Human capital, credit constraints, and rural poverty
Evidence from Ethiopia PSNP Livelihoods

Country:
Ethiopia

Name of Project:
PSNP/SEASN

Research Team (Alphabetical):
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Operational Team:
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Government agencies involved:
Food Security Coordination Directorate (FSCD)

Motivation

- Economic inclusion (EI) programs generate persistent increases in household income and assets through a "big push" (PEI, 2021; Kondylis & Loeser, 2022)
  - **Trainings and coaching** → <u>Develop human capital</u>
  - **Transfers, savings groups** → <u>Overcome credit constraints</u> to leverage developed human capital

- EI programs currently reach 3% of households receiving social assistance (PEI, 2021; Gentilini et al., 2022); new challenges associated with increasing scale
  - Effective **trainings** often implemented by private sector (Bossuroy et al., 2022)
  - **Large transfers** drive high costs in government-led programs (PEI, 2021)
  - Potential for **spillovers** onto non-beneficiaries (Filmer et al., 2021)

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Background and context

- EI program ("LH") embedded within Ethiopia's Productive Safety Net Project (P163438/P176997)
    - The overall program focuses on public works and cash transfers to extreme poor households, reaches around 8M individuals with $600M annual budget
    - 34 PSNP Woreda selected for LH impact evaluation
    - All current <u>PSNP public work beneficiaries</u> in selected woredas who express interest during a Community Based Targeting exercise are <u>LH-eligible</u>
    - Community Based Targeting includes wealth ranking and credit capacity test
        - Lowest 20% in wealth ranking are <u>LH-Cash-eligible</u> (credit replaced with $300 grant)
        - Top 80% in wealth ranking are <u>LH-Credit-eligible</u>, and highest scorers on credit capacity test are prioritized for LH-Credit

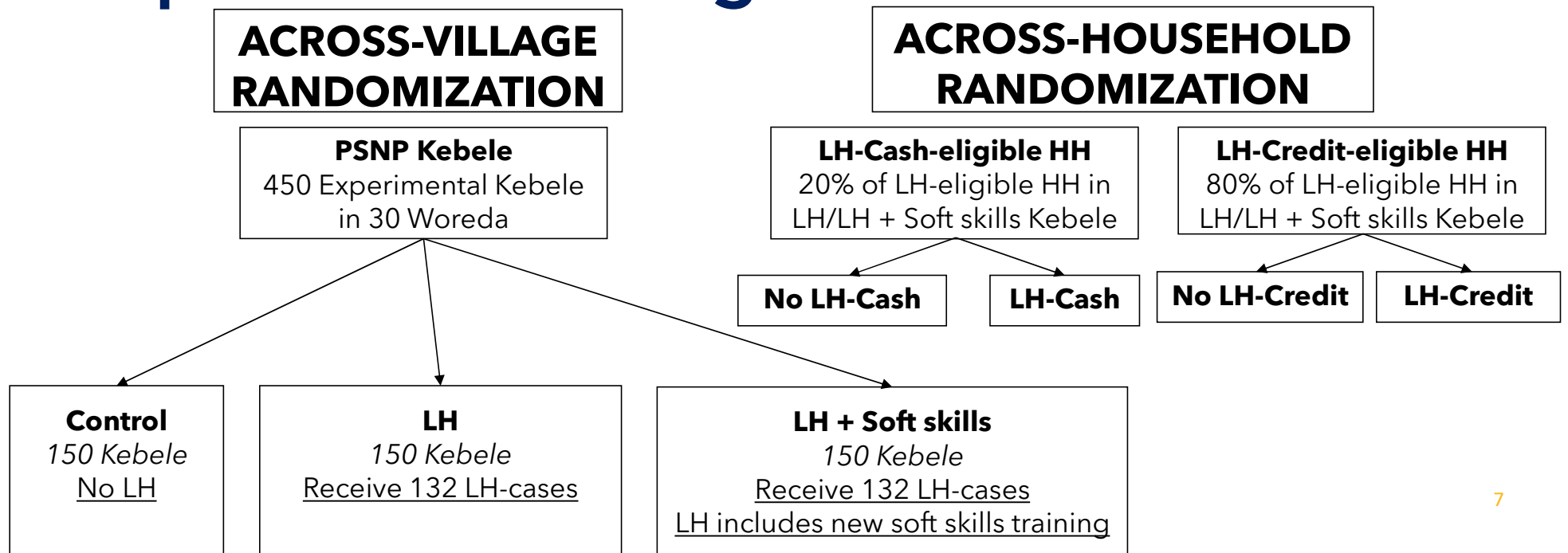*Ethiopia: Human capital, credit constraints, and rural poverty*

Project innovations

- We estimate the impacts of an EI program embedded within Ethiopia's Productive Safety Net Project (P163438/P176997)
  - Overcome credit constraints **$300 asset transfer** or **Facilitated access to loan at subsidized rate** from regional microfinance institutions
    - Poorest households receive asset transfer, "less" poor households receive loan (among extreme poor PW participants,)
    - Trainings and coaching support business plan preparation and loan request
  - Develop human capital Trainings and coaching leverage existing network of "Development Agents" and newly hired "Community Facilitators"
    - Government implementation brings these costs to estimated $70/household
    - Follow best practices for curriculum development, "soft" and "technical" skills, and embedded trainers and coaches in local communities (Bossuroy et al., 2022)
  - Scale EI program to reach around 40,000 households in 34 Woreda in the first year
    - Spillovers at scale can generate additional distributional and multiplier effects (Abebe et al., 2021; Egger et al., 2021)

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Research questions

- <u>Overcome credit constraints</u> What are the impacts of government-implemented EI programs featuring facilitated access to low interest loans or asset transfers?

- <u>Develop human capital</u> What are the additional impacts of government-implemented soft skills training?

- <u>Scale</u> What are the impacts on non-beneficiary households of EI at scale?

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Experimental design

ACROSS-VILLAGE RANDOMIZATION

ACROSS-HOUSEHOLD RANDOMIZATION

PSNP Kebele
450 Experimental Kebele
in 30 Woreda

LH-Cash-eligible HH
20% of LH-eligible HH in
LH/LH + Soft skills Kebele

LH-Credit-eligible HH
80% of LH-eligible HH in
LH/LH + Soft skills Kebele

No LH-Cash

LH-Cash

No LH-Credit

LH-Credit

Control
150 Kebele
No LH

LH
150 Kebele
Receive 132 LH-cases

LH + Soft skills
150 Kebele
Receive 132 LH-cases
LH includes new soft skills training

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Sampling

- Survey 9000 HH across 450 Experimental Kebele in 30 Woreda
  - 20 HH per Kebele: 4 LH-Cash-Eligible and 16 LH-Credit-Eligible
  - Sample from Community Based Targeting (in *all* 450 Experimental Kebeles)
- More LH-Cash-Eligible HH than LH-Cash packages available
  - Randomized oversubscription design
- More LH-Credit-Eligible HH than LH-Credit packages available, but LH-Credit-Eligible HH with highest credit capacity scores prioritized
  - Stratified randomized oversubscription design

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Timeline

Oct 2022 **Community Based Targeting**

Nov 2022 – Dec 2022 **Baseline (HH, DA/CF, Community)**

Nov 2022 **Treatment assignment**, **Recruitment of CF**

Jan 2023 – May 2023 **Business, Technical, and Soft Skills Trainings by DA/CF**

March 2023 **CF/DA/Community Surveys**

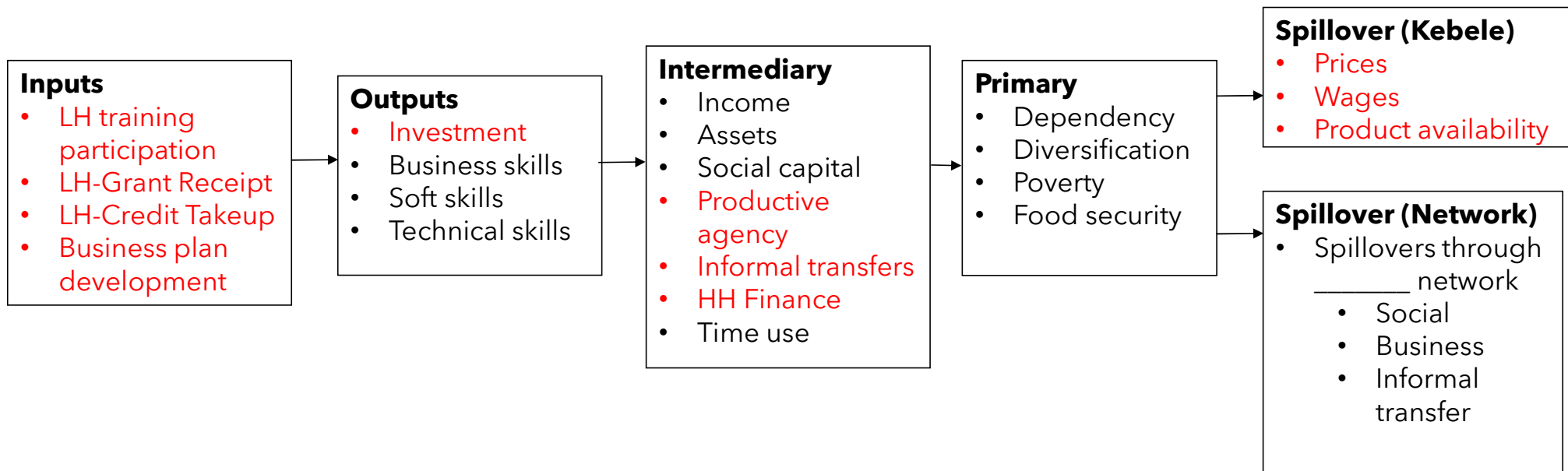**June 2023** **Grant distribution/Credit application**

August 2023 **Midline 1 (Short HH, DA/CF, Community)**

June 2023 – June 2024 **Coaching by CF**

Nov 2023 – Feb 2024 **Midline 2 (HH, DA/CF, Community)**

Nov 2024 – Feb 2025 **Endline (HH, DA/CF, Community)**

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Key outcomes

Inputs
- LH training participation
- LH-Grant Receipt
- LH-Credit Takeup
- Business plan development

Outputs
- Investment
- Business skills
- Soft skills
- Technical skills

Intermediary
- Income
- Assets
- Social capital
- Productive agency
- Informal transfers
- HH Finance
- Time use

Primary
- Dependency
- Diversification
- Poverty
- Food security

Spillover (Kebele)
- Prices
- Wages
- Product availability

Spillover (Network)
- Spillovers through _____ network
  - Social
  - Business
  - Informal transfer

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Open questions on impact evaluation design or implementation

- Goal 1: Produce evidence on scaling up economic inclusion programs at low cost; which results might or might not impact operational decisions on:
    - Would you consider credit as a replacement for grants building off existing social protection program (households already receive consumption support)?
    - Would you consider excluding/including soft skills trainings?

- Goal 2: Understand mechanisms through which alleviating credit constraints and developing human capital can generate persistent increases in income: Does our design accomplish this?

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Open questions on impact evaluation design or implementation

- Tight timeline
    - Community Based Targeting needs to be done in Control + Treatment Experimental Kebele, and needs to happen before other key activities can start

- Quality and intensity of interventions, has it improved sufficiently?

- Monitoring implementation fidelity at scale in a large number of regions

- What will take-up of LH-Credit be?
    - Households need to apply...
    - with well-prepared business plan...
    - to sufficiently capitalized local MFI
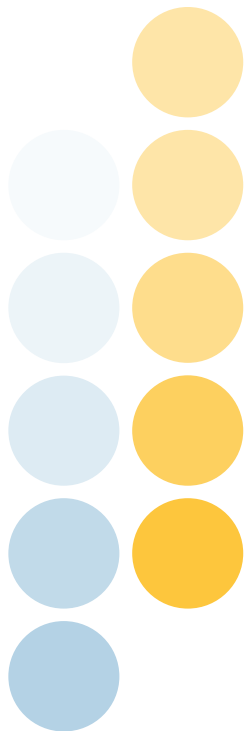
Thank you!

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PEI FUNDING PARTNERS