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Aiding the poor with self-employment and small-business ownership

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Strategies for achieving income generation among poor people in developing nations is one of the principal areas of interest to development economists. One common strategy is to implement programs that promote small-business ownership and other forms of self-employment. The introduction of such programs in various countries around the world has prompted a number of academic studies aimed at assessing how well the programs work. Several studies have shown that positive effects such as higher earnings and lower unemployment remained several years after the programs were implemented. In most cases, however, these studies focus on low-income countries where most of the self-employment opportunities exist in agriculture. This raises the question of how well these programs work in somewhat more developed countries, where labor markets are more complex and diverse. In a recent article titled "The effects of micro-entrepreneurship programs on labor market performance: experimental evidence from Chile" (American Economic Journal: Applied Economics, April 2018), authors Claudia Martínez A., Esteban Puentes, and Jaime Ruiz-Tagle evaluate one such program and find that it is working relatively well, with similar results to those in the lower income countries.

The authors evaluate the "Micro-entrepreneurship Support Program" (MESP), which is administered by the Chilean government in the Santiago area and involves 1,950 participants, most of them women. The program provides in-kind transfers of start-up capital worth about $600 (roughly equal to half a year's salary for the participants), as well as 60 hours of training on sound and effective business practices. Participants receive their start-up capital in the form of materials and other inputs needed for the particular business they are opening, as part of the plan they developed during their training. Martínez A. and her coauthors select a random sample and divide it into three different groups: a control group that receives no assets or training, a second group that receives the standard benefits of the program, and a third group that receives the standard benefits plus an extra $240 worth of in-kind asset transfers. The third group, which the authors term "MESP+," was specifically created to study the effects of these kinds of programs.

The authors conclude that MESP and MESP+ increased employment and earnings in the short run and in the long run. In the short run, a larger asset transfer tends to increase small business productivity rather than employment. In the long run, participants tend to remain in self-employment, especially those in the MESP+ program. These programs show positive effects on both self-employment and wage employment, with MESP+ having stronger effects on self-employment, and MESP having stronger effects on wage employment. In addition, past studies have suggested that asset-transfer programs are generally less successful for women, while this study uses a sample composed almost entirely of women and shows positive effects on their labor market outcomes.

Martínez A. and her coauthors show that the level of asset transfer is crucial to the success of the program, because smaller amounts tend to have only short-term positive effects, while larger transfers tend to prolong the length of self-employment. The authors conclude their study with a cost-benefit analysis of these programs to determine their economic feasibility. They compare the total income increase among the participants with the direct costs of the program, which is $1,200 for each MESP participant and $1,440 for each MESP+ participant. The authors calculate benefit-to-cost ratios of 1.24 for MESP and 1.06 for MESP+. In previous studies of these programs, the comparable ratios ranged from –2.0 to 4.3. In sum, Martínez A. and her coauthors conduct a thorough case study of an existing government-sponsored training and asset-transfer program and make a useful contribution to the growing academic literature on such programs.