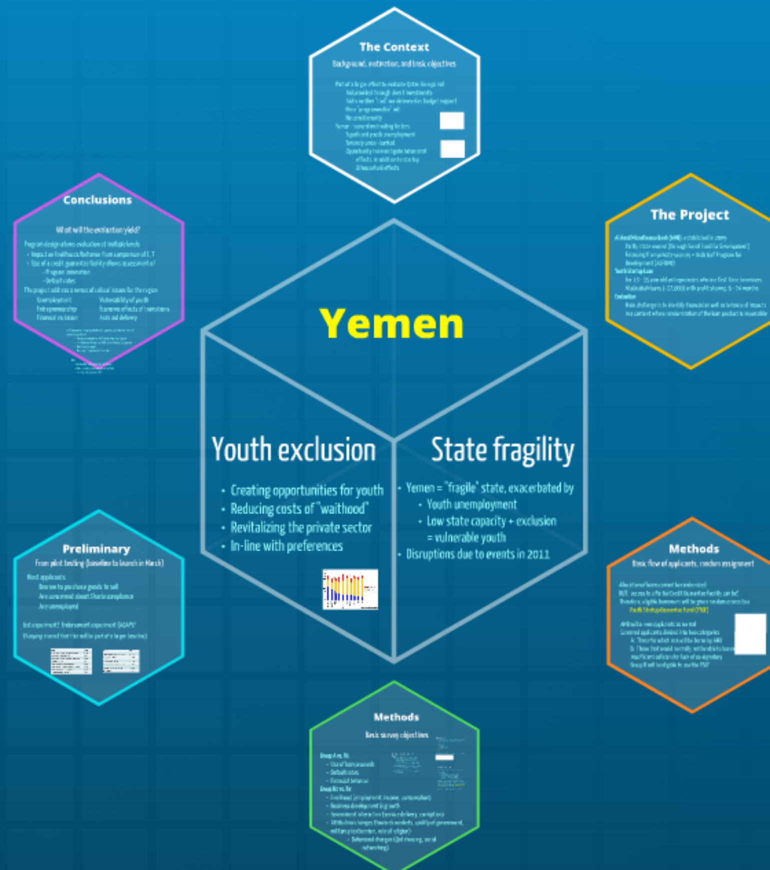
Self-Employment and Entrepreneurship

An Evaluation of a Youth Startup Credit Program

Raj M. Desai

Georgetown University and
The Brookings Institution

Doha Evidence Symposium, March 5 - 8



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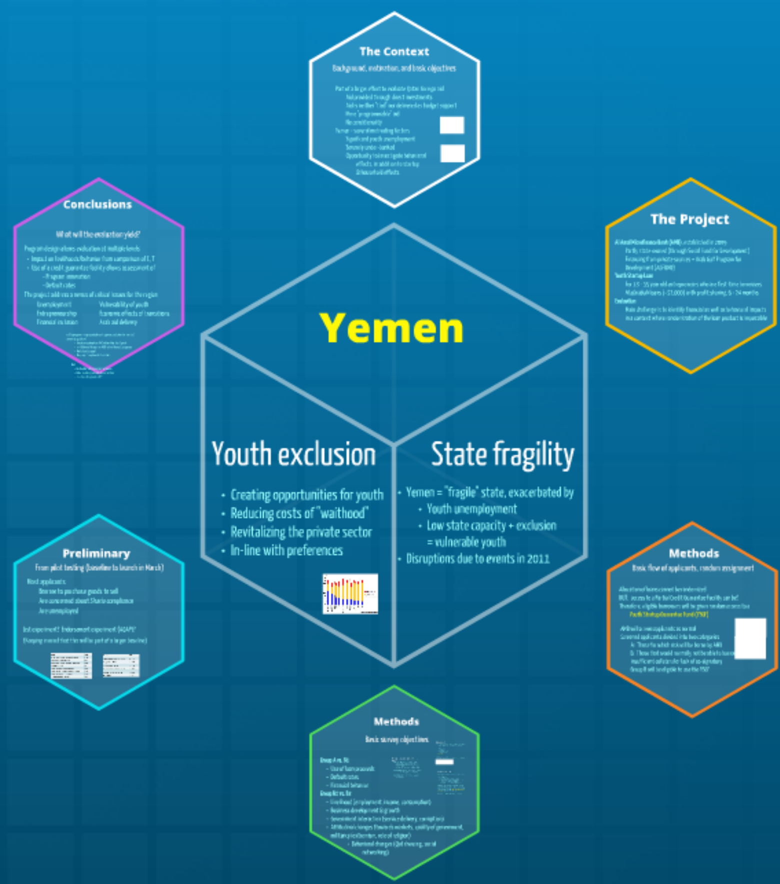

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critical issues for the region

Vulnerability of youth

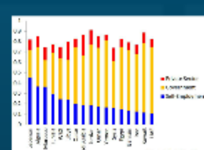
Economic effects of transitions

Arab aid delivery

Yemen

Youth exclusion

- Creating opportunities for youth
- Reducing costs of "waithood"
- Revitalizing the private sector
- In-line with preferences



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- Disruptions due to events in 2011

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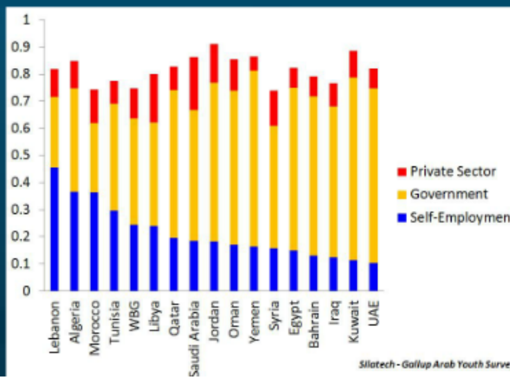

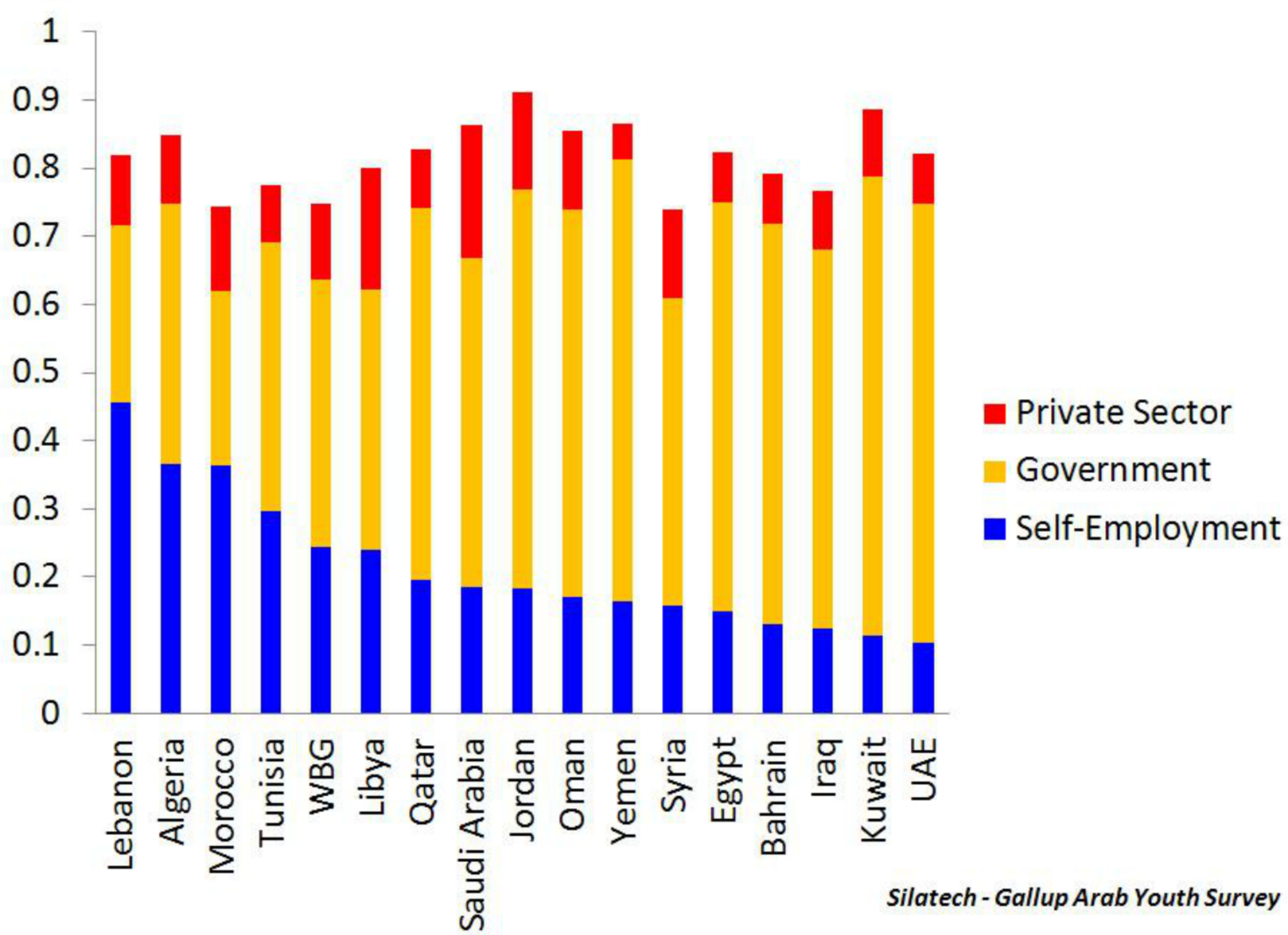

1
0.9
0.8
0.7
0.6
0.5
0.4
0.3
0.2
0.1
0
Lebanon
Algeria
Morocco
Tunisia
WBG
Libya
Qatar
Saudi Arabia
Jordan
Oman
Yemen
Syria
Egypt
Bahrain
Iraq
Kuwait
UAE
Private Sector
Government
Self-Employment
Silatech - Gallup Arab Youth Survey

State fragility

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The Context

Background, motivation, and basic objectives

- Part of a larger effort to evaluate Qatari foreign aid
  - Aid provided through direct investments
  - Aid is neither "tied" nor delivered as budget support
  - More "programmable" aid
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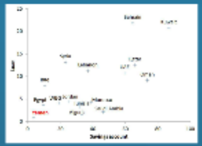
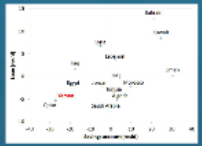
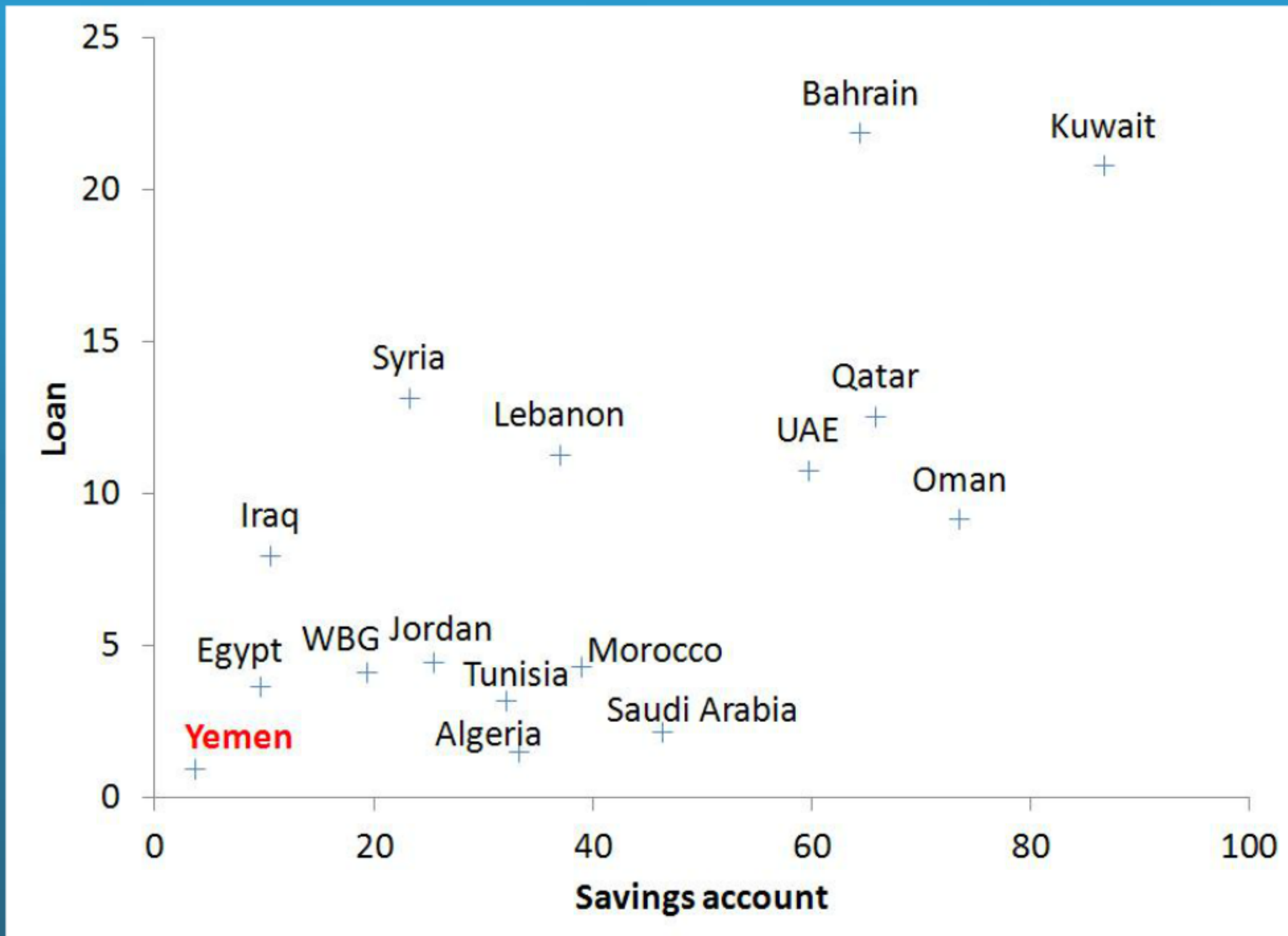
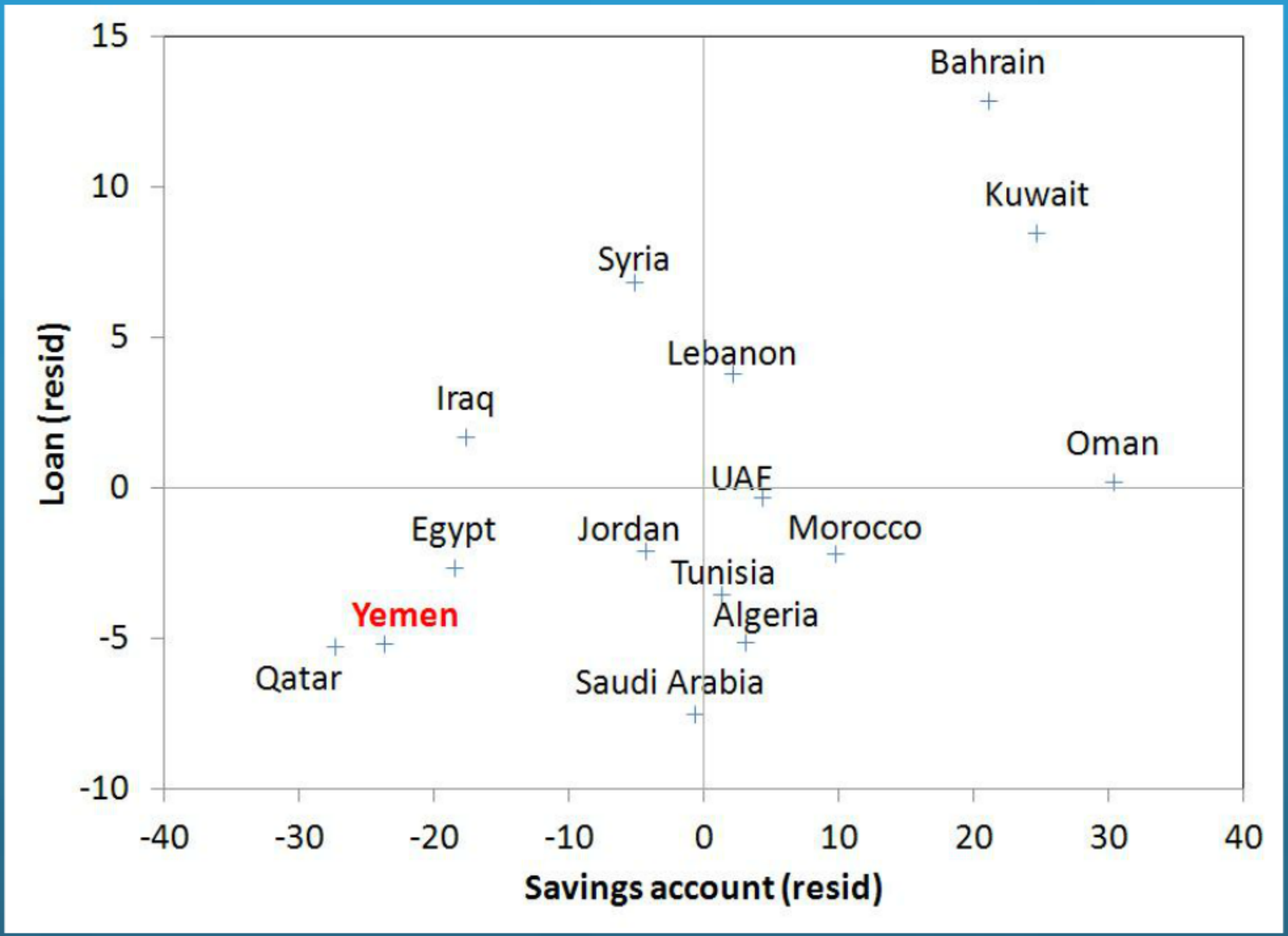


- Yemen - several motivating factors
  - Significant youth unemployment
  - Severely under-banked
  - Opportunity to investigate behavioral effects, in addition to startup & household effects





Bahrain
Kuwait
Syria
Qatar
Lebanon
UAE
Oman
Iraq
Egypt
WBG
Jordan
Morocco
Tunisia
Saudi Arabia
Yemen
Algeria
Loan
25
20
15
10
5
0
0
20
40
60
80
100
Savings account



15
10
5
0
-5
-10
Loan (resid)
-40
-30
-20
-10
0
10
20
30
40
Savings account (resid)
Bahrain
Kuwait
Syria
Lebanon
Iraq
Oman
UAE
Egypt
Jordan
Morocco
Tunisia
Yemen
Algeria
Qatar
Saudi Arabia

The Project

Al Amal Microfinance Bank (AMB), established in 2009

- Partly state-owned (through Social Fund for Development)
- Financing from private sources + Arab Gulf Program for Development (AGFUND)

Youth Startup Loan

- For 18 - 35 year old entrepreneurs who are first-time borrowers
- *Mudarabah* loans (~$2,000) with profit sharing, 6 - 24 months

Evaluation

- Main challenge is to identify financial as well as behavioral impacts in a context where randomization of the loan product is impossible

Methods

Basic flow of applicants, random assignment

Allocation of loans cannot be randomized
BUT: access to a Partial Credit Guarantee Facility can be!
Therefore, eligible borrowers will be given random access to a
    Youth Startup Guarantee Fund (YSGF)

AMB will screen applicants as normal
Screened applicants divided into two categories
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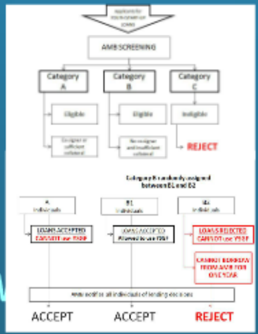
    insufficient collateral or lack of co-signatory
    Group B will be eligible to use the YSGF



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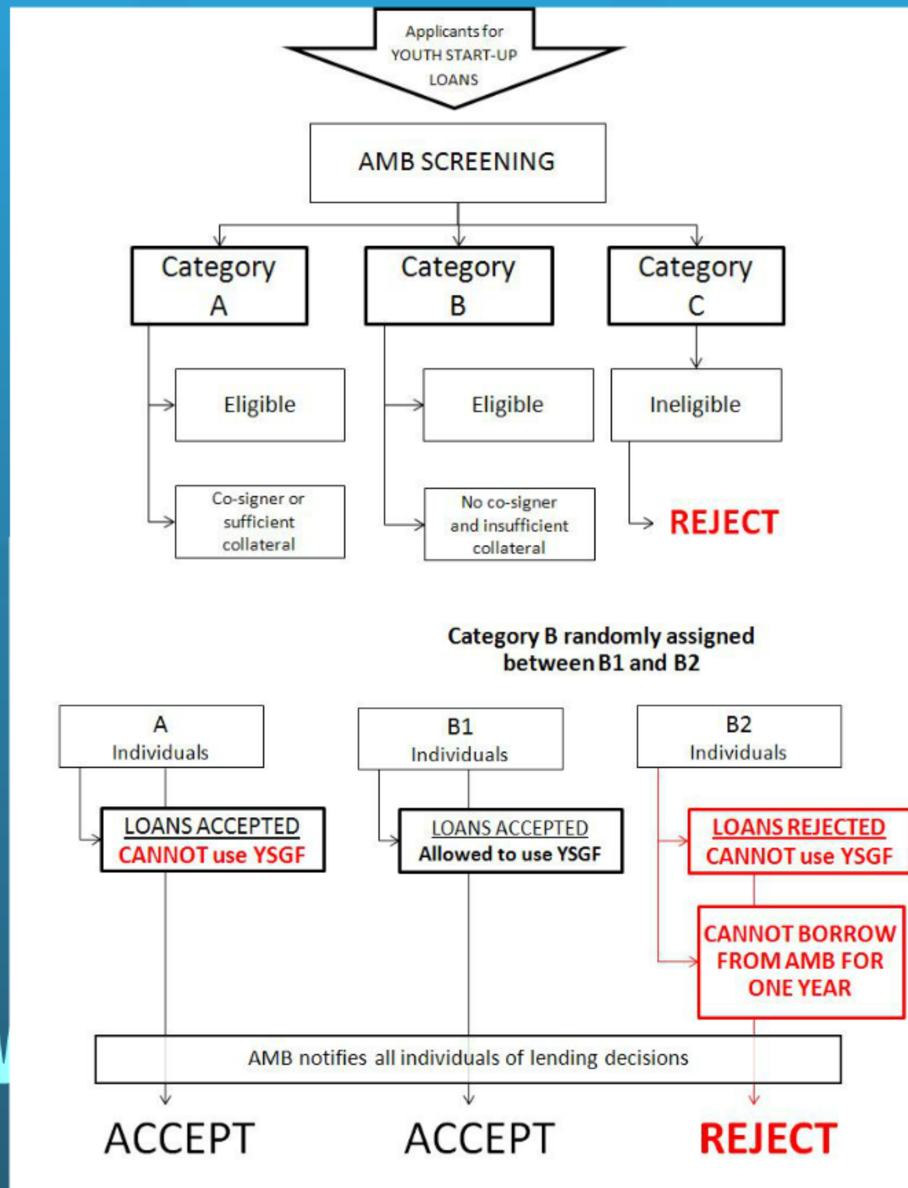
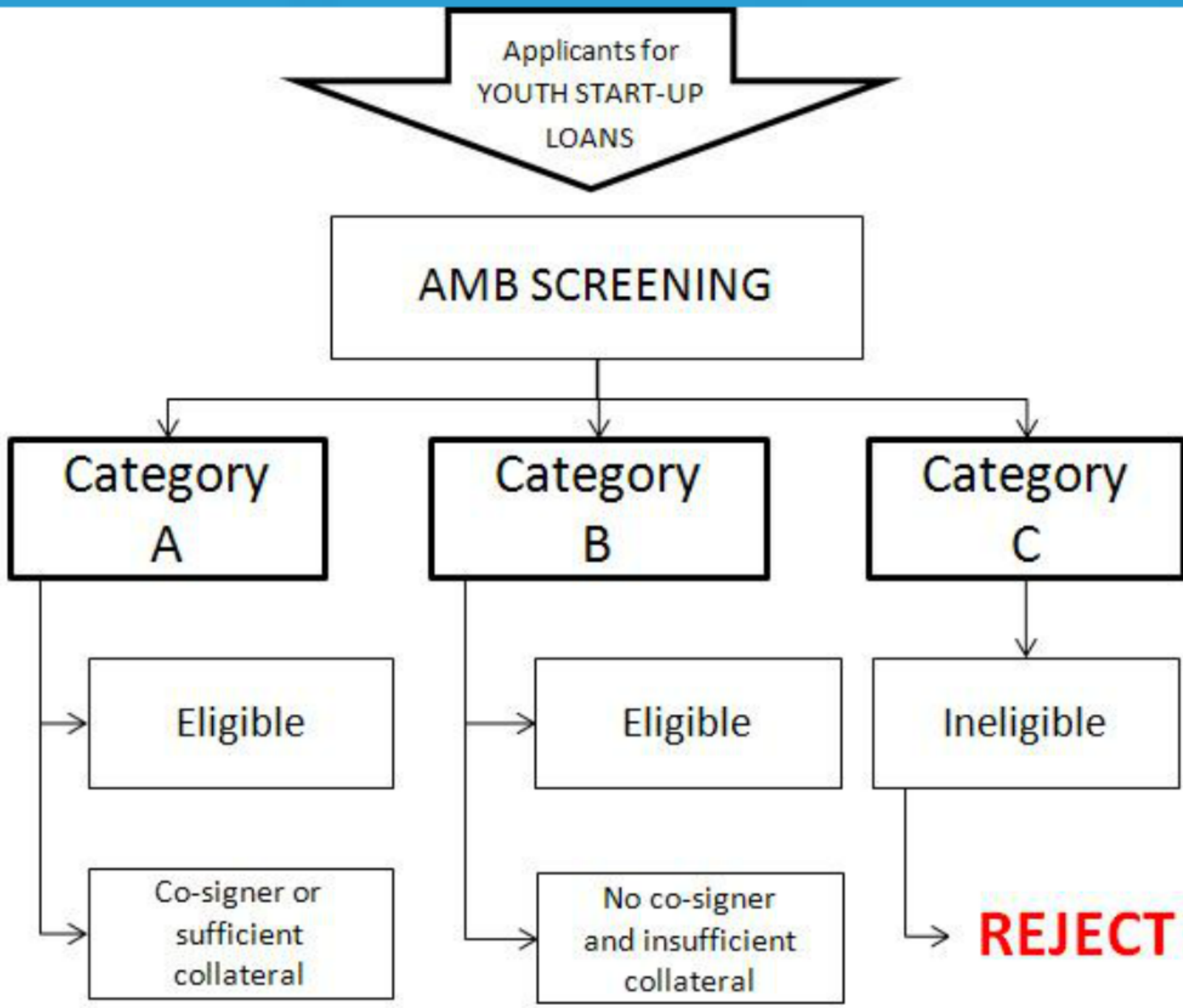
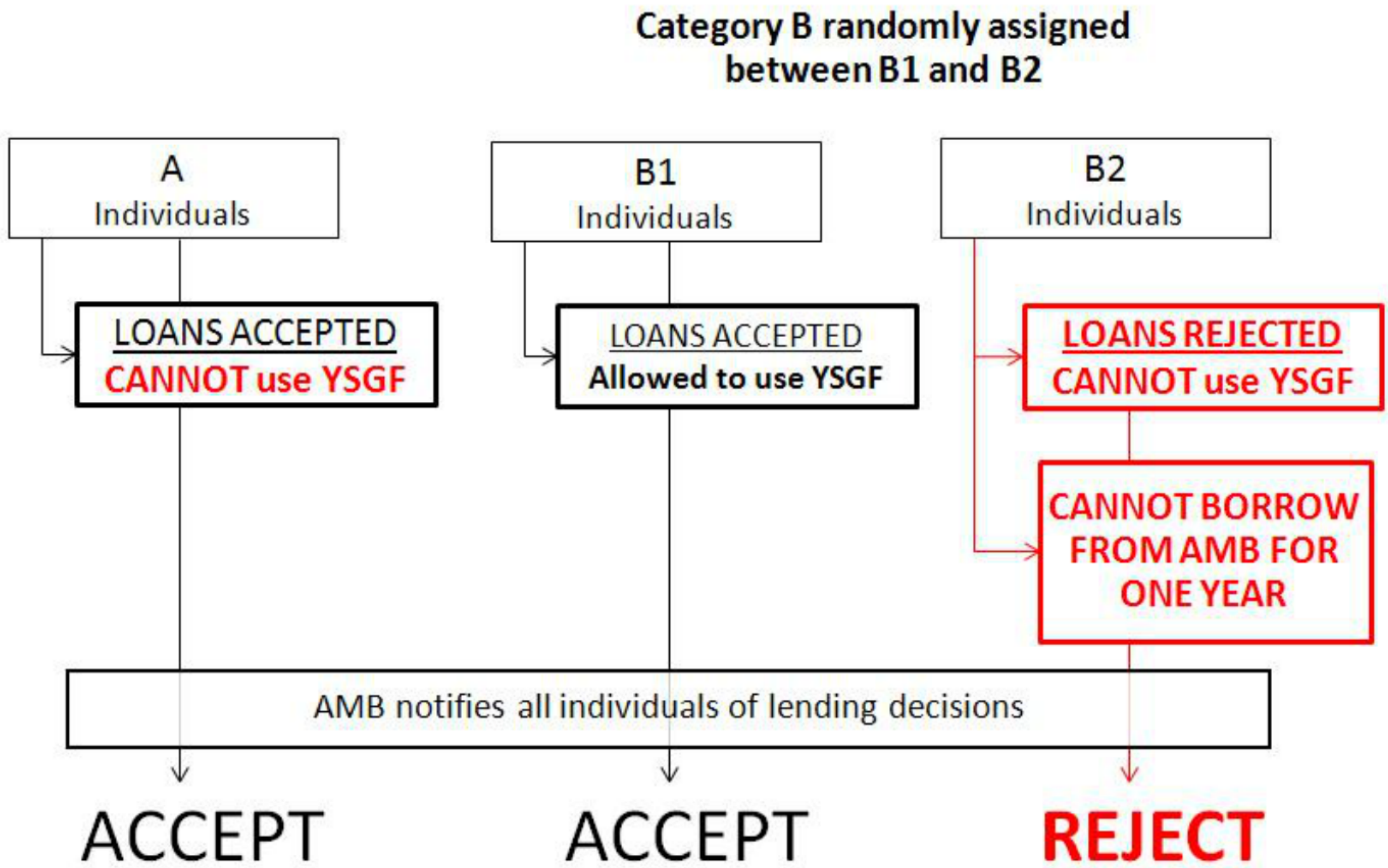




Category B randomly assigned between B1 and B2


Category B randomly assigned between B1 and B2
A
Individuals
B1
Individuals
B2
Individuals
LOANS ACCEPTED
CANNOT use YSGF
LOANS ACCEPTED
Allowed to use YSGF
LOANS REJECTED
CANNOT use YSGF
CANNOT BORROW FROM AMB FOR ONE YEAR
AMB notifies all individuals of lending decisions
ACCEPT
ACCEPT
REJECT

Methods

Basic survey objectives

Group A vs. B1

- Use of loan proceeds
- Default rates
- Financial behavior

Group B1 vs. B2

- Livelihood (employment, income, consumption)
- Business development & growth
- Government interaction (service delivery, corruption)
- Attitudinal changes (towards markets, quality of government, militancy/extremism, role of religion)
  - Behavioral changes (Qat chewing, social networking)

Obtaining accurate item-responses to sensitive questions

Validity of survey depends on the accuracy of self-reports

- Sensitive questions = social desirability, privacy concerns
- Lies and nonresponses
- How can we elicit truthful answers to sensitive questions?

Item Count Technique: also known as "list experiment" or "unmatched count technique," using aggregation to protect privacy

Endorsement Experiments - use of randomized endorsements to measure support levels

List experiment

Here is a list of things some people do every day. After I read them, just tell me HOW MANY of these things you do EVERY DAY (I don't what to know which ones, just how many):

(1) Participate in sports
(2) Go to a restaurant
(3) Read a newspaper
(4) Post something on Facebook
(5) Travel more than 20 km
(6) Chew qat

standard difference-in-means estimator:
treatment group mean − control group mean = fraction of respondents engaged in sensitive activity

$$\hat{\tau} = \frac{\sum_{i=0}^{N} X_i^T}{N_T} - \frac{\sum_{i=0}^{N} X_i^C}{N_C}$$

Endorsement Experiment

To measure support for actors, groups, organizations, when considered "sensitive"

Experimental design:

1. Select policy questions
2. Randomly divide sample into control and treatment groups
3. Across respondents and questions, randomly assign political actors for endorsement (no endorsement for the control group)
4. Compare support level for each policy endorsed by different actors

Control version: The Government of Yemen is planning to reduce energy and fuel subsidies for those above the poverty line. How much do you support such a plan?

Treatment version: The Government of Yemen is planning to reduce energy and fuel subsidies for those above the poverty line. This plan is supported by al-Tajmu al-Yamani li al-Islah. How much do you support such a plan?

(1 = strongly oppose, 2 = oppose, 3 = neither, 4 = support, 5 = strongly support)

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Preliminary

From pilot testing (baseline to launch in March)

Most applicants

- Borrow to purchase goods to sell
- Are concerned about *Sharia* compliance
- Are unemployed

List experiment? Endorsement experiment (AQAP)?

(Keeping in mind that this will be part of a larger baseline)

Action	Effect
Do not want a woman running a business	0.150
Oppose terrorist kidnappings	0.025
Oppose destruction of property by militants	0.238
Chew qat everyday	0.075
Want an Islamic Emirate of Yemen	0.000
Would not hire employees of different sect	0.150
Would not work for a female boss	0.363
Participated in the revolution	0.095

Policy	Effect
National corruption authority	-0.158
Support to SMEs	-0.167
Rural infrastructure	-0.111
Reduction of fuel subsidies	-0.158
Greater local autonomy	-0.225
Average	**-0.164**

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Conclusions

What will the evaluation yield?

Program design allows evaluation at multiple levels

- Impact on livelihoods/behavior from comparison of C, T
- Use of a credit guarantee facility allows assessment of
  - Program innovation
  - Default rates

The project address a nexus of critical issues for the region

Unemployment	Vulnerability of youth
Entrepreneurship	Economic effects of transitions
Financial inclusion	Arab aid delivery

AMB's program = representative of approaches taken by non-DAC donors (e.g, Qatar)

- Direct investment in AMB rather than loan/grant
- Aid delivery through an NGO rather than state agency
- No budget support
- No project implementation units

But

- No benchmarking for performance
- Data reporting standards are unclear

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- Absence of rigorous M&E

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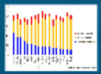

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