

Entrepreneurship and Social Protection: A Virtuous Cycle

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Across the developing world, many people are propelled into entrepreneurship by their need to earn and generate an income. This means that self-employment or setting up micro and small enterprises is often the only viable livelihood opportunity for a significant number of individuals. It is not surprising, therefore, that the majority of these enterprises are informal¹ and that owners, managers and workers have no pensions, social protection or the rights afforded those in the formal economy. These challenges notwithstanding, own-account work and micro and small enterprises sustain households and families and inject critical resources into local economies worldwide.

Governments can implement policies to foster entrepreneurship and cultivate an ecosystem of resources and funding that is essential to grow fledgling businesses. **The entrepreneurial ecosystem includes regulatory frameworks and infrastructure, business networks and associations, forward and backward linkages between firms and enterprises, mentors and advisors, investments in human capital, and local and global markets.**² Access to social protection and pensions are also key to ensuring that work in these enterprises generates some of the same benefits that formal employment secures. Yet, in many cases, when the enterprises are informal, workers and owners are unable to contribute to pensions and social protection. Creating universal social assistance programs and providing parental leave benefits and health care to those working in informal enterprises will be essential to ensuring they have the same rights as workers in the formal economy (see Boxes 1 and 2).

Social protection also provides a critical buffer for enterprises that can prevent economic and other shocks from forcing micro, small and even medium-sized entrepreneurs out of business. Access to health care and social welfare can potentially crowd-in entrepreneurship, even in developed countries. Olds (2014) finds that in the United States, the [State Child Health Insurance Program](#) (SCHIP)³ successfully achieved a 29 percent reduction in the number of uninsured children and a 23 percent increase in self-employment. In addition, SCHIP helped to increase incorporated business ownership by 31 percent and the share of household income from self-employment by 16 percent, suggesting that many of these enterprises are “high-quality ventures.” The increase in income and entrepreneurship is driven by both a 12 percent rise in the creation of new firms and an 8 percent increase in their survival rates. The study also documents a large increase in labor supply as a result of the SCHIP, equivalent to almost 8.8 million full-time workers. As Olds underscores, “the central mechanism is a reduction in the riskiness of self-employment rather than a relaxation of credit constraints” (Olds 2014:1). The author

goes on to add that the extent to which entrepreneurs contribute to innovation, job creation and economic growth, his findings strongly suggest that public health insurance programs have positive spill-over benefits on the supply of firms and the creation of jobs.⁴

This view of social protection sits well with earlier work by Holzmann and Jorgensen (2000) which showed that social protection ballasts households, communities and economies against risk and may even encourage more risk taking and innovation. **Social protection can potentially prevent, mitigate and smooth risks for small entrepreneurs and own-account workers, protecting basic livelihoods and encouraging risk-taking.** This is likely to be particularly important for women, who typically have less cash and seed capital to start businesses and take economic risks.

Few data exist that link entrepreneurship to social protection. Our analysis of entrepreneurship and social protection drew on a number of different datasets to explore correlations. We use the Global Entrepreneurship Monitor dataset of the female to male ratio of early stage entrepreneurship activity as a proportion of total early stage entrepreneurship activity, and World Development Indicators (WDI) data on the percentage of the population covered by social assistance and social insurance. We find that social assistance, the non-contributory social transfers to the poor, appears to be positively correlated with the female to male ratio of early stage entrepreneurs. **Social assistance may crowd-in own-account work and early stage entrepreneurship, mitigating the risks of initiating an enterprise.** Looking at contributory social insurance, however, we see a negative correlation, which likely reflects a greater proportion of formal employment opportunities and less need to seek own-account work. Since early stage entrepreneurial activity is less likely to be formal and the imperative to start businesses may be lessened with more formal employment opportunities, this negative correlation is not surprising.

Figure 1. Female/Male Entrepreneurship Activity and Social Assistance Coverage (percent of population)

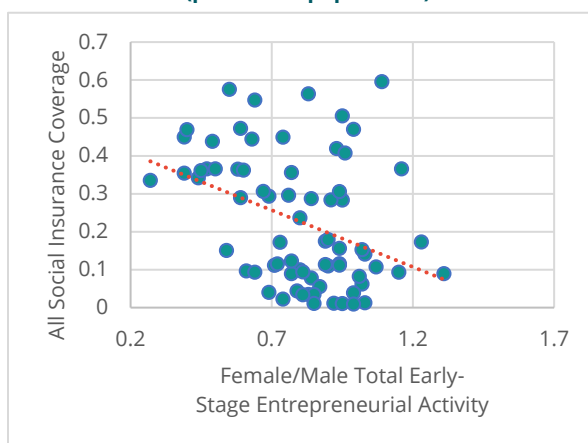
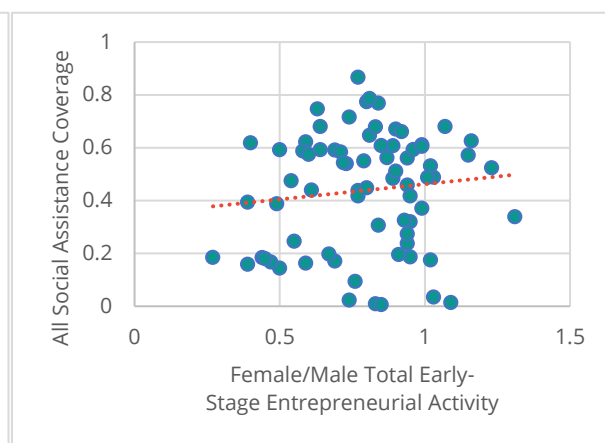


Figure 2. Female/Male Entrepreneurship Activity and Social Assistance Coverage (percent of population)



Source: Global Entrepreneurship Monitor and the World Development Indicators

Ballasting incomes and mitigating the risks of entrepreneurship in economies with restricted access to formal employment is essential to improve the quality of own-account work and employment in small and medium enterprises (SMEs).

Box 1. Social Protection for Informal Workers

As WIEGO* points out, “extending social protection to informal workers is one way to support the transition from the informal to the formal economy.”

Universal social assistance programs that are non-contributory, such as cash transfers or fully subsidized insurance schemes, can reach informal workers and their households. They are far less exclusive than contributory schemes. WIEGO underscores that governments should prioritize extending universal cash transfers to provide a source of income to informal workers across their life cycle. This is particularly important for poorer informal workers with limited or no contributory capacity.

Since women are disproportionately concentrated in low-paid, informal work, social assistance in the form of universal child grants, maternity benefits and social pensions offer tremendous potential to redress some of the gender inequalities reproduced in the labour market. For instance, a child grant can support women with child care costs when they have young children in their care. Maternity and paternity benefits and social pensions can provide parents and carers with much-needed income during periods when they cannot work.

These benefits also enable micro, small and medium-sized firms to offer better employment opportunities to workers and can improve and enhance entrepreneurship.

Source: Excerpted from WIEGO Briefing Note “Extending Social Protection to Informal Workers,” March 2019.

** - Women in Informal Employment: Globalizing and Organizing (WIEGO) is a global research and policy network focused on improving conditions for workers in the in the informal economy.*

Affordable child care services can facilitate women’s access to formal employment and improve income and earnings, but it may also crowd- in entrepreneurship and increase the density of women entrepreneurs.⁵ Wang (2015) explores the first universal child care program in China. She finds that when there is greater access to childcare, the number of female entrepreneurs rises, while there is no observable effect on the number of male entrepreneurs. In Thailand, Zoe Horn, Boonsom Namsonboon, and Poonsap Tulaphan (2013) found that home-based workers cited the ability to combine paid care work and child care as a reason for engaging in home-based work;⁶ Franck (2012) found that, in Malaysia, women who held low-skilled jobs decided to start their own micro-businesses rather than return to formal work after having children;⁷ and Verceles and Beltran (2004) found that in the Philippines, 20 percent of women in the informal sector

cited family responsibilities as the reason they chose to engage in the informal sector as opposed to the formal sector.⁸ **Providing affordable quality care to these home-based workers and entrepreneurs could increase their productivity and ability to earn and improve their work-life balance.**

Box 2. India's National Pension Scheme

India's national pension scheme has been designed to also serve poor and informal sector workers, many of whom are women. The scheme comprises three pillars. The first pillar is the Indira Gandhi National Old Age Pension Scheme, which provides a minimal monthly payment (Rs 200, US\$2.82) to the very poor over the age of 65 (in practice, it has very low coverage). The second pillar, Atal Pension Yojana, is designed to reach informal sector workers. In this pillar, each contribution made by individuals to the pension fund is matched by a 50 percent co-contribution from the central government or Rs 1,000 (US\$14.12) per annum, whichever is lower, for a period of five years. All workers who subscribe before the age of 40 are eligible for monthly pensions of up to Rs 5,000 (US\$70.61) after turning 60. The third pillar of India's pension scheme relies on private contributions, which can be in the form of micro-pensions that are designed to make it easier for informal sector workers to save for retirement.

Source: Cameron. L (2019) "Social protection programs for women in developing countries," IZA.

Recent work by the Organisation for Economic Co-operation and Development (OECD) also emphasizes that investing in social protection goes beyond a moral imperative, as it also promotes more inclusive growth.⁹ Certainly, many researchers find that social protection schemes have substantial and positive outcomes for poverty reduction, inclusive growth and progress towards decent work.^{10, 11, 12, 13} The OECD looked at several programs including social protection, education and cash transfers. This report asserts that education scholarships can have impacts beyond labour supply and education outcomes for the students and can foster more sustainable and inclusive growth. Indeed, cash transfers targeting poorer households can help them overcome liquidity and credit constraints and, thereby, increase consumption and invest in productive assets and business activities. One program in Indonesia reviewed by the OECD provided scholarships to low income households to keep children in school. The program had a positive impact on household labour supply, self-employment and food consumption in all income groups. It also increased entrepreneurship, particularly for the second- and third-income quintiles.

Box 3. Mexico's Conditional Cash Transfer Program *Oportunidades/Prospera*

Mexico's Conditional cash transfer Scheme, *Oportunidades* (now called *Prospera*) has been found to significantly reduce income and consumption poverty and to help diversify livelihoods. Evaluations of *Oportunidades* demonstrate that the program has increased productive investment in livelihoods by allowing households to overcome credit constraints. An evaluation by Gertler et al (2006) showed that program participants invested around 12 percent of their transfers, which increased consumption by one-third over five years. A follow-up study in 2012, found that household investments had grown to 26 percent of the transfer, increasing the value of livestock and micro-enterprises (Gertler et al. 2012).¹ Another study (Bianchi and Bobba 2013) found an 11 percent increase in the self-employment rate among recipients of the *Oportunidades* transfer, which was driven primarily by a reduction in risk rather than an alleviation of credit constraints.¹ Importantly, a number of studies looking at the labour incentive impacts of the CCT found no negative impacts on adult labour force participation or work effort. However, the program has resulted in reductions in child labour participation rates by up to 25 percent (Skoufias and di Maro 2006).

Source: Adapted from Mathers and Slater 2014.

Recommendations

Prominent Women's Economic Empowerment initiatives such as We-Fi¹⁴ and WGDP¹⁵ could take these findings on board and **invest in an enabling environment that crowds-in decent work, mitigates risk, encourages entrepreneurship, affords social protection and expands work opportunities at small and medium-sized enterprises**. They should also address the care needs of workers in small and medium-sized enterprises.

The available data are inadequate and do little to improve our understanding of the challenges small and medium sized enterprises face in formalizing work and improving the terms and conditions of employment. **The World Bank Enterprise surveys are among the richest surveys on entrepreneurial activity and challenges—but they do not include data on social protection, the quality of employment and whether workers and owners have formal employment, pensions and receive statutory mandated benefits.**

When we seek to expand women's entrepreneurship, we should also ask about the quality of the employment opportunities that it offers and sustains. Without data that explore these dimensions of entrepreneurship, the rush to prime the pump and inject capital into the ecosystem may risk generating more informal work and more drudgery.

Endnotes

- ¹ Ndiaye, N., Abdul, L. R., Razak, Nagayev R. and Ng, A. (2018). "[Demystifying small and medium enterprises' \(SMEs\) performance in emerging and developing economies.](#)" *Borsa Istanbul Review*, 18(4). 269-281,
- ² Mazzarol, T. (2014). "[6 Ways Governments Can Encourage Entrepreneurship.](#)" *World Economic Forum* (Blog post).
- ³ The State Child health Insurance Program is a partnership between the United States federal and state governments that provides low-cost health coverage to children in families.
- ⁴ Olds, G. E. (2014). *Entrepreneurship and the Social Safety Net* (Doctoral dissertation). Department of Economics, Brown University, Providence, Rhode Island.
- ⁵ GroW. (2017). "[What are the Benefits of Subsidized Early Childcare? Evidence from Kenya](#)" (Research Series Policy Brief).
- ⁶ Horn, Z.E., Boonsom N., and Poonsap, T. (2013). Home-based workers in Bangkok, Thailand. Cambridge, MA: WIEGO.
- ⁷ Franck, A. K. (2012). From formal employment to street vending: Malaysian women's labour force participation over the life course. In Elias, J. and Rethel L. (Ed.) *The everyday political economy of Southeast Asia* (pp 159-177). Cambridge, UK.: Cambridge University Press.
- ⁸ Verceles, N.A. & Beltran, S.N. (2004). Reconciling work and family, Philippine country study (Unpublished Working Paper). Geneva, Switzerland: ILO, Conditions of Work and Employment Programme.
- ⁹ OECD. (2019). Can social protection be an engine for inclusive growth? Development Centre Studies, OECD. Paris.
- ¹⁰ Stiglitz, J. (2009). The global crisis, social protection and jobs. *International Labour Review* 148(1-2): 1-13.
- ¹¹ Mathers, N. and Slater, R. (2014). Social protection and growth: research synthesis.
- ¹² Barrientos, A. and Scott, J. (2008). Social transfers and growth: a review. Global Development Institute Working Paper Series 5208, GDI, The University of Manchester.
- ¹³ Kabeer, N. and H. Waddington. (2015). Economic impacts of conditional cash transfer programmes: a systematic review and meta-analysis. *Journal of Development Effectiveness* 7(3): 290-303.
- ¹⁴ See <http://pubdocs.worldbank.org/en/818721508187147267/WeFi-Brochure-SinglePages.pdf>.
- ¹⁵ See <https://www.whitehouse.gov/wgdp>.