



# Jump-starting self-employment? Evidence from *Proyectos Productivos* in Argentina

Rita K. Almeida

Human Development Social Protection

World Bank

(joint Emanuela Galasso, DECRG, World Bank)

Bonn, IZA-WB Evaluation Conference



## Argentinean Crisis and *Jefes*

- During the economic crisis of 2001, the GoA introduced a large safety net program: *Jefes y Jefas*.
- *Jefes* provided income support in exchange of a small work requirement to household heads who had lost employment.
- Program evaluations have shown that *Jefes* was an effective way to reduce unemployment and extreme poverty (Galasso et al, 2005).



## Low Program Attrition

- With the economy bouncing back (9% growth 2003-05), the opportunity cost of *Jefes* increased and attrition from program was smaller than expected:
  - Benefits not limited in time - endowment effect
  - Disincentive to search for formal sector job (Gasparini et al 2006)
  - Weak enforcement work requirement - *Jefes* compatible with multiple sources of income.



## Different exit strategies

- GoA designed an exit strategy through a combination of:
  - CCT  $\Rightarrow$  direct income support + HC investment
  - Labor intermediation offices  $\Rightarrow$  wage employment
  - Training and adult education completion  $\Rightarrow$  wage employment
  - Productive projects (*micro emprendimientos*)  $\Rightarrow$  self employment



# The Program: Productive Projects

- Applicants: All *Jefes* beneficiaries (minimum of 3 beneficiaries to submit proposal)
- Accepted projects receive:
  - Grant for inputs and capital (max: 15,000 pesos)- All procurement managed by local municipalities
  - Technical assistance (general management and specific technical tutoring)



## Main Assumption

- Objective of Productive Projects: Promote self-employment as stable source of income among the poorest segment of the population (*Jefes* beneficiaries).
- Main assumption: Part of poor are interested in self employment but refrain from engaging in those activities because: (1) are credit constrained (2) lack relevant skills.



# The Program: Productive Projects

- Poverty trap “view” – if high costs of start up an activity and there are credit constraints, the poor could be “trapped” (e.g. McKenzie and Woodruff, 2006, for evidence consistent with poor being credit constrained)
- Whether inputs/equipment and training are sufficient to jumpstart self employment (and whether success is a function of individual traits) is ultimately an empirical question...



## Main Questions

- Are the *micro emprendimientos productivos* (MEP) a good large scale exit strategy for *Jefes*? If not, whom is more attracted by program?
- Does the program improve the beneficiaries' labor market outcomes (e.g., labor supply, labor earnings)
- Among participants, who benefits the most?





## Effect Program on LM outcomes

- Key: Establishing a valid counterfactual, i.e., “What would have happened to participants in the absence of the program?”
- Major concern in this type of program: Individuals who self-select into program are likely to differ from non-participants in unobservable characteristics like ability, motivation and entrepreneurship.



# Sampling Non-participants

- Several interested individuals attended the program promotional activities in local MoL offices (spent time and effort) Names kept in formal registries.
- Control Group: Individuals interested but not participating because:
  - Lived in municipalities who opted out of project in 2004 (large administrative burden)
  - Have formally submitted a proposal but have not heard back from committee (tighter control)



## Survey

- Focus on Gran Buenos Aires (Ciudad Federal, Conurbano): Homogeneous labor market.
- Baseline Nov 2004 (immediately after start of program in summer 2004). Follow-up Nov 2005 (short term assessment).
- Some attrition but no robust evidence that function of observable characteristics. Of course, could still be a problem if driven by non-observables... (diffs-in-diffs)



## Treatment and Control

- Treatment: Having received inputs/equipment and visit from tutors.
- Final sample: 476 beneficiaries (sample covering 2,104 individuals in households):
  - Never beneficiaries: 298 beneficiaries
  - Entrants: 115 beneficiaries
  - Drop outs: 3 beneficiaries
  - Always Beneficiaries: 20 beneficiaries.



# Methodology

- Difference-in-differences: Compare LM outcomes before and after program for participants and non participants. Simple reduced form:

$$Y_{it} = D_{it}\alpha + \mu_i + \eta_t + \varepsilon_{it}$$

where  $Y_{it}$  is outcome of interest for individual  $i$  at time  $t$ ,  $D$  is dummy variable for program participation,  $\mu_i$  is individual fixed effects and  $\eta_t$  is time dummy.

- Main assumption: All correlation between  $D$  and error term is captured by  $\mu_i$



# Methodology

- I.e., program participants in the absence of the program would have had the **common trend** in  $Y$  than the one observed in the control group.
- But are treatment and control similar in (levels) observable characteristics?
  - MEP non-participants have worked on average fewer hours, have shorter job tenure in last occupation and have slightly lower income than MEP participants.
  - We test robustness effects to the assumption that there is a common trend conditional on a set of  $X_{it}$  (age, HH size, education)



# Who is interested in the MEPs?

	<b>Jefes Participants in GBA</b>	<b>Jefes Participants - MEP</b>
	<i>Forth Quarter 2004</i>	<i>Forth Quarter 2004</i>
	Mean	Mean
Male	0.27	0.3
Age	39.2	39.4
Marital status - single	0.16	0.12
Head	0.41	0.72
Years Education	7.66	8.21
HH size	5.2	4.8
#children	2.3	2.2
<u>Employment Status</u>		
Employed	0.84	0.55
Hours worked	20.7	18.4
HH income	654	514
HH pc income	144	123
Individual labor earnings	226	270



## Who is interested in MEPs?

- Female headed households
- More years of education
- Slightly lower household size
- Smaller hh'ld income per capita/higher individual income (head is a more important source of household income: about 50% vs 35% for average *Jefe*)





# Main Findings

	Individual Employment (Market)	Individual Total Hours Work	HH Total Income per capita	Other HH Members Employed
	(1)	(2)	(3)	(4)
Panel B: MEP Entrants versus All Non-Participants				
MEP participant	-0.159	13.79	10.30	-0.006
	[0.073]**	[4.293]***	[9.531]	[0.078]
Observations	906	812	906	906
Panel C: MEP Entrants versus Applicants				
MEP participant	-0.144	17.93	8.64	0.053
	[0.081]*	[4.363]***	[11.777]	[0.080]
Observations	602	558	602	602



## Main Findings (II)

- Program leads to some substitution away from other jobs (-14/16%) and increases the overall individual labor supply (14-18 hours/week).
- But no evidence that program increases individual labor or household income nor that it induces changes in the labor supply within the household.
- Suggestive that participants hang on to alternative sources of income while stream from micro projects is not sustainable. (eventually gains get reinvested?)



## Heterogeneity Effects Program

- More educated, younger individuals and females less likely to substitute away from outside employment (more likely combine SE and other jobs).
- Income gains are larger when:
  - More educated
  - 30-40 years old
  - When productive activity continuation previous activity



## Conclusions (I)

- Jumpstarting self employment is not an attractive option for all *Jefes* beneficiaries (more educated female heads previously inactive).
- Program increased labor supply (working hours though with some substitution away from other forms of employment, especially for males) but it fails to increase labor earnings.
- Jump-starting self-employment by itself not sufficient to get to a minimal level of operation for the average participant (at least short term)



## Conclusions (II)

- Some evidence supportive of the idea that intervention depends on complementary inputs: possibly correlated with motivation and entrepreneurial ability (younger and more educated).
- Anecdotal evidence also showed:
  - Bundle inputs and training was well received by most beneficiaries (promising venue)
  - Several logistical problems associated with local procurement.



### 3. Data: projects' characteristics

- Sector: 50% textiles, 20% food processing
- Sales: 1/3 report problems (high competition, high costs)
- Perceived main constraints: inputs/equipment, commercialization
- Perceived problems with inputs received from the municipality (56% purchases, 35% delays)
- Perceived benefits tutoring: 75% positive assessment
- Perceived sustainability project: 82% in 2004, revised downwards in 2005
- Perceived ability project to represent a stable source of income: 77% in 2004, revised downwards to 66% in 2005
- Voluntary employment status: 90% would like to continue working as self-employed

Figure 1: Panel Structure of the Data

