

Jump-starting Self-employment? Evidence for Welfare Participants in Argentina

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Summary. — We evaluate the effects of a self-employment program offered to welfare beneficiaries of a large safety net program in Argentina. The program promotes self-employment by providing financial and technical assistance. Our findings show that only a small and selected subset of welfare beneficiaries is attracted to this type of exit strategy (female household heads and more educated). Exploring non-experimental methods, we also show that in the short-run participation in the program affects the labor supply of participants, by reducing the probability of having an outside job and increasing the total number of hours worked. However, at least in the short-run, the intervention fails to produce income gains to the average participant.
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1. INTRODUCTION

Large-scale workfare programs can be effective in providing protection to the poor following a macro-economic (or agro-climatic) crisis (e.g., Besley & Coate, 1992; Ravallion, 1999).¹ However, when the economy starts recovering from the crisis, providing social insurance becomes less important. As new economic opportunities pick up and the opportunities in the labor market improve, the net gains from program participation decrease. As a consequence, maintaining large safety net programs becomes increasingly costly.² One of the main pressing issues facing governments in middle-income countries is how to gradually phase out these safety net programs. Several labor programs are usually available. They range from supply-side interventions (e.g., training programs) to demand-side interventions (e.g., employment subsidies, support to self-employment) and programs to improve the match between supply and demand (e.g., employment agencies). In spite of the importance of the topic, substantial knowledge gaps remain on how to effectively transition welfare program beneficiaries into the labor market (Blank, 2002). The evidence on the effectiveness of these programs as a means of achieving a sustained labor market integration of program participants is even scarcer for developing countries.³ This paper studies the effect of a program that promotes self-employment among workfare beneficiaries in Argentina. We use a non-experimental approach to quantify the effect of the program on employment and income, one year after the program started.

Following the severe economic crisis in 2001, the Argentinean government introduced a large-scale workfare program, *Jefes*.⁴ This program rapidly scaled up to reach about two million beneficiaries by the end of 2002 (or about 10% of the adult population in the country). The economy subsequently recovered strongly, making it costly to sustain this large-scale safety net. Among the different instruments to phase-out *Jefes*, the Argentinean government has introduced a program to promote self-employment called *Microemprendimientos Productivos* (henceforth MEP).⁵ The program provides *Jefes* beneficiaries with two complementary inputs for their self-employment activities.⁶ First, it provides financial support in the form of in-kind grants to finance inputs and equipment. Second, the program provides technical assistance through

periodic visits of “tutors” to the beneficiaries to assist in achieving sustainability of the financed project.^{7, 8}

The program represents a viable exit strategy from *Jefes* depending on whether (i) a significant proportion of *Jefes* beneficiaries is willing to set up a self-employment activity; (ii) they refrain from doing so due to lack of credit (to finance the start-up capital) and of low business training. The first condition will be met if a large fraction of workfare beneficiaries, when exiting the program, prefers self-employment (rather than a wage job) as a sustainable source of income. We characterize the profile and the size of the potential pool of welfare beneficiaries who might be attracted to the program. To our knowledge there is very little evidence on the profile of the participants who would choose to select into this type of program and on their effectiveness in generating a sustainable source of income for beneficiaries (one exception is Betcherman, Dar, & Olivás, 2004).

The second condition relates to a large theoretical literature linking low-growth poverty traps with non-convexities in the production technology and with imperfections in the capital market.⁹ It has been shown that *Jefes* beneficiaries tend to be poor and have low endowments of assets and human capital (Galasso & Ravallion, 2004). If there are high start-up costs of setting up self-employment activities, and if individuals are credit constrained, the poor would be automatically prevented from taking up profitable investments. According to this “poverty trap” view, jumpstarting a productive project

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with financial and tutoring assistance will help constrained households to establish a business with a minimal level of operation. The latter could be sustained over time with the reinvested profits. Thus, the second assumption is that some *Jefes* beneficiaries would be willing to set up a self-employment activity but that they refrain to do so due to lack of financing and/or due to low business training. The empirical evidence has strongly supported the hypothesis that poor households are indeed credit constrained but has failed to empirically confirm the existence of non-convexities in the production technology (e.g., McKenzie & Woodruff, 2006; Mesnard & Ravallion, 2006).¹⁰

Our paper also relates to the literature which emphasized the voluntary and entrepreneurial aspect of an important share of the unregulated, small-scale, and low-productivity informal sector. For example, Maloney (2004) argues that a substantial fraction of self-employed in Latin America is similar to small firms in industrialized countries in many respects¹¹. According to this “entrepreneurial” view, the scale of operation and the sustainability of this activity as a source of income would also depend on the individual’s preferences, their motivation, and entrepreneurial ability, rather than on credit constraints *per se*. The extent to which these individual characteristics (e.g. a need to combine self-employment activities with household activities to make self-employment an attractive activity for women) are complementary to other production inputs determines the success of the program. In this context, jump-starting self-employment through start-up capital and basic business education would be expected to have a positive impact only on those individuals who are intrinsically more suited to be self-employed.

In practice, whether the injection of inputs and equipment together with business training is sufficient to jumpstart self-employment or whether the intervention is complementary to other individual characteristics is largely an empirical question. In this paper, we are interested in quantifying the effect of program participation on the labor market integration of the beneficiaries.

To precisely quantify the effect of the program, we would like to compare, for the *same* person, the outcomes of interest in a scenario with and without the program. However, this is, by definition, unobserved and has been well-known in the impact evaluation literature as the “missing counterfactual problem”. As in most evaluation settings, participation in this program is voluntary. As a consequence, the group of *Jefes* beneficiaries which showed interest in the program is likely not to be a random sample among *Jefes* beneficiaries. In particular, we would expect that *Jefes* beneficiaries with a stronger preference for self-employment, a higher entrepreneurial ability or organizational capacity are more likely to gain from participation and, thus, self select into the program. Moreover, even if we could observe outcomes for *Jefes* beneficiaries *before* the program actually took place, the comparison of the same individual before and after the program took place could be misleading. In particular, it could be capturing confounding trends in the outcomes of interest that are contemporaneous to the program.

In order to rigorously disentangle causality, we would like to observe the trends in the labor market outcomes for a group of individuals as similar as possible to MEP participants (in their observable and unobservable characteristics). The evaluation and survey design of the productive grants were planned to mitigate this source of bias. In particular, we have selected *Jefes* beneficiaries who showed interest in the project by signing up to local promotional activities, but that ended up in not participating either because they lived in a non-participating

municipios or because there were delays in the project approval. This group of individuals is likely to be similar to the group of MEP beneficiaries in both observable and unobservable characteristics determining program participation. A baseline survey was conducted just after the beginning of the program (November 2004) and one year later (December 2005) to both participants and non-participants in the program. To quantify the short-term impact of the program on different labor market outcomes, we will adopt a differences-in-differences approach that compares outcomes of participants and non-participants, at baseline and follow-up.¹²

Our results show that beneficiaries of the self-employment program are less likely to maintain or to find wage jobs outside the project, especially in the case of male beneficiaries. We also find evidence that the program significantly increases the total hours of work (either in the market or in the program). Finally, while the program on average did not generate income gains to the participants, there was a specific subgroup of beneficiaries who stand to benefit the most, namely the younger and more educated beneficiaries. We interpret this evidence as being suggestive of an “entrepreneurial” view of the informal sector, where the jump-starting self-employment through start-up capital and basic business training is more likely to generate a positive impact only for those individuals who were intrinsically more suited (possibly due to their motivation or initial human capital endowments).

The paper proceeds as follows. Section 2 presents the economic background and describes the main features of the program. Section 3 describes the evaluation design and the empirical methodology used in the evaluation. Section 4 describes the data. Section 5 describes the findings and briefly discusses the profitability of the projects. Finally, Section 6 concludes.

2. BACKGROUND

The workfare program, *Jefes*, was introduced in the aftermath of the severe economic crisis in 2001, which brought a contraction in real GDP of more than 10% in 2002 and a significant fall in real income of more than 20% for large sections of the population (McKenzie, 2004). The objective of the program was to provide a direct income support to heads of households with dependents who had lost their earnings as a result of the crisis. The income support was accompanied by a work requirement (minimum of 20 h a week). Despite a lack of explicit focus on targeting based on poverty indicators, *Jefes* was successful in reaching poor segment of the income distribution.¹³ Available evidence shows that *Jefes* had a social protection role, partially protecting participants’ income loss and lowering their likelihood of falling into extreme poverty (Galasso & Ravallion, 2004). Subsequently, the economy strongly bounced back reaching an average annual growth rate of 9% during 2003–05. A projection of the estimated impact of the program from 2002 onwards shows that early during the recovery (first half of 2003), the income gains from the program (program benefits net of the opportunity cost) had already halved (from around two thirds of the cash transfer of 150 pesos to about one third) (Galasso, 2004).

When the labor market opportunities outside the workfare program improve relative to a fixed nominal transfer payment for the majority of beneficiaries, one would expect that the program naturally contracts. However, there are many reasons why program attrition might not be as high as one would expect it to be. First, the program did not set a time limit for the end of the transfer payment. This might have induced par-

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