

# The Labor Market Impacts of Soft Skills Certificates

**Vittorio Bassi** (University of Southern California)

**Aisha Nansamba** (BRAC NGO)

**Imran Rasul** (University College London)



*Certifying the soft skills of young job seekers in  
Uganda raises their labor market earnings*

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## Topic at a Glance

Unemployment and underemployment are key policy challenges in the developing world, and particularly in Africa, where the number of unemployed individuals is projected to increase by 1.1 million per year, and where the number of workers earning less than \$3.10 per day is expected to rise by 3.9 million in 2018 alone [ILO 2017]. Understanding which factors contribute to high unemployment levels and low wages is thus of primary importance for informing the design of development policies in Africa and elsewhere.

In this policy brief we report the findings from a labor market intervention we conducted in Uganda to study whether difficulties workers face in signalling their soft skills to potential employers reduce the employment opportunities of young workers and contribute to their low wages. Our headline results show that workers receiving a certificate on soft skills did not increase their probability of employment, but earned 11% more while employed in the two years post intervention.

**Figure 1: Impacts of the soft skills certificates on paid employment and earnings**



Notes: The figure reports estimated impacts averaged over the two years post intervention and expressed in terms of percentage increase over the control mean. The black bars correspond to 95% CIs.

## New Insights

Our main contribution is to study how both jobseekers and small firms react to soft skills certificates. Understanding the response of both sides of the labor market is important to inform policies aimed at increasing information on skills, such as certification policies.

### The intervention

The intervention was implemented in collaboration with the NGO BRAC Uganda. The sample included about 400 small firms that reported needing additional workers, in sectors such as welding or hairdressing, and about 800 young workers currently receiving vocational training in the same sectors and about to graduate.

All participating trainees were pre-screened on five soft skills identified as important but difficult to observe by firm owners in our initial survey: attendance, communication skills, creativity, trustworthiness and willingness to help others. The skills assessments were conducted at the vocational institutes through teacher surveys and psychometric tests. The trainees were then randomly divided into a Treatment and a Control group: upon graduation, trainees in Treatment were matched to the small firms for job interviews, and a certificate with the results of their skills assessments was shown to both the trainee and the firm owner during the interview. The trainee then kept a copy of the certificate and was free to use it in his later job search activities. Trainees in Control were also matched to the small firms for job interviews, but no certificate was disclosed, neither to the worker nor to the firm.

Participation in the intervention was voluntary and trainees were made aware that information on their soft skills could be disclosed to firm owners. About 80% of them agreed to participate. We find that participating trainees had higher soft skills than non-participating ones. This suggests trainees understood that those with higher soft skills had more to benefit from the intervention.

### Impacts on expectations, employment and earnings

Both firms and workers revised their beliefs after seeing the certificates. We find that some managers were more positively impressed by the skills of the job candidates, while other managers were not

influenced at all by the certificates. The managers reacting to the information were the ones with higher cognitive ability, who valued soft skills more and were more profitable.

At the same time, the certificates led workers to believe they could get better jobs: in the two years after the intervention workers with a certificate reported higher expected earnings and higher intentions to bargain for wages. We also find that workers reacted to the certificates because these helped them signal their skills, and not because workers learned about their skills through the certificates.

As shown in Figure 1, the reaction of firms and workers to the certificates in terms of beliefs did not lead to sustained changes in employment probability for Treatment workers, neither at those firms where the initial job interviews took place, nor at other firms in the two years post intervention. However, workers with a certificate earned \$7 more per month while employed, corresponding to a 11% increase.

### Mechanisms: the role of beliefs

The results on beliefs help explain the impacts on employment and earnings: the fact that earnings increased without a reduction in employment is in line with managers realizing that workers with a certificate were more productive than they initially thought, so that they were willing to pay them more. Also, the certificates allowed workers to demand and obtain higher earnings as a result of their increased labor market expectations.

### Cost-effectiveness

The certification intervention was relatively low-cost at \$19 per worker. The intervention was cost-effective at raising the labor market earnings of participating workers, even if we assume that the earnings benefits lasted only for the two-year post-intervention period.

## Policy Recommendations

Why are soft skills certificates not already provided by the market, given that this information is valued by at least some workers and firms? We consider a number of potential explanations:

- 1. Is there lack of demand for the certificates? We can rule out lack of demand by workers: we find that workers in Control - who never saw the results of their assessments - were willing to pay on average about \$18 (or 44% of their monthly earnings) for the certificates. That is, their willingness to pay was close to the cost of the certificates.
- 2. Why are the certificates not provided by a private enterprise? Risk is likely to be an important factor, as the profitability of this activity heavily relies on building a reputation for providing

truthful information. We were able to overcome credibility concerns since BRAC is the largest NGO in Uganda and has a strong reputation, but a new market entrant might take years to establish credibility.

- 3. Why are the certificates not provided by vocational institutes? This might not be profit maximizing: as discussed, about 20% of the eligible trainees opted out of the intervention, and this is consistent with them realizing they would not have benefited from it. Therefore, if vocational institutes started offering new certificates on soft skills, this might affect the enrolment decision of students in the first place, potentially reducing their profits.

In summary, it is unclear that any private party has enough incentives to create and sell such certificates, even though these are valuable to at least some firms and workers. Should the government intervene? One important point to consider is to what extent the benefits documented for the group of participating trainees would generalize to all eligible ones. As discussed, those trainees who opted out had lower soft skills, and so it is plausible that they would have experienced lower earnings gains – or even a reduction in earnings – if they had been forced to participate in a mandatory certification intervention. So while more information on skills is likely to improve the allocation of workers to firms and overall productivity, it is possible that some workers with low skills might lose out from this. Policymakers would have to consider this potential trade-off in deciding whether to implement this type of information policies.

## Limitations

One important limitation is that we are not able to study how firm profits were affected by the certificates, as too few experimental workers were hired in our experimental firms. Our evidence on beliefs shows that at least some firms value the certificates, as these help them identify productive workers. However, it is not obvious that firm profits would grow, as the certificates also raise wages, due to the increase in workers' expected earnings and perceived bargaining power. For the cost-benefit calculations we maintain the assumption that firm profits are unaffected by the certificates, but providing more direct evidence on the firm-side impacts of certification interventions remains an important area for future research.

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