

Entrepreneurship on a Safety Net: Evidence from the World's Largest Cash Transfer Program

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Big Picture: Entrepreneurship Entry and Cash Transfer Programs

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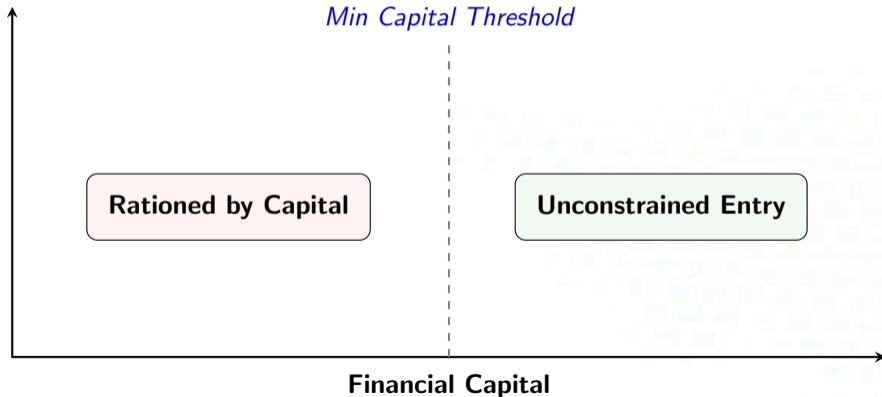


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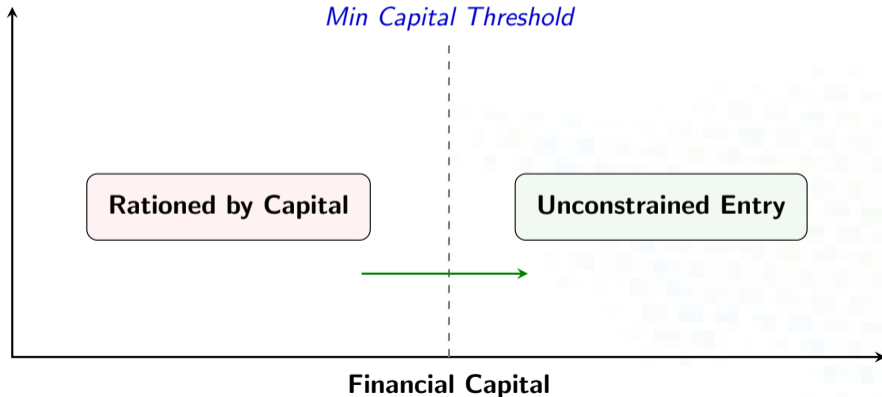


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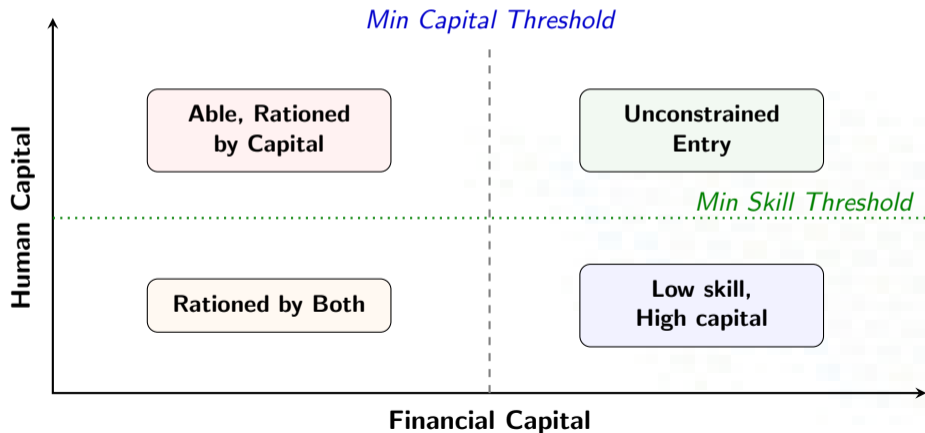
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Big Picture: Economics of Cash Transfer Programs

More recent studies highlight financial constraints and access to human capital

- Dunn and Holtz-Eakin (2000); Berge et al. (2015)



This Paper

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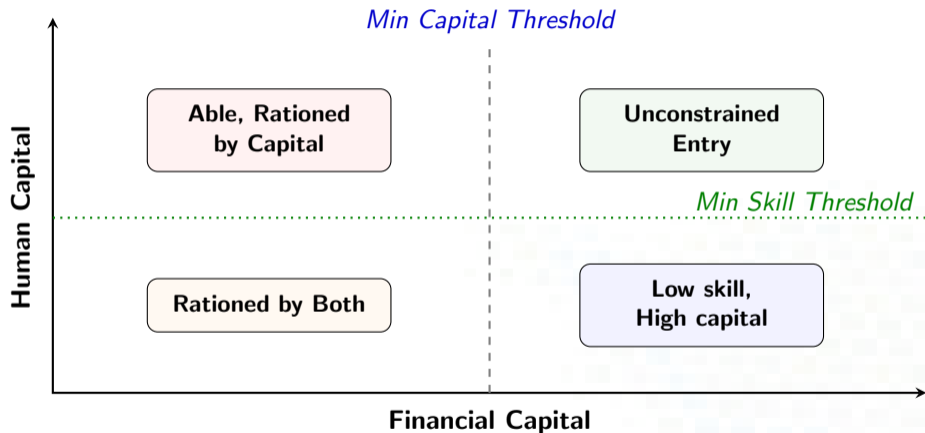
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- **Main Findings:** Bolsa Familia led to
 - Increased entry into entrepreneurship
 - Lower performance vs peers
 - Job creation, survival, credit access, business growth
 - Increased tax violation and debt collection proceedings
 - Improved post-entrepreneurship outcomes vs peers

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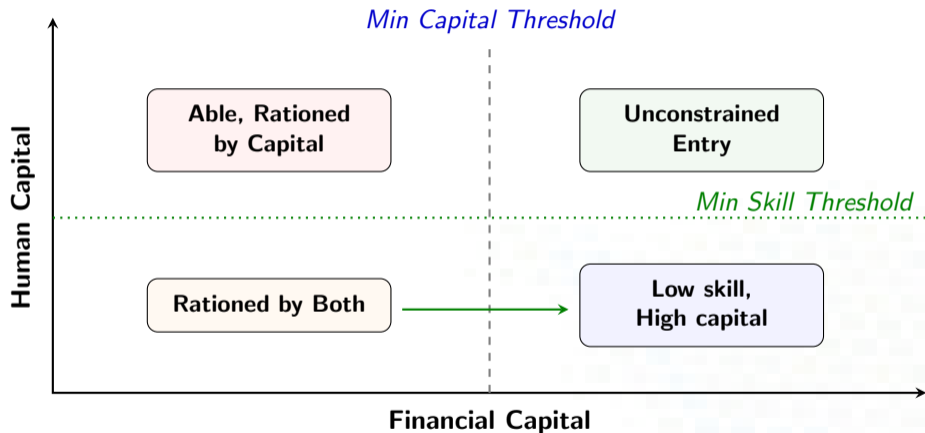
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- **Key Mechanisms:**
 - Managerial constraints and program dependence

Big Picture: Economics of Cash Transfer Programs in This Paper



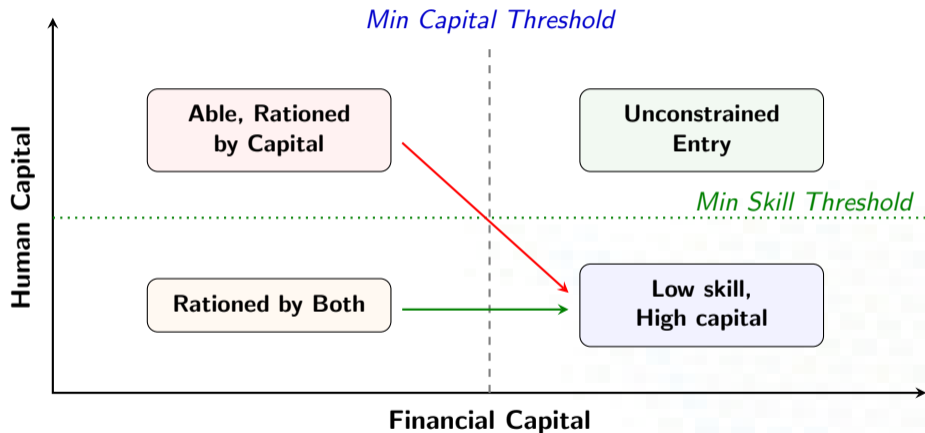
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Mechanisms and Evidence

Managerial Constraints

- Business survival
- Hiring trends
- Absolute decline in post-failure wages
- Fast re-employment post-failure

Program Dependence

- Tax compliance
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Driven by External Forces

- Job creation
- Credit access
- Business growth

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- **Current Research Question:** How do cash transfer programs impact entrepreneurial activity among low-income populations?
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- **Interesting** since this is not a friction that cash transfer programs generally target
- **Clear and important story**
 1. Cash transfers increase entrepreneurial entry - clean IV design
 2. These entrepreneurs systematically underperform across every dimension
 3. Entrepreneurial failure, even in a subsistence venture, → meaningful human capital

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Second Business:

- Probability of a second venture
- Performance conditional on starting a second business

Other Human Capital Skills:

- Contributions to social security and pension
- Enrolment in formal training programs

Comment 2: Two Sample Problem

- **Two Questions**
 1. Do cash transfers cause entrepreneurial entry?
 2. Do cash-transfer entrepreneurs perform worse than comparable peers?
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- Firm entry using PNAD Household Survey

- Is nationally representative, produces clean IV
- **Cannot track households over time, rotating panel for 15 months**

- Firm performance using admin records (CNPJ + RAIS + MDS + PGFN + BNDES)

- 2.3 million sole proprietorships with rich firm-level outcomes
- **Cannot support IV, pre-transfer income not available**

Comment 2: Gaps

How the paper addresses the two sample problem

1. Coarsened Exact Matching

- Addresses selection on observables
- **Cannot address selection on unobservables - risk tolerance, entrepreneurial motivation, social network, and informal financial network**



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- Addresses time-varying industry shocks, difference in capital requirement, macro conditions, and observable demographic profile of the entrepreneur
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3. Oster (2019) bounds on unobservable selection

- Provides bound on how large unobservable bias should be to overturn each result
- **This framework assumes correlation between observable and unobservable selection. Does not apply to unobservables orthogonal to observables**

Comment 2: Possible Solution

Fuzzy RDD within administrative data itself:

- CadUnico has household income reported at the time of registration
- Households just below the R\$178 threshold are enrolled; households just above are not
- Run fuzzy RDD to identify the effect of transfer on entrepreneurial performance using variation at the eligibility threshold

$$\text{Receipt of Transfer}_i = \gamma_0 + \gamma_1 \times \mathbb{I}_{\text{Reported Income}_i \leq 178} + f(\text{Reported Income}_i) + \nu_i$$

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The running variable will control for any manipulation trends: Income at Registration vs Income Pre-transfer

- Strong incentive to under-report their income, hide informal earnings
- Income at registration may reflect a temporary dip, not their permanent economic status/ long-term entrepreneurial capability

Other Minor Comments

- Magnitude of some results
 - Example: Bolsa entrepreneurs are 52% less likely to access credit in Table 8
 - But baseline credit access is 0.029%
 - Does this mean that nobody gets BNDES credit?
- Cash Transfer and Access to Credit
 - Studies show that cash transfers ease liquidity frictions, which improves access to credit (Angelucci and De Giorgi, 2009)
 - What makes Bolsa Familia recipients different?
- Hiring Decisions
 - Bolsa entrepreneurs hire minorities, offer less part-time work, fewer low wages, and more stable employment
 - Could an alternative explanation be that
 - firms operate in labour intensive low-skill sectors
 - hire among family/ community network
 - engage in informal relational contracting

Thank you



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