Transport Subsidies and Job Matchmaking in South Africa

Researchers:

Abhijit Banerjee

Sandra Sequeira

Sector(s): Labor Markets

Location: Johannesburg, South Africa

Sample: 1,082 job seekers

Target group: Job seekers Youth

Outcome of interest: Employment

Intervention type: Subsidies Transportation Monetary incentives

AEA RCT registration number: AEARCTR-0000362

Research Papers: Learning by searching: Spatial mismatches and imperfect information in Southern...

Partner organization(s): African Microeconomic Research Unit (AMERU), National Planning Commission of South Africa, Rea Vaya, South Africa Department of Labor, The Johannesburg Metropolitan Bus Service, The National Youth Development Agency (NYDA)

In sub-Saharan Africa, youth unemployment is expected to reach 50 percent by 2025. One reason for high unemployment among this group is that youth may live geographically far from where many jobs are located, making traveling to search for employment difficult and expensive. Researchers conducted a randomized evaluation to examine the impact of providing transportation subsidies on youth employment in Johannesburg, South Africa. Reducing job search costs through a transportation subsidy led job seekers to search more intensively, but their overall lack of success in finding a job led them to lower their search standards and led some job seekers to accept lower paying jobs in the township.

Policy issue

Youth unemployment is a large concern in several low- and middle-income countries. In sub-Saharan Africa, youth unemployment is expected to reach 50 percent by 2025. By 2050, one billion people are also estimated to be living in one of sub-Saharan Africa's major cities. However, this growth is primarily occurring through urban sprawl, which can potentially contribute to unemployment and inequities due to the disproportionate residence of low-income groups in areas far from city centers.

When job seekers live far from employers due to geographical disparities, the cost of traveling could hinder their job searches. Can a transportation subsidy, aimed at increasing access to public transportation and decreasing travel costs, increase job seekers' information about available jobs, shape their expectations about the results of their job searches, and improve labor market outcomes?

Context of the evaluation

In South Africa, 25 percent of adults and out-of-school youth do not have a job. The evaluation took place in the Soweto township in Gauteng, which contains the major cities Johannesburg and Pretoria. Most of these city's high paying jobs are located in the

central business district, yet many townships in Gauteng are at least 20 km away

Residents in Gauteng face high transportation costs when traveling between where they live and where jobs are located. Job seekers spend on average ZAR 105.75 (US$12.48 in 2009) each week traveling to search for work. This is equivalent to 25 percent of the weekly salary for a full-time employee earning the minimum wage. Such high costs may discourage people from actively searching for jobs, contributing to higher unemployment.

In the Soweto township near Johannesburg, 98.5 percent of the of the population is Black and approximately 35 percent are formally employed. The average monthly income of Soweto residents is ZAR 2,400 (US$185 in 2015). All participants in the study completed at least secondary education, with 17 percent of youth job seekers within the evaluation completing tertiary education. At the time of the study in 2014, 57 percent had worked in at least one job in the past three years. On average, these job seekers spent 15 months looking for a job. Job seekers in this context often had inaccurate information about the labor market and their job prospects: job seekers overestimated median salaries and their probability of finding a professional job in government or business, and underestimated the amount of time it would take to find a job. Moreover, 91 percent of job seekers included in the study thought that the main place to find a job that matches their skills and interests was in the city's center, nearly 60 percent noted transport as the main barrier to finding employment, and 64 percent thought that delivering resumes to potential employers was a top strategy for securing a job.

Bus station in South Africa

Jaxons | Shutterstock.com

Details of the intervention

Researchers conducted a randomized evaluation to examine the impact of subsidizing transportation on job search activities and employment outcomes by providing prepaid bus tickets to participants in Johannesburg, South Africa.

Drawing from individuals listed as actively seeking a job in the South African National Youth Development Agency (NYDA) and in the Department of Labor's Employment Services of South Africa (ESSA) databases, researchers randomized 1,082 job seekers in the Soweto township to participate in the program. Participants were randomized into one of three groups at the start of the program:

1. *Transportation subsidy (365 job seekers)*: Individuals in this group were offered special transportation cards preloaded with ZAR 500 (US$38 in 2015), approximate in value to forty return tickets between Soweto and Johannesburg's city center plus an additional ZAR 500 (US$38 in 2015) to be used on a separate bus line connecting participants across greater Johannesburg and Pretoria. The card could only be used for transportation, and the subsidy lasted for 4 to 6 months.
2. *Unconditional subsidy*: 352 participants were offered the same card of equivalent value as those in the "transportation subsidy" group, but were allowed to use the money on any job search activity. Participants were also given information about the importance of covering job search costs when they received the subsidy.
3. *Comparison group*: 365 participants received the same bus transport card but loaded with only one trip.

All study participants also received general information about how to use the local public transit system to reach the city center, such as bus fares, schedules, and routes.

Researchers gathered data through surveys with participants at the beginning and end of the study on job search activity, job history, and various socioeconomic characteristics. They also used administrative data from the local transport systems on travel patterns and transactions made using the cards provided to study participants.

Results and policy lessons

Reducing job search costs through a transportation subsidy led job seekers to search more intensively and adjust their beliefs closer in line with reality, but their overall lack of success in finding a job led them to lower their search standards and led some job seekers to accept lower paying jobs in the township.

Job search intensity: Job seekers across the transportation subsidy and unconditional subsidy groups on average took 3.5 times more bus trips than those in the comparison group did. Jobseekers in the unconditional subsidy group group spent nearly70 percent of their subsidy on transportation costs, suggesting that they also valued transportation access and employment opportunities outside of Soweto. Job seekers in both subsidy groups on average also traveled 2.6 kilometers farther from their homes and spent 17 more minutes traveling relative to those in the comparison group, who traveled 4.2 kilometers and 52 minutes in their job searches on average.

Beliefs about wages and job prospects: Job seekers updated their job search practices as they intensified their searches. Twelve months after the intervention, participants who received any subsidy decreased the wage they were willing to accept for a job by 8 percent and their expected future wages by 5 percent. Job seekers who received any subsidy also lowered their optimism levels and standards around the job search. For instance, those in the subsidy groups believed that if they lost a job, it would take them 34 days longer on average to find a new job relative to the comparison group's mean of 146 days.

Job seekers who held the strongest beliefs about the benefits of providing their resumes in person to a potential employer before the intervention were also those who most adjusted their beliefs about finding a job, relative to those who did not hold this strong opinion before the intervention. Job seekers who believed that in-person resume delivery was important in the job search were 14 percentage points more likely to accept a job in the township relative to the comparison group average of 14.3 percent (a

97.9 percent change). By contrast, participants who ascribed lower importance to in-person resume delivery did not change their behavior relative to the comparison group.

Employment outcomes: Job seekers in the study's intervention groups were on average 9 percentage points more likely to accept jobs near their home in the township relative to the comparison group mean of 12 percent (a 77 percent increase). Those in the intervention group were thus more likely to accept a job outside of their original preferred place of work, the city center, and report earning lower wages than those in the comparison group. Wages also increase at a slower rate in the township. Researchers estimate that the decision to accept a lower paying job in the township may lead to a 40 percent drop in lifetime income for someone with secondary education.

Job seekers who previously thought giving resumes to prospective employers in the city center as an effective job search strategy were more likely to accept a job with lower pay and closer to the township, but these adjustments did not increase the likelihood of being employed given the relative scarcity of available jobs in the region. More broadly, receiving either the transportation or unconditional job search subsidy also did not increase the likelihood of being employed relative to the comparison group.

Taken together, these findings suggest that transportation costs can both geographically limit access to jobs and distort job seekers' beliefs about their job prospects. Transportation subsidies were successful in intensifying job seeker's search efforts in this study. However, unsuccessful job seekers may become discouraged and settle for a lower paying job outside of the central business district, potentially making them worse off as an indirect result of transportation subsidies.