal of the Framework is to *‘respond to and address the multiple vulnerabilities faced by South Sudanese citizens, with a particular focus on the poorest and most excluded sectors’* (GoSS 2015). The framework identifies the following six objectives: (i) inclusive social protection: ensuring access to basic social services for all; (ii) protective environments for children; (iii) strengthened linkages among social protection, economic development and sustainable livelihoods; (iv) improved livelihoods for women; (v) a systems approach to social protection; and (vi) progressive realization of coverage.

42. **Unfortunately, government capacity remains limited for delivering on its social protection objectives.** This is particularly true in terms of providing temporary jobs and support for income generating opportunities by enabling private sector growth. Specifically, there is a lack of infrastructure and resources for government agencies responsible for advancing SSNs administrative capacity at the central and local levels. Programs are dispersed across categories and states, and do not exist at a significant scale or as longer term interventions. There is no viable strategic planning in place, no robust mechanisms ensuring adequacy of benefits, and no clear budgeting procedures. Capacity constraints also limit the depth of program evaluation.

43. **Consequently, social safety nets spending in South Sudan has been traditionally financed by donors, with heavy focus on emergency food aid.** For example, food transfers, including emergency distribution, school feeding, and food-for-work programs led primarily by World Food Programme, accounted for approximately 98 percent of total SSNs expenditures and 70 percent of SSN beneficiaries, a proportion that has increased since the outbreak of hostilities in December 2013. School feeding represents an additional 14 percent of beneficiaries. Cash for work and food for work interventions provide assistance to 15 percent of beneficiaries. In contrast, unconditional cash transfers constituted merely 0.3 percent of total beneficiaries (Borgarello and Figazzolo 2013, Figure 4).

**Figure 3: Spending on Social Safety Nets in South Sudan**



Source: Borgarello and Figazzolo, 2013.

44. **However, the coverage of existing SSNs across the country remains unbalanced and benefits largely rural areas.** Prior to the conflict, the average population covered in each of the 10 states was 57.2 percent with significant disparity across states. Northern and Western Bahr El Ghazal were the most covered states, while Central Equatoria had the lowest coverage. Some states, such as Jonglei and Upper Nile, with a high share of moderately or severely food insecure population were also comparatively less reached by programs (Borgarello and Figazzolo 2013).<sup>28</sup> In addition, almost all SSN interventions in South Sudan focus on rural areas, even though there exist very vulnerable groups in urban areas as well (e.g., underemployed, unskilled young adults).

45. **Given these challenges, and particularly the lack of focus on vulnerable youth and unconditional cash transfers, the World Bank implements a youth startup business grant program.** The program offers youth a business startup grants in the value of USD 1,000 per beneficiary to promote entrepreneurship and income generating activities among young South Sudanese (Box 2).

**Box 2: Youth Startup Business Grant Program**

The program disburses 1,000 USD (in local currency) preceded by a business and life skill training to eligible beneficiaries. The program and its implementation is described in more detail in part 3 of this report.

The evaluation is based on an over-subscription design where eligible applicants are randomly chosen to receive the grant and the training. Non-selected applicants are chosen for the control group. All of the beneficiaries and the control group were subject to a baseline survey to measure their incomes, expenditures, education, employment as well as other indicators including health, conflict, and shocks. Preliminary results from the baseline survey are reported in part 3 of this report. After the baseline

<sup>28</sup> However, the geography of the conflict may have rebalanced interventions as Upper Nile, Jonglei, and Unity states have received the bulk of humanitarian food aid since the outbreak of hostilities.

survey, beneficiaries received notification whether they are among the beneficiaries and – if so – were invited for trainings across the six states as a precondition to receive the grant. The grant will be disbursed into their personal bank accounts – an innovative approach to support beneficiaries to build relationships with financial institutions. The aim includes making the beneficiaries more bankable in the future, and thereby increasing their access to finances. After one year (expected early 2016), beneficiaries and the control group will be revisited with a follow-up survey to measure differences in the change of income, expenditures and other indicators. This will allow attributing changes in these indicators to the intervention of the training and the grant. In addition, the long-term effect of the training will be measured as well. More details about the evaluation are included in part 3.

### 1.3.2 Need for Viable and Productive Youth Employment

46. **In the current context of deepened economic and social vulnerabilities, viable and productive employment, particularly for the youth, becomes critical in mitigating the various shocks.** The on-going internal conflict, as well as the drop in oil price, presents a significant constraint to sustainable livelihood recovery. For one, loss of assets resulting from conflict related displacement and destruction have deepened economic and social vulnerabilities, particularly in the conflict-affected states.<sup>29</sup> Displaced households have tried to alleviate the negative impact by employing various coping strategies, along with depending on humanitarian aid.<sup>30</sup> Similarly, the drop in oil price will translate to consumption losses of at least 10 percent for almost half the population (42 percent),<sup>31</sup> having pronounced effects on the livelihoods of the population of South Sudan. The youth, as a large share of the population, are of particular concern, especially given that they are the future of the country.

47. **Job creation by the private sector is limited and unlikely to be able to offer opportunities to many youth.** As discussed previously, investment by the private sector is severely limited in the general context of South Sudan – due to macroeconomic volatility and governance failure – and especially pessimistic in the current context of an active conflict in the country. Thus, the private sector will not be able to create new jobs and offer income, learning and experience to the many youth in South Sudan.

48. **The youth also merit special attention in the absence of meaningful access to economic opportunities, as they are feared to become a constant destabilizing force.** In particular, the presence of a large number of idle and frustrated young males is perceived to be more vulnerable to being recruited by fighting forces, as they represent an abundant supply of rebel labor, and can anticipate greater potential gain as well as lower opportunity cost of engaging in violence in the context of few economic opportunities (Collier 2000, Urdal 2004). They are also more likely to turn to criminal activities out of desperation in order to survive. However, focus on young males should not eclipse specifically targeting

<sup>29</sup> The impact is strongly concentrated on states with military clashes with an average expenditure loss of 58% compared to 13% in the remaining states. See World Bank Food Security Note.

<sup>30</sup> Coping strategies depend on the type of displacement settlement but always include daily labor, small business activities as well as selling livestock and fishing.

<sup>31</sup> World Bank Oil Note

young women given the high levels of socioeconomic barriers (especially access to education) for employment faced by young women in South Sudan (Box 3).

**Box 3: Barriers to Women’s Employment in South Sudan**

Barriers to women’s participation in income generating activities are significant and include both development disadvantages and social and cultural norms. Heavy domestic burden with insufficient options for childcare and support, illiteracy and a lack of formal education, and insufficient opportunities for technical training and business skills development all impede women from becoming competitive in the labor force. Similarly, social and cultural norms hinder women’s access to finance, land, and inputs such as seeds and tools necessary for sustainable and productive livelihood. For example, while the Land Act explicitly articulates women’s rights to own and inherit land, issues related to inheritance, acquisition and ownership of land are most commonly referred to customary courts, which often uphold entrenched patriarchal norms that ultimately disfavor women. Lack of access to land can also impact access to financial services since land often serves as collateral for micro-lending.

49. **In improving access to employment by the youth, it is also important to focus on the *type* of jobs rather than only the *lack* of jobs.** Research finds that it is often the *experience* of work,<sup>32</sup> interacting with various dynamics such as structural exclusions and lack of social integration, among other factors, which leads to frustration and disillusionment, and in extreme cases, engagement in violence. For example, in Ecuador and Colombia, young members of gangs and the rebel armed group stated that by joining their respective groups, they found economic opportunities, as well as status, respect, excitement, support, trust, and cohesion – all of which the local economy and their families did not provide.<sup>33</sup> In South Sudan, the *experience* of work can be especially pernicious as many of the South Sudanese youth lack the means, skills, knowledge, or connection to be engaged in productive employment. Instead, they are more likely to get stuck in low quality jobs, often in the informal sector.

50. **Therefore, it will be important in the long term to go beyond solely providing consistent work and income opportunities to the youth, to also providing ‘good’ work, which can offer a fundamental source of self-respect and social identity.** The empirical results related to unemployment, trust, and civic engagement imply that losing work means more than losing income. It can undermine feelings of self-worth and strain family and social relationships, as well as break down economic and social ties, breed mistrust, and damage people’s sense of community and hope for the future.<sup>34</sup> As such, work can connect people with others through networks, and can be a place to encounter new ideas and information, and interact with people of different backgrounds and ethnicities.

<sup>32</sup> Employment characterized by demeaning and monotonous tasks, with little prospect of promotion or skills development, in conditions that are often openly exploitative and coercive, and for piteously little remuneration.

<sup>33</sup> Similarly, in the United States, gangs provided the youth with income, respect, and social ties that they were unable to find in jobs in cities such as Chicago and New York that had lost stable, unionized manufacturing jobs.

<sup>34</sup> A 2001 study of multiethnic cities in India posits that economic networks and interdependence, including through jobs, can reduce the incentives for violence between communities. Cities with more interlinked economic relations were less likely to witness communal and ethnic violence, while riots were more frequent in cities with fewer economic ties. See World Development Report 2013.

51. **A Business StartUp grant aims to provide the initial trigger to allow youth engaging in ‘good’ work.** Access to credit but also the absence of a starting point to give youth the ability to shape their own youth is aimed to be mitigated by the business startup grant program. A meaningful use of the grant can lead to ‘good’ work that is inclusive and empowering with the ability to build agency, provide access to voice, and offer social status, respect and cohesion. Ideally, this will also contribute to creating economic and social ties and building incentives to work across boundaries and resolve conflict. Such jobs can create economic and social ties and have the potential to build incentives to work across boundaries and resolve conflict. The next part reviews current evidence for cash grant programs and proposes nudges to increase the likelihood of success.

## 2 PART II: Cash Grants

52. **The second part of the report reviews evidence for cash grant programs.** The first part of the report concluded the need for a social protection program in South Sudan specifically for the youth. In this part, the first section will provide evidence that a cash grant program can indeed offer the needed work opportunities for the youth. However, no cash grant program has ever been implemented in an extremely fragile country where parts of the country are subject to active conflict. The impact evaluation of the youth startup business grant program in South Sudan aims to close this gap. The second section of this part reviews the literature how the intervention of a cash grant can be rendered more successfully by nudges. The nudges under investigation are text message reminders to increase commitment of beneficiaries to put the cash grant at productive use.

### 2.1 Evidence for Cash Grant Programs

#### 2.1.1 History and experiences of giving microenterprise grants in developing countries

53. **The first motivation behind providing microenterprise grants in developing countries is that potential recipients would like to access credit but are credit constrained.** Specifically, the recipients do not have access to credit at a borrowing rate that is lower than their expected rate of return to capital, limiting their ability to invest. Responding to this constraint, grants allow the recipients to obtain credit at zero cost. While opening up investment opportunities, however, the effectiveness of grants requires that the recipients intend to use them to make investments rather than consumption or debt repayments. Furthermore, these investments should have net positive economic rates of return. That is, the recipients use the grants to make investments that provide a greater rate of return than the cost of providing these grants to them. Otherwise, the resources used to finance these grants may be better used elsewhere.

54. **The second important reason for providing grants is the insurance that comes with grants rather than loans.** Assuming that potential recipients have a demand for credit and some degree of risk adversity, grants, because of their zero-cost nature, will encourage higher risk but higher return investments than loans would. This is important from a welfare perspective as such higher return investments will have greater income effects and thus greater potential for reducing poverty. However, by eliminating the financial repayment risk faced by the recipients, grants introduce the possibility of moral hazard. For

example, the recipients may take on investments that are too risky relative to their potential return, since the risk of not being able to cover repayment is not internalized by the recipients.

55. **Evidence of the effectiveness of in-kind transfers and microenterprise grants has been found in several developing countries.** Notable examples include programs in Ghana, Sri Lanka and Mexico when transfers were made to established business owners and farmers. In Sri Lanka, De Mel, McKenzie and Woodruff find that cash transfers of about \$100-200 to micro-entrepreneurs in retail and manufacturing led to an over 60% annual return through increased business profits (De Mel, 2012). These results were maintained for two years for women and up to five years for men, with no clear differences between whether transfers were made in-cash or in-kind. In Ghana, Fafchamps, McKenzie, Quinn and Woodruff (2014) find that in-kind transfers have a strong impact on the profits of urban entrepreneurs, but that this impact is much weaker when transfers are made in cash. A one-time grant of 150 Ghanaian cedis (about \$120) led to a monthly increase in profits of about 37-39 cedis (about \$30), if the transfer was given in-kind, while only an increase of about 10-14 cedis (about \$10), if the transfer was given in-cash. Given that the in-kind transfers were selected by the program recipients, who went with the research assistants to pick out the specific items for their transfer, the weaker impact of cash cannot be due to a lack of knowledge or understanding on the returns to different investments. Instead, the authors suggest that it is due to a lack of self-control, as empirically they find that the cash grants tended to be spent on household consumption or transferred out of the household. This outcome was particularly significant among women running subsistence business, where the cash grants had no measurable impact on profits. In Mexico, male urban micro-entrepreneurs running small retail firms, with less than \$1,000 in capital stock, were also offered cash and in-kind grants of about \$140, in another study by McKenzie and Woodruff (2008). Here they estimate the rate of return to capital to be around 28-46% per month over 3-12 months and do not find a significant difference when grants were given in-kind or in cash. Together these studies show that while there may be variability in returns dependent on whether the transfers are made in-kind or as cash, the opportunities for high return investments is good, particularly among men.

56. **While these studies show that high returns to capital exist among existing business owners and men, they do not shed light on the impact of transfers on to the poorest members of the population such as the unemployed or youth.** Nor do they provide evidence on whether cash transfers are able to create employment opportunities, rather than increase the earnings of already economically active individuals. That is, they do not address whether transfers lead to growth at the extensive margin of employment, as well as at the intensive margin of employment.

57. **Evidence from programs to the poorest is ambiguous.** In part this is due to the small number of studies that focus on giving grants targeted to these individuals for employment creation. While there is a large literature studying the impact of *conditional cash transfer* (CCT) programs on the human capital acquisition of children with the hope that these cash transfers will simultaneously stimulate new enterprise (Fizbein et al., 2009; Karlan & Morduch, 2009), few studies have evaluated the impacts on enterprise growth.

58. **Two experiments in Nicaragua that examine the impacts of CCTs on enterprise growth find that cash transfers alone did not increase earnings or non-farm production** (Macours, Premand, & Vakis, 2012; Maluccio, 2010). Maluccio studies the Red de Protección Social (RPS) transfers made to the poorest rural households in Nicaragua and estimates the marginal propensity to consume out of the transfers to be nearly one, indicating that these cash transfers cannot be expected to lead to long-term increases in income and consumption. Macours et al. (2012) similarly find that a CCT alone does not lead to increased earnings or non-farm production among rural households, but does when the CCT is complemented with an investment grant of \$200 aimed at encouraging the households to start a small non-farm agricultural activity. This intervention was targeted primarily to women and the investment grant was conditional on submission of a business plan by the recipients, who received technical assistance to develop their business plan and business skills training.

59. **Whether *access to credit* is a binding constraint to new enterprise or employment creation can be found from looking at the impact of microfinance on the activities of the poor and unemployed.** Several experiments show that while microfinance can raise farm investment it has little effect on new enterprise or earnings (Angelucci, Karlan, & Zinman, 2013; Attanasio, Ausberg, Haas, Fitzsimons, & Harmgart, 2011; Augsburg, Haas, Harmgart, & Meghir, 2012; Banerjee, Duflo, Glennerster, & Kinna, 2013; Crépon, Devoto, Duflo, & Pariente, 2011). Of specific interest to the program in South Sudan, Augsburg et al. (2012) study the impact access to microfinance on Bosnians who would normally be denied access to credit—due to lack of collateral. They find that while there was no change to profits or household income and a decrease in school attendance, business activities and self-employment increased. This suggests that, the lack or low level of business activities is due to limited or lack of access to credit. In other words, while the effectiveness of microfinance in improving employment and earnings is questionable, it is evidenced through its effect on business activities that the poor are constrained by lack of access to credit.

60. **Most related to the youth startup business grant study in South Sudan is a youth opportunities program in northern Uganda that finds high returns to capital among groups of 16-35 year old entrepreneurs.** In that program grants of on average \$382 were given out to 16-35 years olds in response to a call for business plan applications for independent traders (Blattman, Fiala, & Martinez, 2013). The annual return to capital was 30-39%, but it is important to recognize that this intervention had an in-built group component, as the youth needed to apply in groups for the business plan. It is possible that this may have created commitment devices, or screened out applicants uninterested in becoming artisanal entrepreneurs, and contributed to the high returns to capital that the program obtained.

61. **Another recent study evaluates unconditional cash transfer in Kenya and finds positive impacts on investments but no impacts on earnings.** Haushofer and Shapiro (2013) finds that transfers of up to \$1000 to rural households led to increases in non-land assets, such as roofs, on average by \$279, but no detectable changes in profits, despite positive increases to both revenues and expenditures. Potential beneficiary households to include in this program were identified through a series of proxy means criteria, one of which examined the condition and materials of the roof of the households' dwelling. These results suggest that expectations about what cash is being given for may have an important impact on how it is used and ultimately the returns to capital that will be observed.

62. **Evidence for impacts of business grants on enterprise growth between very poor men and women is mixed.** Blattman et al. find in northern Uganda that the capital stocks of male grant-recipients increased at a faster rate than female recipients by about 50% in the first two years. However, over a 4-year time horizon these differences evened out with both men and women obtaining about a 50% increase in capital stocks relative to the control groups (Blattman & Figazzolo, 2013). Similarly, earnings for women in the treatment group did not increase until the end-line survey four years after the intervention, when they achieved a 73% increase over the control group. Interestingly, the program had a much stronger relative impact on women than men, as both the capital stocks and earnings of women in the control group stagnated following the baseline, while those of men caught up by around 50%. In the study in Kenya, Haushofer and Shapiro find no difference in the impacts of their \$1,000 *unconditional cash transfer* on consumption, production or investment decisions between men and women, which they admit is surprising given the large literature suggesting the household decision-making is not unitary (Udry, 1996; Duflo & Udry, 2004).<sup>35</sup>

63. **Blattman, Jamison, Green and Annan (2014) study the impacts of a microenterprise support program targeted to “ultra-poor” women in rural villages of post-war northern Uganda.** The program was randomized at the village level, but within each village a nonprofit organization selected the 15 poorest people to be potential recipients, resulting in a sample of 86% women. The program experimented with complementing a grant of \$150 (equal to nearly 18 months cash earnings) with five days of business skills training and ongoing “follow-up visits” to advise grant-recipients, as well as provide supervision to implement the business plan. The midline results show that after 16 months nonfarm business activities increased from around 40% to 80%, new enterprises increased by 47%, monthly earnings by 95%, household consumption by a third, and employment from 15 to 24 hours per week. The findings are generally comparable between males and female grant-recipients, although men were more successful at starting new enterprises and increasing employment but saved less. The marginal impacts of supervision and advice were modest,<sup>36</sup> even though implementing this component was the most expensive part of the program. It led to a small impact on business survival but no impact on incomes. Encouraging beneficiaries to form groups resulted in increased earnings, tentatively suggesting that social interactions and support may have helped increase informal finance, idea exchange and cooperative farming.

64. **Another set of experiments study the effects of giving “ultra-poor” rural dwellers livestock, skills training, and short-term income support.** A four-year study of a BRAC program for Bangladeshi women finds large increases in self-employment and earnings (Bandiera et al., 2013). However, two- to three-year studies of similar BRAC programs in Pakistan, Honduras and Ethiopia show little change in

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<sup>35</sup> This literature shows that household purchases vary dependent on whether males or females make the decision on how household income should be spend. This demonstrates a fundamental inefficiency in the optimization of the overall household’s welfare. That the study in Kenya did not find this to be case, is at odds with a significant amount of earlier evidence, indicating that this recent result should be interpreted with caution.

<sup>36</sup> All recipients received both the grant and the basic business skills training and framing, while some also obtained follow-up visits and advice.

business activities or agricultural production (Goldberg & Salomon, 2013). These programs increase assets and food security, but effects on production and earnings are mixed. Furthermore, other studies from South Asia (for example, India and Sri Lanka) have shown limited impacts of cash and business training on unemployed women (Field, Jayachandran, & Pande, 2010; De Mel et al., 2012). Thus, there is variation in what these programs can impact (assets and food security to earnings and employment) and the extent to which these outcomes can be improved, even within the same region. This suggests that the outcomes of programs can be very sensitive to slight variations in design and the local context, which may be related to how they are framed to participants.

65. **To summarize these findings, there is evidence for high returns to capital from in-kind transfers and microenterprise grants to established business owners and farmers.** Among non-established business owners, or the “ultra-poor”, business or investment grants have most success in increasing earnings, new business activities and employment when they are integrated into programs with basic business skills training, group components for peer monitoring and/or social learning, and a clear framing towards using the grants for business development and economic empowerment. There are gender differences in the effectiveness of some these programs, with women either taking longer to realize positive impacts or showing no improvements, or having impacts that fade away after two years. The manner that grants are given also seems to matter more for women than men, with in-kind transfers being more effective than cash in specific regions. Reasons given are that women may be less able to control expenditures within the household in specific regions; thus in-kind transfer avoid grants being spent on non-productive or consumption goods. No study has yet looked at the impact of giving lump sum transfers for business development of more than \$350 per individual, and few studies implement a cash transfer program in isolation. However, the cost-benefit analysis of existing studies, that highlights the high costs associated with implementing training and follow-up components, suggests that cash may be the most cost-effective channel for improving economic outcomes for potential micro-entrepreneurs. This may be particularly the case in environments when on the ground supervision is very expensive. There is no evidence for the impact of cash grant programs in extremely fragile countries with active conflict.

### 2.1.2 Vocational training programs to support micro-entrepreneurs

66. **Few rigorous impact evaluations of technical and vocational education and training programs have been conducted in Africa, despite the acuteness of youth unemployment and poverty in the region.** In fact only three studies provide counterfactual evidence. This is a concern given the costs associated with these interventions, which can cost up to several thousand dollars per beneficiary. While there appears to be growing adoption of vocational training in Sub-Saharan Africa, most programs use only single group pre- and post-outcome measurements if any type of evaluation is carried out at all. Such single group methods do not causally identify the impacts of the program, since it is not possible to distinguish between effects of the program and changes in outcomes that would have occurred in the absence of the program (Duflo, 2004). Thus, this section also includes evidence from low and middle-income countries in other regions.

67. **Within Sub-Saharan Africa, studies have been carried out in Kenya, Malawi and Uganda.** In Kenya, a large vocational training program is currently being evaluated<sup>37</sup>, where program recipients obtain vouchers worth on average \$460 to use for either publicly or privately provided vocational training programs. Thus far limited evidence, using a sub-sample of the full sample, indicates that the program increased earnings by increasing the wages of wage-earners but not total employment (Hicks, Kremer, Mbiti, & Miguel, 2013). The study also measures knowledge about the returns to training at baseline and finds that in general individuals overvalued training, expecting a 60% return while the estimated Mincerian return is 37%. Women and men were mistaken about the highest earning trades as well. For example, women (men) expected tailoring (mechanics) to be most lucrative, but the study data showed hairdressing (tailoring) was more profitable. In Malawi a study on a vocational and entrepreneurial training program, where unemployed youth were teamed up with trainers for a trade-based apprenticeship, finds small impacts on men and none on women (Cho, Kalomba, Mobarak, & Orozco, 2013). Through the tracking of dropouts, it finds that young women participation was more expensive due to family obligation, resulting in relatively worse training experiences and outcomes. In Uganda, a vocational training program to run small-scale enterprises targeted to girls between the ages of 14-20, was successful in raising self-employment but not earnings (Bandiera et al., 2012).

68. **Evaluations of vocational training and internship programs in other developing countries report positive results, but seldom for men.** In Colombia there was no effect on men while women's work and wages rose following an intensive spell of training with 3 months in the classroom and 3 months on the job (Attanasio, Kugler, & Meghir, 2011). Both men and women were more likely to hold a formal contract following the program. In the Dominican Republic, a study on a similar nation-wide program targeting low income youths (ages 18–29), who had not completed secondary education, with both basic skills and vocational internships finds that there was no effect on employment and only a modest (10%) impact on wages (Card, Ibarra, Regalia, Rosas, & Soares, 2007). In India, there were modest impacts on women's work and earnings (Maitran & Mani, 2014).

69. **Group training programs and incentives to encourage adolescents to stay in school can affect the preferences and skills that drive risky behavior through socialization.** Young people often lack adequate information about what jobs are available and may not understand what behaviors are expected in a workplace. Programs that offer life-skills training, mentorship and integration into new social networks, as well as the opportunity to develop a track record of employability, may help strengthen the labor market outcomes for youth. While, empirical evidence of how interventions can be most effective towards these goals is sparse in developing countries (Bertrand & Crépon, 2013), some recent work in Liberia and Sierra Leone, have shown some positive initial results through modified psycho-social interventions, although the sustainability of these impacts has yet to be demonstrated (Blattman & Annan, 2015; Betancourt et al., 2010).

70. **Additional to vocational and life-skills training programs, it is useful to look at the effectiveness of financial literacy and business skills training.** Much of the initial literature on the determinants of

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<sup>37</sup> The full results for this study are expected later in September 2014.

entrepreneurship and microenterprise development focused on access to credit (see for example the studies referenced in the preceding section). However, it is plausible that access to credit is not enough alone, and that one must also be able to discern “good” investments from “bad” ones, as well as understand how to manage financial flows. Thus, a recent number of papers have argued that business skills or “managerial capital” are another important driver of productivity and income generation (Bruhn, Karlan, & Schoar, 2010).

71. **Early research on financial literacy and business skills has found that it has helped with financial inclusion, but has modest results on actual business outcomes.** An initial study incorporated into a Peruvian lending group for female micro-entrepreneurs experimented with offering thirty to sixty minutes entrepreneurship training sessions alongside the women’s weekly and monthly banking meetings for a period of one to two years. While no impact on revenues, profits or employment was found, the study finds that business knowledge improved and women were more likely to continue borrowing from the microfinance institution (Karlan & Valdivia, 2011). In El Salvador, a study on a seven-day business-training workshop focused on developing technical skills and “core entrepreneurial” behaviors for potential business plan competition applicants, finds an increase in the number of business start-ups or expansions. The best business plans following the workshop then received between \$6,000 – \$9,000 and this further boosted the probability when new businesses were launched (Klinger & Schündel, 2011). This study, however, does not report other business outcomes, such as revenues and profits.

72. **Two studies have focused on business skill development for youth.** One study is among undergraduate students in Tunisia (Premand et al., 2012) and the other in Bosnia and Herzegovina with young microloan borrowers (Bruhn & Zia, 2013). In Tunisia, the entrepreneurship track integrated into the students’ university education and was effective in increasing self-employment among applicants, but the effects were small in absolute terms. In addition, the employment rate among participants remained unchanged, pointing to a partial substitution from wage employment to self-employment. In Bosnia and Herzegovina, two half days of business skills and financial literacy training did not influence business survival, although it significantly improved business practices, investments, and access to better loan terms for surviving businesses. There is heterogeneity in the results, however, with entrepreneurs with higher ex-ante financial literacy exhibiting some improvements in business performance and sales.

73. **There have been three studies in Africa, although none of them focuses on youth or finds strong results for females.** Berge, Bjorvatn, Junitwaty, and Tungodden (2012) study the impacts of weekly business training and one-time business grants in Tanzania. The grants were worth about \$60-100 or 50% of average annual investments for business owners and were awarded to a random sample of trained and non-trained recipients. Their results suggest that the training was more effective than grants at increasing business profits through expanding sales but only for men. For women, neither the training nor the business grants had a positive impact. Recent work in Uganda also randomly selected business owners, most of whom had already accessed microcredit, to receive loans, cash grants, business skills training, or a combination of these programs (Fiala, 2014). Again the results from this intervention were only positive for men, with no impact for women on any of the interventions. Men with access to loans and training reported significantly higher profits. The loan-only intervention had some initial impact, but this did not

last and no impacts were found from the grant intervention. The third study implemented a three-day theory based program aimed to promote personal initiative among small business owners in Kampala, Uganda (Glaub, Frese, Fischer, & Hoppe, 2014). They find a positive effect on sales one year later, although they do not survey the non-compliers (individuals selected for training who do not attend), which is problematic if there is selective participation.

74. **Given the recent conflict-affected history of South Sudan it is useful to discuss programs that have targeted to youth who may have been involved in conflict.** However, few impact evaluation studies have been done on reintegration programs for violent youth. Quasi-experimental and observational studies of disarmament, demobilization and reintegration (DDR) program find little impact on reintegration and employment (Gilligan, Samii, & Mvukiyehe, 2011; Humphreys & Weinstein, 2007; Lively, 2013). However, most are poorly executed (Kingma & Muggah, 2009). A recent contrasting experimental study in Liberia finds significant increases in legal labor supply from an intensive reintegration program that involved a four-month residential agricultural training program, life skills classes, relocation assistance and \$125 of in kind farm inputs (Blattman & Annan, 2014).

75. **To summarize this thread of literature, while there is evidence that vocational training programs can help improve employment outcomes for youth, through developing their job-specific skills as well as enabling them to develop employability credentials, they are an expensive type of intervention to implement.** The effects tend to be strongest for women, apart from in environments where women may be more constrained than men in their ability to participate in programs. When taking into consideration the cost of these programs, which can be up to several thousand dollars per individual, alongside their mixed results, it is not clear that they are best use of resources to strengthen economic opportunities for youth.

76. **Cognitive behavioral therapy and life-skills training that aim to improve the employment “readiness” of youth have recently been shown to have promising results in high-crime areas in the US.** However, due to a limited number of studies in sub-Saharan Africa, it is not clear that these outcomes are transferable to fragile and conflict-affected situations in developing countries. In the context of such program components, it is important to look for innovative, practical and cost-effective approaches to implement such psycho-social support.

77. **Financial literacy and basic business skills training programs have shown mixed results.** In some cases they can help business creation, business survival and business growth, often when partnered with a source of credit. However, the results are much weaker for the impact on female training course attendees and there is recent evidence demonstrating the importance of designing the curriculum appropriately for the training to be effective.

### 2.1.3 Rationale for Cash Grants in South Sudan

78. **Theoretical rationale behind microenterprise grants is based on the assumption that there is a demand for capital to invest, start or expand businesses among grant beneficiaries who are credit**

**constrained.** This section of the report reviews such a theoretical assumption within South Sudan context and finds that South Sudanese beneficiaries of the program, despite their ambitions in starting and growing a business, are in fact constrained by a market failure to provide access to credit.

79. **Lack or limited access to credit is a common issue in developing countries, and South Sudan is no exception.** According to the World Bank's *Doing Business*, obtaining credit in the country is among the most difficult in the world, ranking 171st in 2015 down from 169th in 2014.<sup>38</sup> The lack of development of borrowers' credit information creates barriers between borrowers and lenders, resulting in financial institutions unable to offer loans according to demands and having to turn to more strict lending criteria to determine credit terms. With only one percent of households having a bank account, South Sudanese businesses face constraint to access formal credit. Additionally, high interest rates ranging from 18 to 23 percent and limited financial services outside urban areas<sup>39</sup> mount to undeniable cases of credit constraint.

80. **Evidently, lack or limited access to credit is a binding constraint to the potential beneficiaries of the business startup grant.** According to the baseline survey, the potential beneficiaries have taken out loans, with some resorted to informal sources. Those who have obtained loans pay high interest rates. These high cost in borrowing make investment less desirable and business startups or expansion unattainable for some.

81. **As discussed in the previous section, grants present new opportunities for beneficiaries compared to traditional and microfinance loans, which usually accompanied by high interest rates and/or collateral criteria.** A business startup grant program allows youth to obtain capital needed for a business startup and investment to improve their employability. Investments and business activities that otherwise would not have taken place under a loan regime may be made possible under a grant program. Microfinance has for many years been employed to solve the challenges faced by those who are credit constrained in developing countries. Nonetheless, it has been reported that microfinance institutions in South Sudan are limited to mostly urban clients.<sup>40</sup> Without collateral-based criteria that many lending institutions require, business startup grants present more equal opportunities for the eligible population of any economic status.<sup>41</sup> Furthermore, given the fluctuations in prices in South Sudan, potential profit

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<sup>38</sup> The World Bank's *Doing Business* ranks South Sudan 186<sup>th</sup> out of 189 in 2015 for ease doing business. Its ranking for Getting credit has been downgraded in the same year.

<sup>39</sup> According to the African Economic Outlook, the financial sector in South Sudan is mostly underdeveloped with 23 commercial banks as of 2013.

<sup>40</sup> While there has been improvement, a lack of access to financial capital has been reported as one of the biggest constraints in urban areas; therefore, microfinance has been introduced, but the requirements to apply for the loans tend to result in a bias towards more urban clients. For example, land ownership requirement. Additionally, the lack security and infrastructure also limits the ability of microfinance to expand to rural areas (Maxwell et. Al 2012).

<sup>41</sup> An eligibility criteria to submit a written business ideas discriminates beneficiaries against the most poor and vulnerable population. The business startup grant program does restrict eligibility by this mechanism based on the rationale to assess impact of cash grants for the literate population before discussing an expansion to the most vulnerable parts of the population.

margins may be difficult to estimate, creating larger uncertainty in expected return of borrowing and hence resulting in restricted business investment and activities with the presence of risk averse. This suggests that business startup grants can enable beneficiaries to take up investments and business activities that they would have otherwise been reluctant to do.

82. **Cash grants will make give larger ownership to beneficiaries than in-kind transfers.** While studies have shown the benefits of in-kind grants, this type of grants also comes with supervising costs and restrictions on the ability of the beneficiaries to freely make investment as they see fit. Although cash grants may present the risk of off-target spending and lack of self-control among the beneficiaries, which in-kind grants likely prevent, beneficiaries of cash grants are given greater opportunities and freedom to make their own investment choice. It is important to note that local beneficiaries possess the information on their environment, business and needs that designers of grant programs may not have. Given the uncertainty, conflicts and variations across South Sudan, it is likely that beneficiaries from different regions have different needs and types of suitable investments may vary depending on how much they are affected by the conflicts. With effective means of beneficiary selections, cash grants present greater opportunities for the beneficiaries to make investment that best serve their needs. Equally important is that a cash grant program has a built-in component that allows opportunities for future borrowing. For example, after the beneficiaries fulfill the grant conditions, they are offered the opportunity to borrow from given financial institutions. This is a form of credit history that allows beneficiaries to build their credit and trust between the beneficiaries and the financial institutions for future business.

83. **Despite the benefits, cash grants also face possible challenges and risks.** Misuse of grants is a potential problem, as a number studies discussed in the previous section have reported that sometimes beneficiaries may lack self-control or use the grant money for purposes other than investment or business related. Particularly in South Sudan case, there is a risk of arm purchase given the on-going conflicts and violence. The baseline survey reveals that gun ownership, along with violence and harassment, was underreported. This makes it challenging to estimate the possibility of grants being spent on violence/conflict-related purchases.

84. **International migration is another challenge for cash grant programs.** If the beneficiaries see greater opportunities outside of South Sudan and now with the means provided by cash grants, migration may become a rational option. Studies on this topic are ambiguous and not necessarily applicable to the case of South Sudan. For example, one study finds that a cash transfer program in Mexico resulted in the beneficiaries using the cash to fund migration (Angelucci et al., 2013). However, it is important to assess the cost-benefit analysis of migration from the South Sudanese beneficiaries' point of view. With the cash grants, there is a greater opportunity presented to them at home. Depending on their country of destination, the opportunities outside of South Sudan may not be greater than the risk they have to take, especially given that there is an option to start a business at home.

85. **There have been positive outcome in non-conflict countries, and a cash grant program in South Sudan could set precedent for future programs in conflict-affected areas.** Haushofer and Shapiro (2013) find that unconditional cash transfers in West Kenya increased consumption, savings, health and

education expenditures. Importantly, they find no notable misuse of cash transfers. More recently, Fafchamps and Quinn (2015), through 1,000 USD cash prizes in Africa for young entrepreneurs, found positive effects on monthly profits. Nonetheless, both studies only look at non-conflict countries. As a conflict-affected country, South Sudan may present challenges to such programs, but it may also present a new learning opportunity for other conflict-affected countries. The extent of its success could help shape future programs in such countries.

86. **Other than risks related to cash grants, there are also potential risks specific to South Sudan that need to be taken into consideration.** Since the current conflict has been reported to affect a large number of aspects of daily life<sup>42</sup> and peace remains fragile, there is a threat to any development programs. Violence continues to be a major problem with an increasing cases of physical attacks reported.<sup>43</sup> Nonetheless, with the on-going peace talks, there is hope that the conflict will ease over time and safety will improve accordingly. And with the continued support of the international community and donors, the risk of South Sudan falling into war may be reduced. Additionally, with the focus on six non-conflict states, the youth startup business grant program is designed to lessen any potential risks related to the conflict.

87. **Provided the extent of challenges that South Sudanese youth are facing and the limited existing unconditional cash transfers, there is an urgent need for a youth business startup grant despite the potential risks.** The struggles among South Sudanese youth, including returnees since the Comprehensive Peace Agreement, have been reported by various sources. As discussed in previous sections, efforts have mainly focused on immediate relief and food security, leaving very little attention on cash transfers. A business startup grant will respond to the need to rebuild and invest in the generation that needs it most and urgently. Despite the attached risks, as any investment has, cash grants are investments in the future of South Sudan.

## 2.2 Nudges Attached to Cash Grants

88. **Effectiveness of cash grants may be boosted by various nudges.** This section of the report discusses text message interventions to nudge beneficiaries. After reviewing generally the evidence for the success of text message interventions, evidence is presented for two types of text message interventions: rules of thumbs for financial literacy and aspirations. The program in South Sudan includes both text message interventions as well as a phrasing via text message of grant vs loan of the program. The details about the design and the implementation are described in the third part of the report.

### 2.2.1 SMS Reminders

89. **Text messages can be used as reminders to individuals, serving to reduce procrastination and direct current attention to a certain task or activity – often to the effect of bringing about the desired behaviour change.** Aklerlof (1991) notes that procrastination happens when the present benefits are less

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<sup>42</sup> From access to education to ability to walk around and from livestock conditions to relations within and between households, were reported worsening since the conflict in December 2013 started, according to the High Frequency South Sudan Survey.

<sup>43</sup> Including looting and physical assaults by police.

salient in comparison with future benefits. Karlan et al. (2010) propose that this lack of saliency, or limited attention, has an important effect on intertemporal decision-making, a factor that could be partly mitigated through the use of reminders. They test this hypothesis in three different randomised evaluations with banks in Bolivia, Peru and the Philippines. Customers were asked to select a date-based or achievement-based savings goal. Participants in the treatment group then received regular text message reminders either about savings in general, or related to their specific goal. They find that reminders increased the likelihood of achieving a savings goal by 3% and total savings increased by 6%, while reminders about specific savings goal were twice as effective as general messages. Messages have also proved effective in studies assessing loan repayment rates. In another study on the efficacy of reminders to influence financial decisions, Cadena and Schoar (2011) evaluate the effect of text messages on loan repayments compared to a financial reward for completing repayments or a 25% rate reduction on a future loan. The authors find that text messages were as effective as a 25% rate reduction in terms of improving repayments, with particular effects for younger customers.

90. **The positive impact of SMS reminders to drive behavioural change is also found in the fields of education and healthcare.** Castleman (2013) assesses the efficacy of text messages to mitigate attention deficits through the use of reminders aimed at increasing college enrolment among low-income students in the United States. The study, which involved a randomized evaluation, finds that enrolment rates increased in the treatment group by almost 5% compared to the control group. Further findings in the public health arena support the notion that reminders can lead to behaviour change. Hasvold (2011), in a systematic review of telephone and SMS reminders for hospital appointments, finds a significant improvement in attendance rates. In the realm of public health, Fjeldsoe et al. (2009) reviews a number of studies focusing on health behavioural change interventions through SMS messaging, finding that messages lead to short-term positive benefits.

### 2.2.2 Financial Literacy Training

91. **Existing literature demonstrates the potential for improved financial literacy and business training to improve small business performance, however the evidence so far has been somewhat mixed.** One of the trends that has emerged from the literature is the success simple financial rules can have over standard accounting programs.

92. **One study that strives to address this issue is Drexler et al. (2014), which used a randomized evaluation to directly test simple rules relative to standard accounting based training within the same participant group.** The training programs were evaluated among clients who had received loans from a savings and credit bank in the Dominican Republic. One program, termed rule-of-thumb training, involved teaching participants simple heuristics designed to instill routines for financial decision making without the more technical accounting training included in traditional programs. The content focused on teaching simple rules for financial decision-making, including account separation, profit estimation and account reconciliation. The second program was a more traditional accounting based program. The training was delivered over a five to six week period, depending on the training program, through classroom instruction. The authors find a relationship between improved financial literacy and business performance

when using a rule-of-thumb based syllabus but no impact when it came to more traditional fundamentals-based accounting training. Participants in the rule-of-thumb training were found to adopt a number of better financial practices, including account separation and record keeping, whilst those who undertook the standard accounting training only showed significant improvements in setting aside funds for expenses. Further those given the rule-of-thumb training demonstrated significantly improved sales levels in bad weeks where as the standard accounting program had no effects on revenues.

93. **Karlan and Valdivia (2011) echo these positive findings by showing a strong link between improved business practices and basic finance training for micro-entrepreneurs in Peru.** Participants were selected from a group lending program for female micro-entrepreneurs to take part in an entrepreneurship training program focusing on business skills and strategy over the course of one to two years. Participants who took part in the training program demonstrated improved business knowledge and business practices in a follow up survey, including an increased likelihood to maintain records and reinvest profits. As also found in Drexler et al. (2014) the difference in effects on sales between the training group and the control group were largest for bad months. The authors propose that the training enabled clients to implement strategies that reduced sales fluctuations. There were, however, no effects on profit levels.

94. **The success of the rule-of-thumb syllabus adds to a growing body of research that highlights the increased efficacy of simple information in driving desired policy and learning outcomes.** Beshears et al. (2013) show how simplification of retirement savings options can increase enrolment rates among employees in two US based firms. Further, Bettinger et al. (2009) demonstrate how simplification, this time in terms of financial aid applications for higher education, can increase take-up. These findings have been mirrored in a variety of settings in health and education policy initiatives (Maddox et al., 2008; Maes and Eling, 2007; Mata et al., 2010).

95. **The results from studies assessing traditional financial literacy programs have been less conclusive.** Berge, Bjorvatn and Tungodden (2010) assess the effect of business grants and a business training program for microfinance clients in Tanzania. Participants were split into three treatment groups. One received business training, another received the business grant, and another received both the grant and training. The study finds significant results for the combined grant and training treatment group on business outcomes for male clients, though limited effects for female clients. The combined treatment led to increased sales and profits only for male entrepreneurs. Furthermore, although the training alone resulted in significantly increased levels of reported happiness for male entrepreneurs, there were no significant effects on female entrepreneurs, and no effects on business metrics, including sales and profits, for either gender.

96. **Evidence of mixed results is also seen in Bruhn and Zia (2011), which evaluates a training program for young entrepreneurs in Bosnia and Herzegovina.** Their findings demonstrate significantly improved business practices for surviving businesses, though no effect on business survival rates. Continuing business owners who undertook the training were more likely to invest in their businesses and separate accounts. There was also evidence of improved financial knowledge from the program though

this was also only seen for individuals with higher skill levels at the start of the program. Further, Field et al. (2010) evaluate a two-day training program for microfinance clients in India, finding that significant results in terms of increased borrowing and reported income pertained only for the higher social group involved in the study.

97. **In a non-business setting, Bernheim and Garrett (2003) provide survey evidence that attendance of financial counselling programs included as part of the high-school curriculum can lead to better financial decisions, with attendees demonstrating higher rates of savings.** Cole, Sampson and Zia (2009), however, find only modest effects from a financial literacy training program designed to promote savings behaviour among unbanked households in Indonesia. Effects were only seen for households with low levels of financial literacy.

### 2.2.3 Aspirations

98. **Aspirations or goals can work as mental models, which serve to focus attention on a chosen future path or aim and make that path or goal more likely to become a reality.** They have been shown to be effective in influencing decision making in a variety of settings from household spending choices to educational success. Locke and Latham (2002) propose that goals affect behaviour in four ways: through focusing an individual's attention, increasing effort, increasing persistence and also enabling individuals to recall task specific knowledge.

99. **Improved task performance through goal setting has been demonstrated in a variety of situations.** Locke and Bryan (1969) show how participants in a study who were asked to complete a driving task were more likely to respond to feedback and consequently perform better on aspects of the task for which they had goals. Rothkopf and Billington (1979) echoing these findings in a learning situation, evaluate how goals affected students' performance in learning prose passages. They find that students learnt passages that were relevant to their given goal better than passages that were not relevant to their goal. Studies have also shown how setting goals can lead to greater effort being applied to tasks. In a lab setting Bryan and Locke (1967) selected a high motivation and a low motivation group to complete an additional task. The low motivation group were given specific goals whereas the high motivation group were simply told to do their best. After the second round the group given specific tasks had matched the levels of the other group despite starting with lower levels of motivation. Goal setting has been found to have positive impacts in business environments as well. With this regard, Terpstra and Rozell (1994) find a significant positive correlation between goal setting and profitability in a survey of US companies.

100. **A further consideration related to goal setting is how mental models used in setting individual goals or aspirations affect decision-making.** In a randomized evaluation in Ethiopia, Bernard et al. (2014) show that participants who watched a documentary on individuals with successful small businesses had higher aspirations 6 months later. They also find that participants in the treatment group who had watched the documentary demonstrated higher levels of education spending and savings. Social settings can also have a role. Beaman et al (2012) show how increased aspirations among adolescent girls, driven by an increased ratio of female village leaders, improved educational outcomes in a randomized

evaluation of Indian villages. Other experimental studies have also provided support to the role aspirations have in educational achievement (Page et al., 2007).

101. **Strict deadlines have also been shown to drive increased effort.** Latham and Locke (1975), in a study evaluating output of logging crews, find a significantly higher level of output when mill deliveries were limited to certain days of the week. Ariely (2002) supports these findings by showing that enforced deadlines, which were stricter than self-selected deadlines, led to increased performance on proof-reading tasks with a study involving students at an American university.

102. **These various branches of literature support our expectation that the additional nudge treatments will augment the impact of the training and grants.** The evidence shows that simple rule of thumb financial heuristics can improve business performance, and we expect these rules will do so in our context, when included to reinforce the messages provided in an in-depth training session. Similarly, the proven ability of aspirations and goals to increase the likeliness that individuals achieve their stated goals leads us to believe that priming individuals to reflect on their goals, and illustrating the potential of their businesses to help them achieve these goals will enhance the effort they exert in their business activities and the success of their business. Finally, the literature on SMS reminders causes us to prefer this delivery channel for nudges, not only because of its low cost, but because of the ability to send recurring messages and increase the salience of simple financial rules and aspirational goals.

### 3 PART III: Youth Startup Program in South Sudan

103. **The South Sudan Business Startup Grant and Impact Evaluation Program is a collaborative initiative between the Government of South Sudan (GoSS) and the World Bank.** The Private Sector Development Project (PSDP) provided the anchor and main source of financing for the Business Startup Grant. The project development objective is to improve access to finance for private sector development and increase employment opportunities in South Sudan. The un-conditionality of a grant ensures a low implementation complexity. The program was implemented in the six least conflict-affected states: Eastern Equatoria, Central Equatoria, Western Equatoria, Lakes State, Northern Bahr el Ghazal, and Western Bahr el Ghazal.

104. **The focus of this report is the impact evaluation of the Business Startup Grant.** The impact evaluation utilizes a randomized control trial (RCT) design to assess the impact of a US\$1,000 startup business grant and skills training on employment, livelihoods, and social behavior outcomes. Grants enable youth to make investments in tools and capital goods needed to become self-employable or to invest in skills training improving their employment prospects and in turn increase income, as seen in the evidence presented above. The program was implemented in the least conflict-affected regions in South Sudan and included life-skill and business training as well as text-message based nudges. The results will show whether a grant is sufficient to allow the youth to invest productively while supported by additional training in life-skills and business development. The study will also reveal whether transfers increase employment and improve livelihoods, as well as whether grants or their impacts improve social behavior

and reduce conflict. Given the gap in evidence for cash grants in fragile countries with active conflict, this study can help the authorities and other stakeholders understand whether unconditional grants are a viable policy option for employment generation in South Sudan.

### 3.1 Implementation

105. **Implementation of the impact evaluation consists of several stages over 3 years.** The impact evaluation started with discussions with the implementing agency of the business startup grant to create ownership and agree on a framework for responsibilities. Next, the impact evaluation was designed including the sample and the questionnaire. A pilot and focus group interviews refined the questionnaire. The field work was initiated with drawing a random sample of beneficiaries and a control group before conducting face-to-face interviews. After the disbursement of the grant and implementation of life-skill and business training for beneficiaries, the nudges using text messages are implemented. At the beginning of 2016 and 2017, the follow-up surveys will be implemented to measure the impact of cash grants and trainings on beneficiaries (Table 1).

**Table 1: Impact Evaluation Program Structure and Sequencing.**

	<b>Intervention Stages</b>	<b>Timeline</b>
1	Establish Relationship with Ministry of Trade, Industry, and Innovation	April 2014
3	Design of Impact Evaluation Hypotheses and Baseline Questionnaire	August 2014 – October 2014
4	Application Design, Dissemination, and Marketing Campaign	July 2014 – November 2014
5	Pilot Testing of Baseline and Focus Group Interviews	November 2014 – December 2014
6	Randomization of Applicants into Treatment and Control Groups	January 2015
7	Baseline Data Collection	February 2015 – March 2015
8	Business Skills Training	March 2015 – April 2015
9	Financing Finalization with Selected Bank	May 2015
10	Financing Disbursement	May 2015
11	Nudges Implemented	May 2015 – May 2016
12	Mid-line Questionnaire	February 2016 – March 2016
13	End-line Questionnaire	February 2017 – March 2017

#### 3.1.1 Target Population

106. **The program design targeted youth entrepreneurs aged 18 to 35,** who were interested in funding for small-scale start-up business ventures. At inception, grants equivalent to US\$1,000 were to be provided to 1,200 eligible individuals. Sixty-percent of the grants were reserved for women for two reasons. First, women in South Sudan are strongly disadvantaged in terms of education. Second, existing

literature as discussed suggests that providing access to credit for women compared to men creates larger gains in poverty alleviation<sup>44</sup>.

107. **Cash grant programs are faced by a trade-off between target the most vulnerable and likelihood of success.** While the cash grant program intends to help the youth populations, the secondary goal of generating start-up businesses necessitates that certain selection criteria exclude individuals with low success changes. Selection criteria included age and state verification, social impact assessments, and the ability to fill out the application in full, in English. While there was no stated requirement that the application had to be filled out by the beneficiary, it can be assumed that completely illiterate youth was deterred by the application form. Hence, the design of the program attempts to achieve a balance between youth that could be successful entrepreneurs and youth who need the most assistance.

### 3.1.2 Call for Proposals

108. **In order to attract the appropriate target population, applications to the BSC were collected through a comprehensive communications campaign.** A myriad of promotion channels helped to publicize the program, among them were banners, fliers, posters, t-shirts, radio and print advertisements, and other promotional materials to stimulate interest in the program. The application acceptance period ran between October and November 2014. Over 9,000 applications were given out and 8,240 were received back from all counties in the 6 participating states.

109. **Message framing allowed for control of pre-conceived notions related to the program.** Careful attention was given to the phrasing of the program itself. The words “grant” and “loan” were specifically avoided, to allow for nudging towards different behaviors later in the program. Instead, all materials referred to the funding as “financing” and did not specify whether the program required repayment of the funds.

110. **Applicant requirements helped target the appropriate population by creating small barriers to entry.** Each application contained a unique serial number in which applicants could be identified, and which allowed researchers to track the path of applications. To increase the chances of being able to contact itinerant applicants, a referee and contact information was required, as well as a detailed description of where their home was located. Each applicant was required to submit a paper application in one of the six participating states. To fulfill the age requirement, all applicants had to attach a National ID, birth certificate, or assessment of age provided by a hospital. Applicants had to briefly describe their proposed idea, to ensure funding would not be used for the purchasing of alcohol, weapons, land, or other specific items and clearly unfeasible ideas (e.g. creating an airline). Additionally, applications were only available in English to help sort those that could read/write, and therefore be better equipped to absorb the provided training; however, an Arabic version was kept in each county office for translation purposes.

### 3.1.3 Selection and Self-Selection

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<sup>44</sup> Blattman et. al (2013) found that business grants given in Northern Uganda had a much stronger relative impact on women than men, as both the capital stocks and earnings of women in the control group stagnated following the baseline, while those of men caught up by around 50%.

111. **The targeted messages and program design creates a self-selection bias into the impact evaluation.** The program selects its beneficiaries among those who submitted a written application. Thus, the pool of applicants is not representative of the youth population but is self-selected.

112. **The impact evaluation randomly selected applicants into treatment and control groups, stratified by gender and state.** In each participating state, 120 women and 80 men were selected as beneficiaries. Beneficiaries, who could not be reached, were randomly replaced.

113. **A transparent and reproducible selection method based on systematic random sampling was used to select beneficiaries.** First, all eligible applicants were divided into lists by gender and state. In each list, applicants were ordered by the first phone number given.<sup>45</sup> A random number (called seed) between 0 and 1 was provided by the Ministry of Trade.<sup>46</sup> For each list, beneficiaries were selected by the following procedure:

- a. A start value was calculated by taking the seed value and multiplying it with the number of beneficiaries per state (132 for females and 88 for males including replacements).
- b. A selection probability (to receive the grant) was calculated as the number of beneficiaries per state, as detailed above, divided by the number of applicants per state by gender.
- c. The first applicant obtained a selection number, which was calculated by the start value (a) plus the selection probability (b).
- d. Each subsequent applicant obtained a selection number by calculating the selection number of the previous applicant plus the selection probability (b).
- e. An applicant was selected if the integer portion (the digits in front of the decimal point) of his/her selection number changed from the integer portion of the selection number of the previous applicant.
- f. The first 120 (80) women (men) were selected as beneficiaries. Replacements were chosen sequentially starting with the 121<sup>st</sup> (81<sup>st</sup>) selected woman (man).

### 3.1.4 Characteristics of Applicants

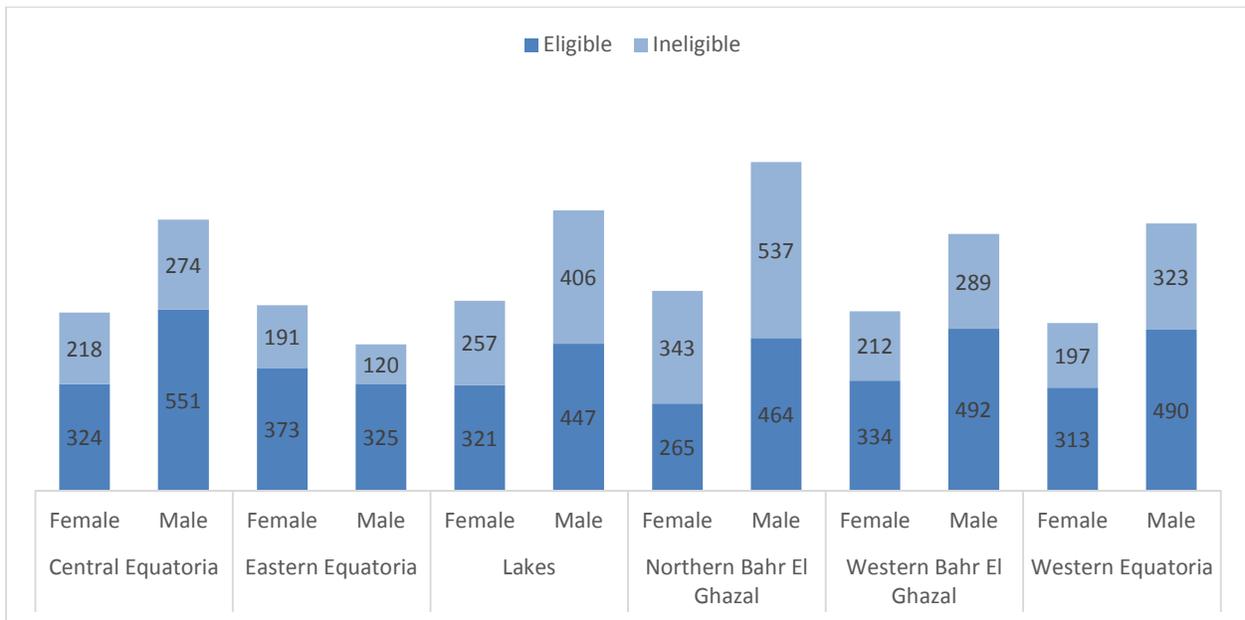
114. **The call for applications attracted 8,240 applicants across all 6 participating states and all counties within each state.** The applications were digitalized into a spreadsheet. Eligibility was evaluated automatically with the exception of feasibility of idea, which was screened manually. Fifty-nine percent of the applicants were men, with only Eastern Equatoria receiving more applications from women and men (Graph 16).

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<sup>45</sup> This was done in the order of primary phone number, secondary phone number, referee phone 1, referee phone 2.

<sup>46</sup> The Ministry chose to use the hotline phone number (0955554323) established to answer queries related to the competition. Hence, the seed value selected was 0.955554323.

**Graph 16: Applications, by State, Gender, and Eligibility**



Source: Authors' calculations.

115. **About half of the applications were eligible for consideration in the impact evaluation.** Of those deemed ineligible, the desired purchase of land was the main reason. Other explanations included blank or unrealistic business ideas, age listed outside target range (18-35 years), no identification attached, or not being South Sudanese. Of those who indicated an age, 95% of the applicants fell within the eligible age brackets (Table 2).

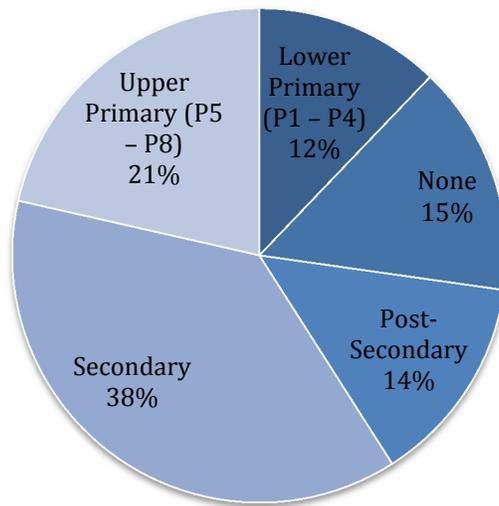
**Table 2: Age Distribution of BSC Applications**

Age Bracket	Count per Age Bracket	Percent of Total
<18	22	0.26%
18-26	3413	41.4%
27-35	4418	53.6%
36-44	314	3.81%
45-53	58	0.70%
54-62	14	0.17%
63-71	1	0.01%
<b>Grand Total</b>	<b>8240</b>	<b>100%</b>

Source: Authors' calculations.

116. **Applicants were relatively well-educated.** Over half of the applicants completed some secondary or post-secondary education, while only 15 percent never attended any formal education (Figure 4). Among the youth in South Sudan, the number of people without formal education is considerably higher. Thus, the implicit literacy requirement as part of the program design successfully selected applicants better educated than the average youth.

**Figure 4: Education Attainment of BSC Applicants**



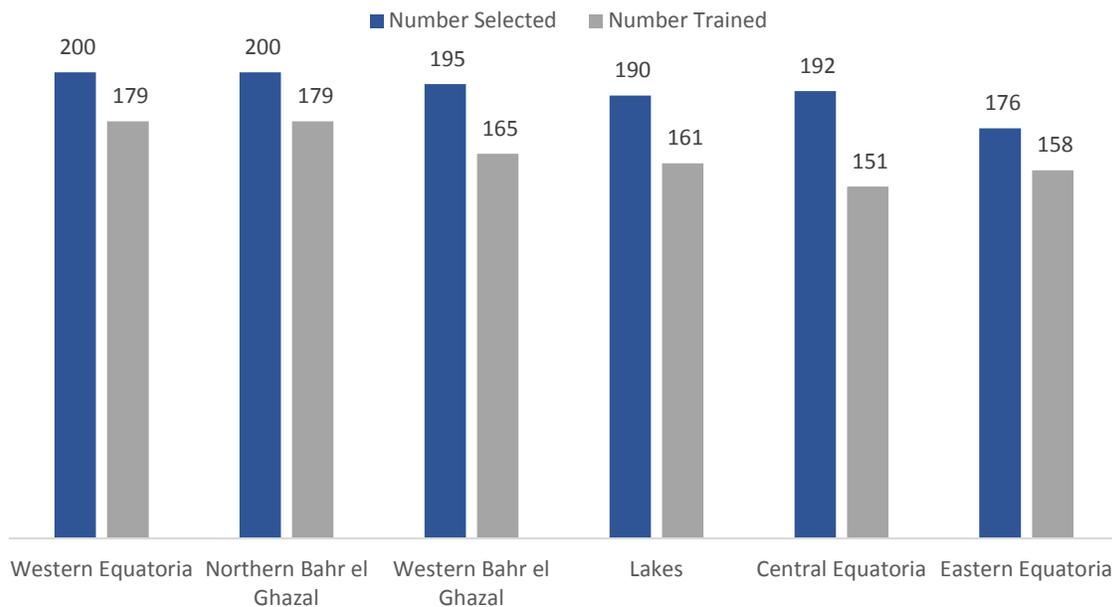
Source: Authors' calculations.

117. **Trade and Retail were the most common sectors aimed for by applicants.** Sixty-seven percent of all applicants wanted to start a retail business with the majority opting for small retail shops. Seventeen percent were interested in businesses in the service industry, and 12 percent in agriculture. Only 3 percent wanted to go into the manufacturing sector and 1 percent into construction.

### 3.1.5 Training

118. **Business and life-skills trainings supplemented the financing and provided additional support to achieve success.** Five-day trainings occurred in each state for those selected as beneficiaries. Modules covered topics such as creating a viable business idea, market research, budgeting and financial tracking, goal setting, customer relations, and self-confidence.

119. **In all states except Central Equatoria, 85 to 90 percent of those selected actually attended the training program (Graph 17).** Known reasons for non-attendance at the training included insufficient time to arrange transportation or other logistics, distance to the training facility, and inability to contact the recipient (usually due to disconnected phone numbers).

Graph 17: Training attendance, by state<sup>47</sup>

Source: Authors' calculations.

### 3.1.6 Disbursement

120. **The program followed an innovative financing structure offering beneficiaries a grant, which can be used as a loan.** The following steps describe the financing procedure for the BSC cash-transfer: The Government of South Sudan guarantees all the loans by depositing \$1,200,000 into a USD denominated account at a pre-determined commercial bank.<sup>48</sup> Interest and processing fees are taken off the top of the loan (4 percent), so that winners receive the South Sudanese Pound (SSP) equivalent of \$960, while the collateral guarantee is \$1000. All winners had to open an account at the bank.<sup>49</sup> Once the loan is cleared, winners can withdraw their money (in SSP) at any time to finance their business. Thus, the grant is an actual loan from the bank guaranteed by the Government. A pre-determined grace period for loan repayment will be given to all winners. Once re-payments are scheduled to begin, an account is considered in default after three months of consecutive non-payments. Repayment of the loan is calculated on a weekly-basis. Banks will be able to claim the collateral after 3 months of non-payments. Since the loan was guaranteed, default has no consequence for the winners.

121. **Successful repayment of the loan by winners results in either (i) winners being able to take out a new loan of the same amount at the same interest rate for life; or (ii) 12 months after first loan is**

<sup>47</sup> Note that some states had a lower number of selected beneficiaries if despite multiple replacements beneficiaries could not be reached.

<sup>48</sup> The bank was required to meet the following criteria: be financially sound; be audited regularly, and receive satisfactory audit reports; be able to execute a large number of transactions promptly; be able to perform a wide range of banking services satisfactorily including opening and managing Government backed Letters of Credit; be able to provide a detailed statement of the account periodically and on call; be part of a satisfactory correspondent banking; and charge reasonable fees for its services.

<sup>49</sup> A National ID card is required to open an account. Applicants to the BSC without National IDs were required to submit their birth certificates (or age assessment), which is the only requirement to obtaining a National ID.

**granted, winners can collect the \$1000 collateral on the initial loan to use for business or personal reasons.** Since the winners are certain to be accepted for the loan and all loans are guaranteed by the GoSS, the ‘loan’ is in fact a grant.

122. **Disbursement is set to be completed by June 2015.** Financing will be disbursed through the selected commercial bank in South Sudan. Tripartite agreements between the commercial bank, each recipient, and the Ministry of Trade, Investment, and Innovation are being negotiated and signed, prior to disbursement of funds. Winners will be notified via telephone and text message when they can visit the commercial bank to access their funding.

### 3.2 Profile of Participants

123. **For the baseline survey, selected applicants were visited for face-to-face interviews at their home.** Field work was implemented by an independent agency unaware which individuals were beneficiaries or in the control group. Respondents, who could not be reached, were disqualified from the program and replaced up to three times. Replacements were conducted within the strata (state + gender). In total, 2,275 interviews were conducted (Table 3Error! Reference source not found.).

**Table 2: Number of interviews, by state**

	Treatment	Control	All
Central Equatoria	187	192	379
Eastern Equatoria	173	183	356
Lakes	182	179	361
Northern Bahr El Ghazal	201	194	395
Western Bahr El Ghazal	195	193	388
Western Equatoria	199	197	396
<b>Total</b>	<b>1,137</b>	<b>1,138</b>	<b>2,275</b>

Source: Authors' calculations.

#### 3.2.1 Demographic Characteristics of Participants

124. **All states and both treatment and control groups remained close to or exceeded the target ratio of 60% women (Table 3).** Most demographic indicators are similar between men and women, with the exception of the percentage of respondents with children and the percentage that identify as head of household.

125. **The treatment and control groups show consistent demographic profiles, meaning they are suitable comparison groups for the impact evaluation (Table 3).** The only indicator that showed noteworthy differences are the percentage of new entrepreneurs.

**Table 3: Demographics, by gender and group.**

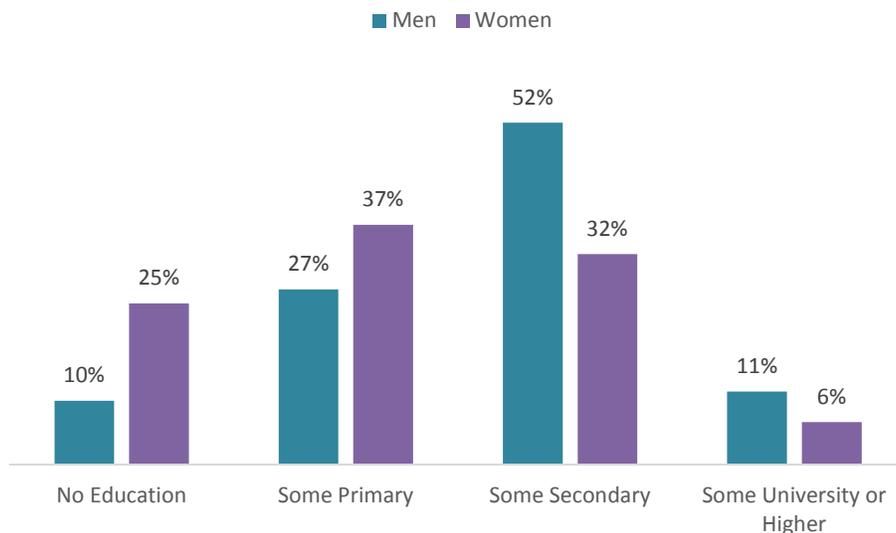
	Men	Women	All	Treatment	Control	t-test	p-value
Percentage Men			0.39	0.39	0.40	0.51	0.61
Mean Age	27.8	27.4	27.5	27.7	27.4	-1.28	0.20
Mean Household Size	5.5	6.1	5.9	5.9	5.9	0.41	0.68
Percentage Head of Household	0.66	0.39	0.50	0.51	0.48	1.28	0.20
Percentage Married	0.65	0.66	0.66	0.65	0.66	0.87	0.39
Percentage with Children	0.65	0.86	0.77	0.77	0.78	0.91	0.36
Mean Number of Children	3.2	3.7	3.5	3.6	3.4	-1.80	0.07
Percentage Refugee	0.24	0.23	0.23	0.23	0.23	-0.11	0.91
Percentage New Entrepreneurs	0.16	0.15	0.15	0.17	0.14	-2.37	0.02

Source: Authors' calculations.

### 3.2.2 Educational Profile

126. **More men have attended formal education than women.** Compared to educational attainment among the youth in South Sudan, is not surprising that more men attended some form of formal education than women. However, the gap in educational attainment between men and women among the applicants is considerably lower than for the youth in general. Thus, the targeted communications messages were effective especially in recruiting women with at least a minimum level of education. Of those that attended formal education, attainment was relatively equal across gender and group. Men were slightly more likely to complete secondary and university grade levels, though the differences are small (Graph 18).

**Graph 18: Educational attainment of participants, by gender.**

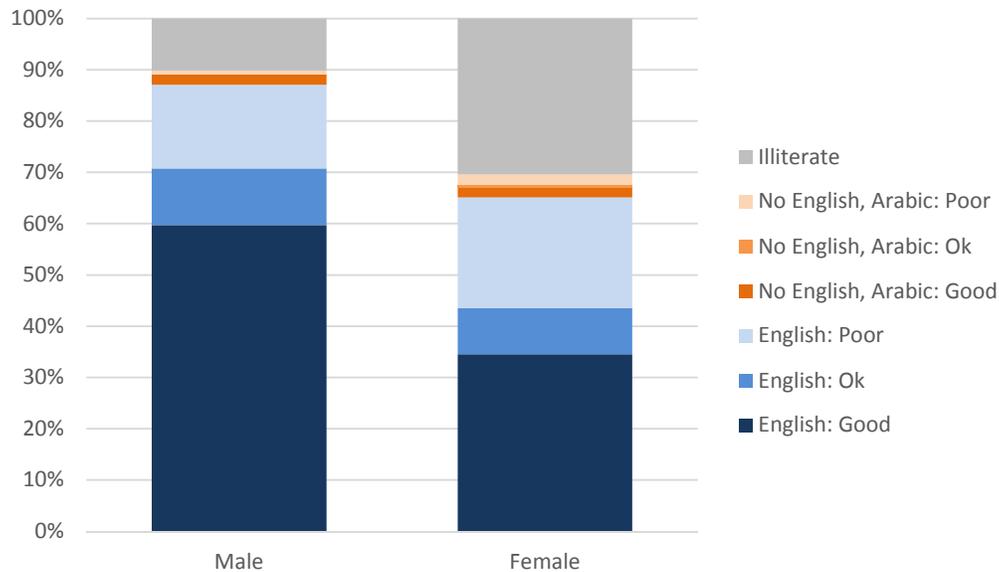


Source: Authors' calculations based on baseline survey.

127. **Forty-six percent of respondents were identified as literate, meaning they could correctly read paragraphs and comprehend related follow-up questions.** Literacy assessments were performed by

enumerators in both English and Arabic, with a cascading set of questions to identify the correct reading abilities of the respondents. English was primarily assessed, with Arabic only being evaluated if the respondent had no English abilities. The categorizations “good”, “ok” and “poor” demote levels of ability: “poor” refers to the ability to identify letters and individual words, “ok” refers to the ability to read paragraphs and stories, while “good” is to the ability to not only read paragraphs but also comprehend follow-up questions. Graph 19 shows the breakdown of each category by gender (Graph 19).

**Graph 19: Literacy Assessment, by Gender**



Source: Authors' calculations.

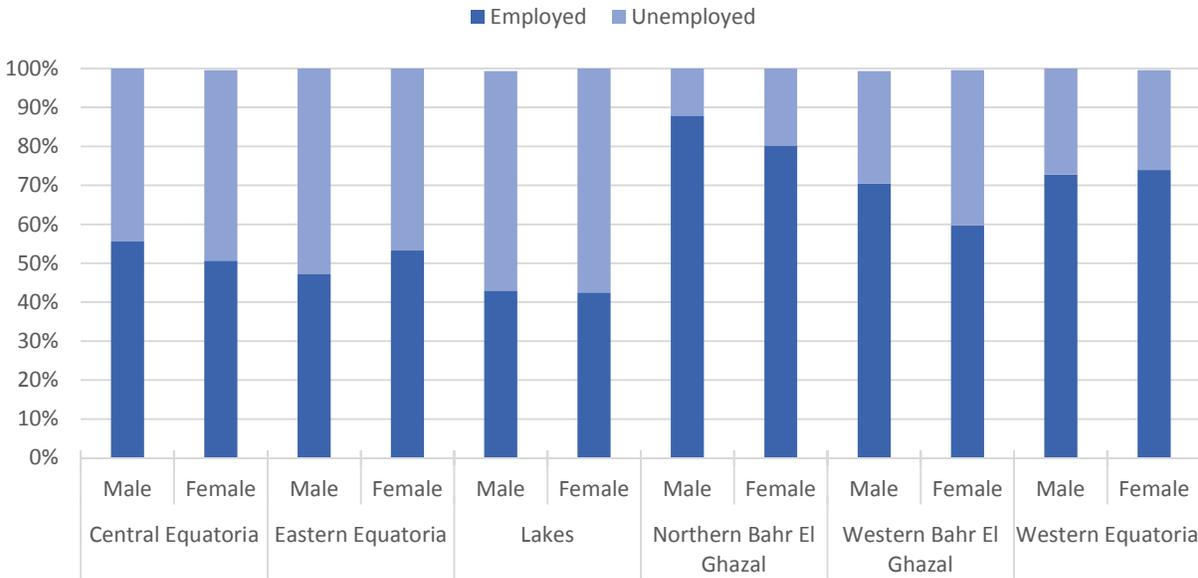
128. **Fifty-eight percent of respondents were proficient in math, meaning they could correctly evaluate division problems.** Similar to the literacy assessments, numeracy was evaluated through a series of progressive mathematics problems, from counting groups of items and number recognition to performing basic addition, subtraction, multiplication, and division equations. There is a large disparity between men and women, with only 48 percent of women proficient compared to 73 percent of men. Twenty percent of women had no numeracy skills, meaning they could not correctly count groups of items, compared to only 9 percent of men. Numeracy is an important indicator of entrepreneurial success, as many business practices, such as budgeting, stock taking, and goal setting, depend on accurate numerical calculations.

### 3.2.3 Current Employment Situation

129. **Sixty-one percent of respondents considered themselves employed, however large discrepancies exist across states.** For example, only 42 percent of those in Lakes State considered themselves employed, compared to 84 percent of respondents in Northern Bahr el Ghazal. Such differences are mirrored when assessing the number of hours worked per week. Respondents in Northern Bahr el Ghazal worked a median of 35 hours per week, while those in Western Equatoria worked only 12 hours, and in Lakes more than half of respondents did not work any hour per week. Northern Bahr el

Ghazal is one of the least affected states in the conflict and is close to the border with Sudan; potentially explaining the higher levels of employment.

**Graph 20: Employment Levels by State and Gender**

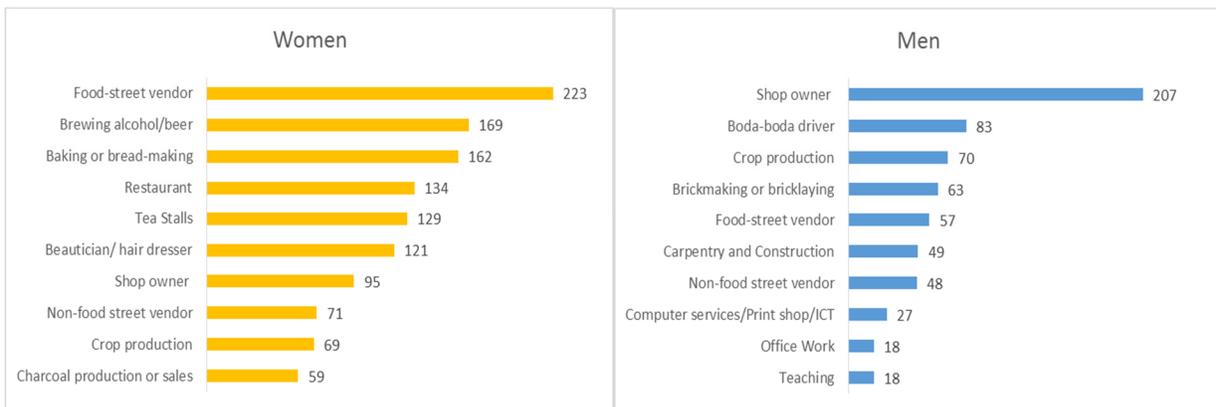


Source: Authors' calculations.

130. **Sixty-five percent of respondents currently own a business of some type, twenty percent have owned a business in the past, and fifteen percent will be first-time business-owners.** Such figures are unsurprising, as waged employment is rare in most areas of South Sudan. In-line with the employment status referenced above, 88 percent of those in Northern Bahr el Ghazal currently own a business.

131. **Respondents report working 1.2 different jobs, on average.** This number does not vary across gender, treatment / control groups, or state. The service industries dominate the types of work individuals are engaged in, with owning a shop, being a street food vendor, baking bread, brewing alcohol, and running a restaurant rounding out the top areas of employment (Graph 21).

**Graph 21: Top 10 Employment Sectors of Each Gender**

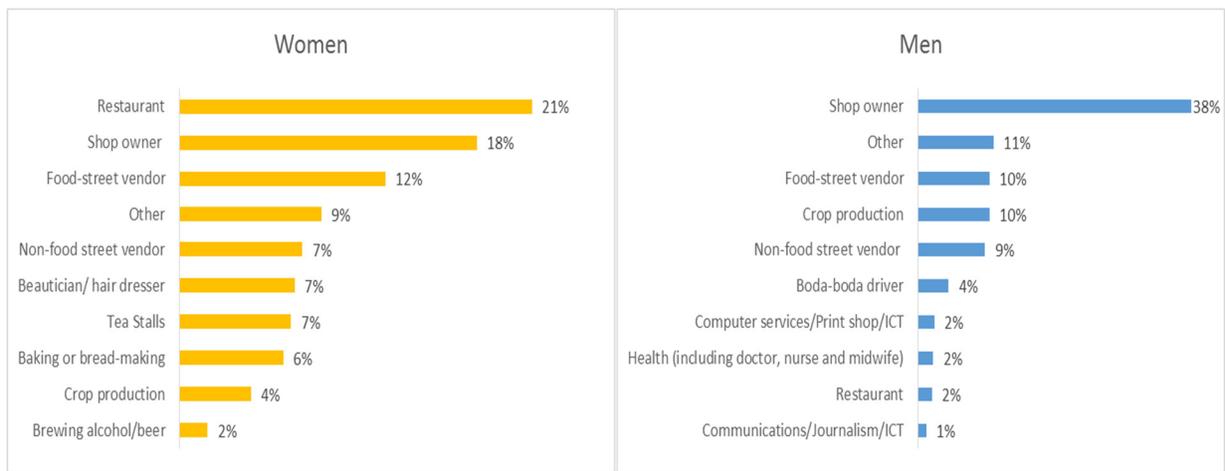


Source: Authors' calculations.

### 3.2.4 Ambitions and Plans for Cash Grant

132. **Ninety percent of the businesses that respondents hoped to start with the grant can be categorized into ten industries, split between retail trade and services.** One-fourth of respondents hoped to open a shop, defined as a permanent place to sell goods that has a door. Food-industry businesses were more popular among women; but generally among the top ranking sectors, comprising the next one-fourth of the respondents (Graph 22).

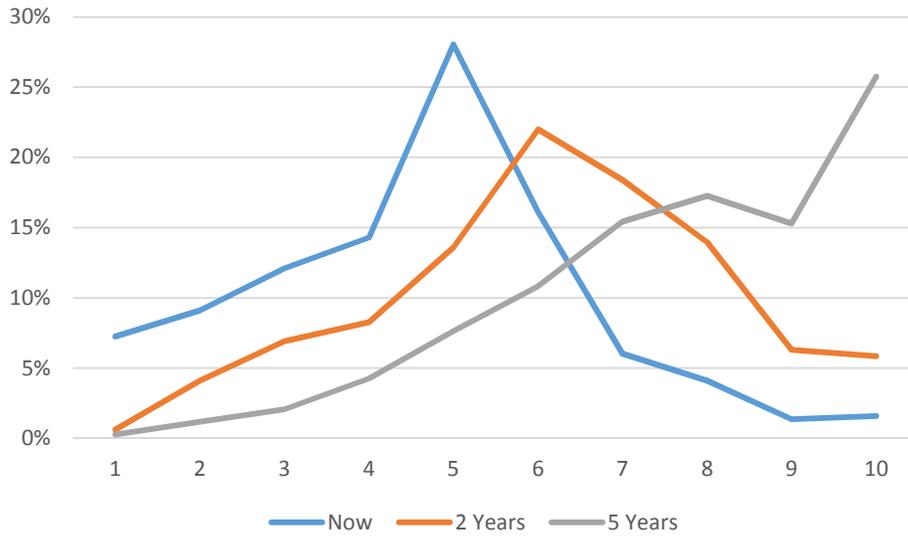
**Graph 22: Top 10 Sectors of Desired Business Startup, by Gender**



Source: Authors' calculations.

133. **Respondents have a very positive outlook towards the future.** All respondents were given a picture of a ladder and asked to identify where they felt they were on the “ladder of life” at the moment, in two years, and in five years. One was the worst possible life they could imagine while 10 was the best possible life they could imagine. The majority of respondents felt to be between 4 and 6 on the ladder. Seven percent of respondents identified themselves on the lowest rung of the ladder currently, and only 2 percent believed they had the best possible life they could imagine. Over time, respondents believe to move up on the ladder with the majority moving between 5 and 7 in two years and 7 to 10 in five years. Only one percent believed they would remain on the bottom-most rung, while those believing they would have the best life increases to 6%. Most interestingly, when asked to project 5 years into the future, 26% of respondents believed they would be living the best possible life they could imagine (Graph 23).

**Graph 23: Life Assessments, Current, 2 Year and 5 Year Projections**

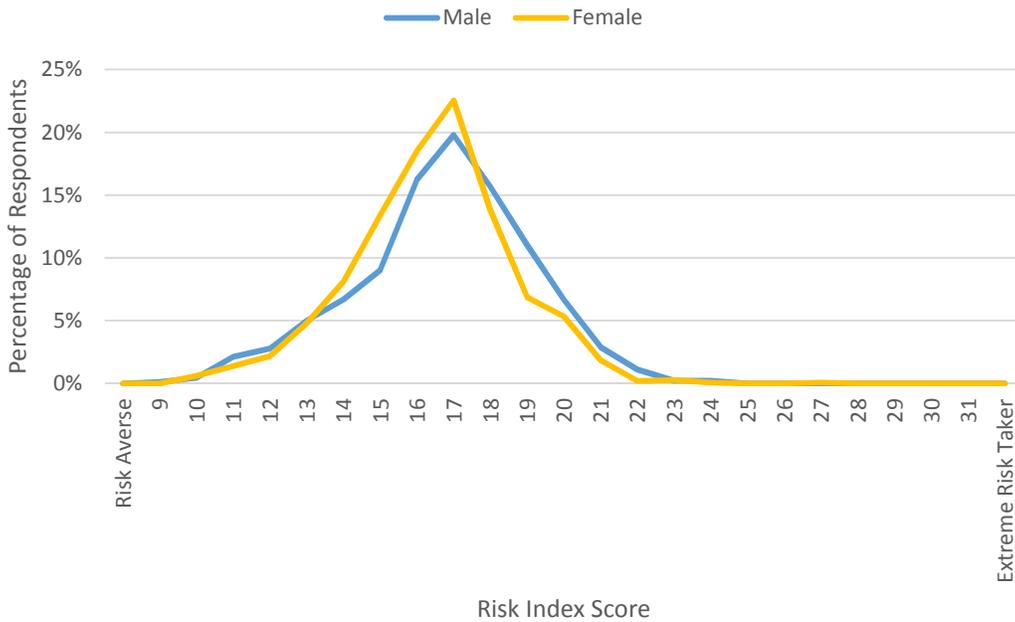


Source: Authors' calculations.

134. **Respondents are slightly more risk-averse than expected.** Entrepreneurs are generally assumed to be less risk-averse than the general population.<sup>50</sup> The respondents in this study are classified as “entrepreneurs” since the application materials clearly stated that the financing was to be used for new business development. A risk-index was formed from eight questions ranked 1-4. Those with higher scores (max 32) in the index are considered more risk-loving, while those with lower scores (min 8) are considered more risk-averse. The average risk-index score is 16.5, slightly below the midpoint of 20 (Graph 24). While this is lower than the expectation for entrepreneurs, South Sudan is an unstable market and highly risky to invest in. These results may indicate that the respondents are cautious and more likely to use the financing in a responsible manner, rather than balloon their risk. Graph 23 shows the risk-index results stratified by gender.

<sup>50</sup> Stewart Jr., Wayne H.; Roth, Philip L. Journal of Applied Psychology, Vol 86(1), Feb 2001, 145-153.

Graph 24: Risk Index Scores, by Gender



Source: Authors' calculations.

### 3.2.5 Challenging Measures

135. Respondents were unwilling to respond to many sensitive topics. Only 4% of respondents admitted to having a gun in the household, despite the estimated rate of gun ownership being 28.2 firearms per 100 people<sup>51</sup>. Other questions, specifically relating to violence, harassment, and cattle raiding were also underreported. Despite efforts to build trust and alleviate suspicion on the part of the enumerators, many reported that respondents became uncomfortable and refused to answer such questions. The lack of accurate baseline data on this will make it difficult to assess potentially negative impacts of the cash grant, such as gun purchases, increased violence against vulnerable populations, and changes in negative social behaviors.

### 3.3 Nudges

136. **Along with the business startup program, a component of the impact evaluation has been designed to test the efficacy of various nudges in driving business performance among entrepreneurs in South Sudan.** In particular, the impact of aspirational and rules-of-thumb business management messages will be tested. This evaluation will contribute to the literature surrounding the role of aspirational thinking and goal-setting in business performance, as well as exploring whether the impacts of continuous reminding of rules-of-thumb for financial literacy can improve success of the beneficiaries.

137. **After completion of the training, participants in the business grant treatment group will be randomly assigned to three different nudge treatment arms and one control arm.** Two of the three

<sup>51</sup> <http://www.gunpolicy.org/firearms/region/south-sudan>

treatment arms will test the impact of aspirations and rule-of-thumb messaging. For the aspirations treatment group, participants will be exposed to aspiration primes through text messages. The rule-of-thumb treatment group will involve participants receiving messages on practical business management information, designed to be easily understood and applied. The messages will reinforce the training course and are designed to test whether increasing salience of the training program can lead to improved business performance. The third treatment arm will phrase the financing as a loan to encourage repayment. Beneficiaries selected into the control arm will not receive any text messages.

## 4 Conclusion

138. **The business startup grant program is an initiative that responds to an urgent need for opportunities among the youth in South Sudan.** Given the fragility and active conflict that the country has endured, South Sudan has a long way ahead to reach stability and prosperity for its population. Despite many efforts and support from the international community, the path has been proven challenging and uncertain with many obstacles in many different aspects. Among those, a generation of vulnerability and declining livelihood, limited opportunities and insecurity for the future is sometimes overlooked and placed behind factors that are considered more urgent, such as immediate stability and food security. While those factors indeed require urgent attention and efforts, the desperate situations that the young generation of South Sudan is living in is a cry for as much and as urgent responses. For rebuilding a country entails a solid foundation of the young generation that is enabled and empowered.

139. **The South Sudanese youth are a population living in poor conditions but not without potentials.** As discussed throughout this report, the youth in South Sudan are presented with many challenges and obstacles. From lack of access to basic social services to violence and insecurity, their daily life has become a struggle. Many are living in hunger and with limited access to clean water. School attendance, which was already low and difficult, has been further made challenging by the on-going violence. Lack of infrastructure development and an environment driven by poor security, an ineffective regulatory regime and economic shocks has added to the gloomy picture of employment opportunities for the youth. Suffering additionally from credit constraint, young entrepreneurs who are a driving force of economic development are restricted from fully embracing their potential. Nonetheless, being the largest composition of the population, the South Sudanese youth have great potential to be the force of change for a better life and a better South Sudan if given the proper and necessary assistance. In spite of their current struggle, the potential beneficiaries of the business startup program project positive outlook for their future and express their ambitions for a better life. With properly designed assistance tailored to address their challenges, the South Sudanese youth may become a change agent for a more stabilized and prosperous South Sudan.

140. **Especially young women are disadvantaged and lack even basic opportunities.** Women in South Sudan are still often constrained to the household with limited access to education and work outside the household. This restricts women's possible contributions to the economy and the households' livelihoods;

but also discriminates against women to pursue a life with an equal freedom of choice as young men. Hence, the business startup grant program ensured that at least 60 percent of beneficiaries are women.

141. **With thorough reviews of the existing literature, the business startup grant program is set up to assist the youth of South Sudan to overcome one of their greatest challenges: lack of employment opportunities.** The program offers the beneficiaries the financial opportunities to start up or expand a business. The design is intended to achieve a balance between reaching out to the most vulnerable population and awarding those who have the required characteristics to succeed in starting up a business and absorbing the benefits of the program. As previously discussed, upon complete repayment the beneficiaries are guaranteed for either a new loan of the same amount at the same interest rate or a collection of the \$1000 collateral to use for business or personal reasons. Additionally, it features a number of components designed based on a broad literature as well as the context specific to South Sudan. Among these components are the nudges, including business rules of thumb, aspirational messages and a loan vs grant phrasing sent via text messages. With these additional features in place, the program hopes to enhance business opportunities as well as employability of the beneficiaries who are young adults.

142. **The business startup grant program is built with consideration of the successes and challenges of previous programs.** Taking into consideration of the risks specific to cash grants as well as the environment of South Sudan, specific design features of the program are intended to embrace what has been proven successful and address the challenges previously experienced in other similar programs. The nudges are selected based on the growing literature supporting more practical and simple skills trainings compared to the traditional skills trainings, as well as the employment of new technology that enables getting message across more effectively and affordably. Furthermore, the provided options for either a new loan or collateral collection after complete repayment are incentives for the beneficiaries to make the most out of the cash grants, as well as to remain in the country as there are further financial opportunities. If the former option is chosen, the beneficiaries are presented with a life-long opportunity for access to credit. And with the choice of the latter option, the cash collection may enable further investment or ease their personal financial difficulties; in either case, the wellbeing of the beneficiaries may be improved.

143. **Nonetheless, a more decisive conclusion of the program will be drawn through additional follow-ups and an evaluation of the impact.** Since there is limited literature on such programs in conflict-affected countries, an impact evaluation will fill in the gap and provide further evidence for future programs in similar situations. The full-fledged impact evaluation is designed as a randomized control trial utilizing over-subscription to the program. An additional component of the study is designed to measure the effectiveness of the nudges. The study aims to inform decision makers and other stakeholders whether cash grants can be a successful intervention in a country like South Sudan. If found to be successful, an expansion of such a program in South Sudan could potentially have great effects on youth employment and the future livelihoods of the population. While many issues such as violence and insecurity may likely persist, it is hoped that the business startup grant program is a beginning step in the right direction.



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