<u>Center for Equitable Growth Small Grant Proposal</u>

Project title: "Vocational Education Impacts and Inequality in Kenya"

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Youth unemployment is one of the most pressing social and economic problems facing less developed countries. Kenya, like many African countries, suffers from high youth unemployment. According to the 2005 Kenya Integrated Household Budget Survey, approximately 21% of youths aged 15-29 are unemployed, and a further 25% were neither in school nor working. High unemployment can have significant social and economic consequences: a recent World Bank report showed that the majority of violent acts during the post election crisis in Kenya were perpetrated by underemployed youth. Yet despite the importance of youth unemployment, little is known about how best to smooth the school-to-work transition, or how to boost human capital for those not on the academic schooling track. Vocational education is one promising avenue for addressing the problem, in particular through the dynamic private vocational sector.

This project will evaluate impacts of a vocational education voucher program among Kenyan youth, using a randomized evaluation design together with an innovative panel dataset. The project will examine effect of vocational training on formal sector employment, labor market earnings, migration decisions, remittances, fertility and other major life outcomes, and explore implications for inequality in Kenya. To our knowledge there are no rigorous impact evaluation studies of vocational training programs in Africa, the world's poorest region and one where the youth unemployment problem and income inequality are both particularly severe. The project will contribute to advancing knowledge in areas of interest to the Center for Equitable Growth. In particular, we will explore whether subsidized vocational schooling can enable the unemployed and those with little formal schooling to move into new and higher-paying occupations. The results of this study will inform less developed country governments and foreign aid donors (including U.S. aid policymakers) on the economic returns to vocational education, allowing them to improve the effectiveness of such programs, especially in Africa. Our unusual panel dataset, which tracks respondents wherever they move within East Africa, will also provide new insights into how human capital investments affect out-migration decisions and remittances back to the sending area, allowing us to gauge the "returns" to public educational investments from the perspective of local governments.

Our research design will also allow us to estimate the relative impacts of public and private sector vocational training. The Kenyan context provides an excellent opportunity to examine both private and public vocational institutions, since both are numerous in the country. Ministry of Education statistics also show the rapid recent expansion of the private vocational sector in Kenya, with the number of private institutions growing by 16% between 2004 and 2007 (while public institutions grew 6%). Yet there is little systematic evidence on the differences in instructional quality or student composition between public and private institutions. Our research design will allow us to estimate whether there are additional labor market returns to having greater access to the private vocational sector.

The project will also explore whether public education programs like vocational training are likely to reduce or exacerbate inter-regional economic inequality. Like most less developed countries, Kenya is characterized by higher rural poverty and rapid urbanization. The most common destinations for job seekers are the large slums of Nairobi. From a public policy perspective, the extent to which expanding vocational training (and other forms of educational investments) in rural areas will boost local economic growth is unclear given the higher propensity of high human capital individuals to migrate to cities. A relevant question for local policymakers is the extent to which local spending is "captured" in local wage gains, and how much is "lost" to other jurisdictions. This is an increasingly salient issue given the extensive decentralization of public services (including education) in many less developed countries over the past decade. While a national education policymaker would be concerned only with wage gains wherever earned, the effect of educational investments on local living standards and tax revenue is a central concern for newly empowered local and regional officials. The adverse local welfare impacts of "brain drain" from rural to urban areas in Kenya could be partially offset by the increased remittances migrants send home from their higher paying jobs in urban areas. The unusual dataset we are collecting will enable us to estimate the impact of vocational training on individual wage growth, urban migration, as well as remittances, filling in some important gaps in knowledge in this area, and hopefully generating novel insights for policymakers.