

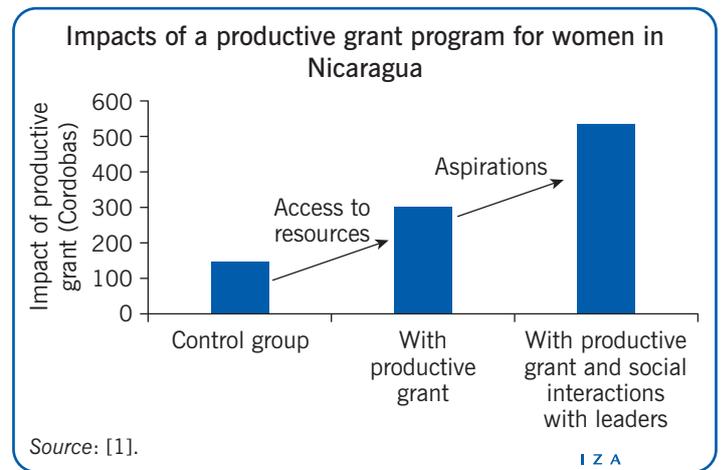
What can be expected from productive inclusion programs?

Grants and training programs are great complements to social assistance to help people out of poverty

Keywords: productive inclusion, graduation, training, self-employment, entrepreneurship, social protection systems

ELEVATOR PITCH

Productive inclusion programs provide an integrated package of services, such as grants and training, to promote self-employment and wage employment among the poor. They show promising long-term impacts, and are often proposed as a way to graduate the poor out of social assistance. Nevertheless, neither productive inclusion nor social assistance will be able to solve the broader poverty challenge independently. Rather, the future is in integrating productive inclusion into the existing social assistance system, though this poses several design, coordination, and implementation challenges.



KEY FINDINGS

Pros

- + Productive inclusion programs have long-term positive impacts on the poor, which span dimensions beyond income.
- + In rural areas, the net returns of productive inclusion programs are positive, including for the most vulnerable groups such as the extreme poor.
- + Rural productive inclusion programs that combine grants with training have shown among the most consistent positive impacts.
- + Integration of productive inclusion into the social assistance system could lead to significant synergies and even larger impacts.

Cons

- Productive inclusion programs can help reduce poverty, but will not solve poverty on their own.
- There is little evidence on the long-term impacts of large-scale, government-led programs.
- Comprehensive packages of productive inclusion services can be relatively costly.
- Training programs in urban areas for vulnerable populations such as unskilled youth have shown heterogeneous impacts.
- Integrating productive inclusion into the social assistance system poses several design and implementation challenges.

AUTHOR'S MAIN MESSAGE

The integration of productive inclusion programs into social assistance systems can lead to substantial and long-term poverty reduction. However, productive inclusion will not work for everybody, and even when it shows impacts some households—especially the poorest and most marginalized—will still need assistance. To maximize impacts, it is important to tailor productive inclusion programs to match the beneficiaries' profiles. Furthermore, the right monetary and design incentives must be provided so that social and productive inclusion programs can effectively coordinate activities, exchange information, and refer beneficiaries.

MOTIVATION

In the 2000s, low- and middle-income countries significantly increased their spending on social programs, in particular on conditional cash transfers (CCTs), which were aimed at reducing poverty and increasing equality. These programs delivered substantial reductions in poverty and improved the demand for education and health services; however, they showed mixed results in terms of long-term poverty reduction through labor market impacts for adults, especially graduates. This is in part due to the fact that effects from these programs vary with respect to household composition and gender [2]. These findings led to a new wave of “productive inclusion” interventions, which typically included an integrated package of services intended to promote self-employment activities among the rural poor, and self-employment or wage employment among the urban poor. While pilot programs have shown promising impacts and positive returns, the cross-sectoral nature of these programs and the need to integrate them into existing social assistance systems can make large-scale implementation a challenge.

DISCUSSION OF PROS AND CONS

Long-term and self-sustained poverty reduction is mostly achieved through improvements in the earnings of the poor. This is why, increasingly, traditional poverty reduction strategies based on the provision of social assistance (such as cash transfers) have been complemented by the implementation of productive inclusion programs. Productive inclusion programs can broadly be categorized into two categories:

- *entrepreneurship programs*—typically, programs that provide a target population with loans or grants to start an activity or improve productivity, usually coupled with additional forms of support such as activity-related training; and
- *training and labor market insertion programs*—programs that aim at providing beneficiaries with cognitive and non-cognitive skills that are relevant for the labor market by means of classroom and on-the-job training, and support for better labor market integration.

Large positive impacts of productive inclusion programs in rural areas

Productive inclusion programs in rural areas have shown promising results. A large-scale productive inclusion pilot conducted by BRAC, a non-governmental organization (NGO) that provides ultra-poor women in rural Bangladesh with seed capital to engage in a productive activity as well as two years of training and assistance, shows long-term positive impacts: after four years, beneficiaries still exhibited a 15% increase in labor productivity and a substantial 38% increase in earnings [3]. Among beneficiaries, 11% were lifted out of extreme poverty, as measured by the \$1.25-a-day poverty line. An evaluation of the pooled impacts of six similarly designed productive inclusion programs in Ethiopia, Ghana, Honduras, India, Pakistan, and Peru also finds substantial impacts [4]. These pilots were comprehensive in scope, and included the following: a one-time transfer of a productive asset; a regular transfer of food or cash for a few months to about a year; technical skills training on managing the particular productive assets; high-frequency home visits; savings promotion strategies; and, apart from the Ethiopian program, a health component. These six multifaceted productive inclusion programs show positive

results that go well beyond the purely economic dimensions. The programs have led to positive impacts on consumption, income, food security, households' assets and financial positions, and mental health. Overall, with the exception of Honduras, all of the programs showed benefits greater than their costs (ranging from 133% in Ghana to 410% in India). Moreover, the long-lasting effects of productive inclusion programs suggest that they do help break potential poverty traps [4].

Despite these positive results, determining which of the many facets of productive inclusion programs are truly critical for their success remains an open line of investigation. How much follow up is needed, for instance, is still unknown and most likely depends on the context, program design, and beneficiaries' profile. For instance, long-term impacts have been observed from a program in Uganda that provided grants to groups of young entrepreneurs for training and initiating a business; however, besides an initial screening process, no supervision was conducted [5]. Notwithstanding the knowledge gaps about factors driving successful productive inclusion, the evidence points towards the need to associate grants with training; to tailor productive activities and training to the local culture and economy; and, for the ultra-poor, to provide grants as opposed to credit.

The psycho-social dimension surrounding beneficiaries, such as mental health, social interactions, and aspirations also affects the impacts of productive inclusion programs. A social program in Nicaragua, for instance, provided either vocational training or new business grants to the majority of households in each targeted community. Local leaders were also included among the beneficiaries, and interactions with local leaders amplified program impacts on income generation [1]; for example, income from non-agricultural activities among beneficiaries who received the business grant and who lived in proximity to a local leader grew by an additional 40%, as shown by the illustration on page 1.

Impacts of training and labor insertion programs for vulnerable groups

In urban settings, productive inclusion programs often take the shape of training and labor insertion programs for vulnerable groups, such as job search assistance. Their impacts have varied considerably, depending on the target population. Some groups of beneficiaries, such as the unemployed, vulnerable, or marginalized populations, and out-of-school youth are harder to train due to psycho-social factors and—in particular for the last two groups—difficult life trajectories that often keep them away from school. Conversely, providing training to inactive women who are willing to join the labor market or to newly hired employees who are keen to learn how to perform in their new job seems to lead to positive impacts. Such differences in impacts across beneficiary profiles highlight the importance of considering non-cognitive, motivational, and aspirational aspects—as opposed to just cognitive skills—because they influence the trainees' capacity to assimilate notions and their confidence that the training may be able to change their life trajectories [6]. Consequently, a growing number of programs are now including non-cognitive modules in the training of vulnerable groups.

A summary of factors affecting the success of training programs is shown in Figure 1 [6]. Factors are grouped into those that have exhibited, on average, no impact (measured in terms of earnings or employment), little impact, some impact, and a consistent impact. A consistent impact rating means that factors have positively affected labor market outcomes across most evaluations and design settings.

While useful, this classification metric needs to be taken with a grain of salt. The magnitude of the impacts tend to vary significantly across evaluations, which is a reflection of the fact that impacts depend on many factors, from the quality of implementation and the overall package that has been offered, to economic conditions and the profile of the treated population. Moreover, some features may create large impacts when part of a certain package of services and for a certain type of beneficiaries, but may not reveal any impact in other package configurations and beneficiary profiles. As an example, life skills training may exhibit large impacts for low-skilled and vulnerable populations, while having little impact for trained professionals.

Overall, three factors appear to have a strong and consistent impact on labor market outcomes: the presence of on-the-job training, which may or may not complement classroom training; the length of training; and the provision of a comprehensive package of services that goes beyond pure training (Figure 1).

Pure classroom technical training, unless very specialized, has consistently shown to lead to almost no impacts on labor market outcomes. This is because technical training is more than just learning notions: it is about putting them into practice and learning how to solve daily issues that arise on the job.

Short training durations also have only limited impacts, as digesting and assimilating notions, techniques, and problem-solving skills takes time. Short training can be useful for teaching trained specialists about new technology in their field, but is of little use for imparting broader skills, in particular for people who may also be in need of remedial education; it is not possible to expect training to resolve in a few hours what people may have missed for years in the formal education system.

Finally, training alone may have little effect if it is not accompanied by a comprehensive package of services, which, depending on the profile of beneficiaries, can range from remedial education to psycho-social support and vocational assessment, as well as employment services aimed at helping people better integrate into the labor market.

Other factors have also been shown to affect labor market outcomes. The existing institutional and economic context has a strong impact on labor market outcomes: poor quality training institutes or severe economic downturns are likely to reduce the impacts of training. Large firms seem to provide better training than smaller ones—in part due to scaling effects that allow them to implement more efficient training programs, and because they tend to exploit more sophisticated technologies, which may require a stronger emphasis on training. Working closely with the private sector is also crucial for training programs to deliver significant impacts. Other factors associated with better labor market outcomes include whether participants complete the training, and whether firms commit to hiring a percentage of participants once the training is complete.

Some of these observed associations should be interpreted with caution. The observed association between training completion and labor market outcomes may only indicate that if participants are motivated enough to complete the training, they may also be better motivated in the labor market: forcing people to complete training may therefore not lead to higher impacts. Similarly, one should think carefully about the option of asking firms to commit to hiring a certain percentage of program candidates: this may improve labor market outcomes, but since firms will put more effort into screening candidates, only the most suited will be hired. While such a strategy may improve efficiency and labor

market outcomes, it may present a challenge if the program’s objectives include reaching vulnerable groups who may be less motivated and more difficult to train.

Integrating training and labor insertion programs with social programs that are able to stimulate their demand and take-up rates can further improve impacts by helping reach the most vulnerable households. When doing so, however, it is essential to work with training providers to guarantee the availability of programs that are tailored to match

Figure 1. Factors affecting training program impacts

	<i>Most frequent observed impact (earnings and/or employment)</i>
<i>Context (legal framework, capacity, quality of training network, economic cycle):</i> If training does not respond to the context, impacts can be significantly reduced.	✓✓
<i>Unemployed:</i> Training tends to have modest impacts for the unemployed, mostly on employment, little on earnings.	✓
<i>Marginalized/poor groups:</i> The more marginalized a group is, the less likely it is that training will have an impact.	✓
<i>Youth:</i> Small positive impacts mostly limited to the <i>jovenes</i> programs in Latin America, most on employment, in some cases on earnings. Impact depends much on the presence of a comprehensive package of services.	✓
<i>(Inactive) women:</i> Impact is marked when women move from inactive to active status.	✓✓
<i>On-the-job training component:</i> On-the-job training is the feature that has been most consistently reported to positively affect impacts.	✓✓✓
<i>Pure classroom training (technical and soft skills):</i> Very limited impact, unless directed to specific needs, or accompanied with on-the-job training.	✗
<i>Training tailored to local employers’ needs (demand-driven design):</i> To have an impact, training must address the needs of local employers, which poses a challenge to nation-wide approaches.	✓✓
<i>Comprehensive package of services:</i> A comprehensive package should include on-the-job training, remedial education, psycho-social support, personalized counseling, vocational assessment, and employment services.	✓✓✓
<i>Length of training:</i> Digesting concepts and notions takes time—short training spells have usually very little impact.	✓✓✓
<i>Life skills training:</i> There is still little research on the impacts of life skills training, but these skills are important for the labor market, and some people may not have received adequate training.	✓

Note: ✗ no impact on earnings or employment; ✓ little impact; ✓✓ some impact; ✓✓✓ considerable impact.

Source: Lavado, P., J. Rigolini, and G. Yamada. *Giving Peru a Productivity Boost: Towards a System of Continuous Education and Training*. Lima: Universidad del Pacifico, 2015 [6].

the specific needs of the beneficiary population. Studies of the labor market impacts of a training program that targeted the vulnerable population associated with the social intermediation service Chile Solidario provide useful lessons [7], [8]. Chile Solidario helped connect poor households with training and employment programs, which rapidly expanded during the program's initial years through a combination of self-employment support, wage subsidies, soft-skills training, and education equivalencies; accordingly, employment effects have been found to be stronger for those cohorts that were exposed to an expanded supply of relevant programs that better addressed their vulnerabilities.

How effective are productive inclusion programs for poverty reduction?

Productive inclusion programs have a similar impact on poverty reduction as that of other existing social programs, such as CCTs. In comparing impacts, the average increase in per capita consumption provides a better indicator than a reduction in poverty, due to the fact that poverty impacts are highly dependent on how far beneficiary households are from the poverty line. One relevant study finds an 8% increase in per capita consumption in Bangladesh [3], and the pooled impacts on consumption from the six productive inclusion programs evaluated in a later study vary between 3.3% and 4.5% [4]. These impact levels are slightly below the observed impacts of CCTs on per capita consumption, which, for the median household, tend to vary between 7% and 10% (although in some cases, no impact has been observed; e.g. [9], Table 2).

However, the above comparison comes with some caveats. Productive inclusion programs are one-off interventions that induce long-lasting impacts, while CCTs require constant support. On the other hand, CCTs have been proven to positively affect social dimensions that go beyond consumption, such as school enrollment and health checkups, which are both milestones of early childhood development policies.

Depending on the package of services provided, productive inclusion programs can become relatively costly to implement. Uganda's unconditional grant program provided people with a grant of approximately \$375 in PPP (purchasing power parity) terms. In the early 2000s, the costs of Latin American training programs for vulnerable youth varied from \$420 in Peru to \$750 in Colombia, in nominal terms [10]. Peru's small farmer support program, Haku Wiñay, provides grants of approximately \$1,100 in nominal terms. The multifaceted productive inclusion programs evaluated by [4] face overall implementation costs ranging from \$1,538 per household in India, to \$5,742 in Peru (in PPP terms)—close to half of Peru's GDP per capita. In spite of the long-lasting positive returns generated, the relatively high costs of the more comprehensive productive inclusion programs call for further studies to better identify the essential factors underlying their impacts, so that future programs can be designed more efficiently.

Ultimately, while effective, neither social assistance nor productive inclusion will solve the poverty challenge alone. Lifting people out of poverty requires a combination of policy actions, ranging from supporting economic growth and improving the environment surrounding the poor, to education and social policies [11]. It is important to have realistic expectations about the possible impacts of productive inclusion and social protection programs. For instance, it is not realistic to expect that skills formation programs for vulnerable youth, which on average last three to nine months, can provide a substitute for years of poor or even no education. Rather, their impacts must be gauged against

what they really are: remedial programs meant to fill serious structural gaps. As such, productive inclusion programs do not represent a magic pill. They must be part of a poverty reduction strategy that requires extensive coordination between a multitude of actors; they should thereby comprise part of an integrated social protection system and a broader national development strategy.

Scaling up and integrating productive inclusion programs into social assistance systems

Many productive inclusion programs that have been rigorously evaluated, in particular those implemented in rural areas, are not run by governments. Their success has raised significant interest, and many countries have begun to integrate productive inclusion into their own social assistance systems. This integration, while welcome, faces two key challenges.

The first is the scaling up of productive inclusion programs—many of which received intensive supervision during their pilot phases—to the national level. In addition to implementing them on a larger scale, the challenge is to adapt programs so that they can be effectively run by bureaucratic systems, as opposed to the more flexible (but smaller) NGOs that have traditionally been in charge. A preliminary evaluation of Peru's national productive inclusion program, Haku Wiñay, which has benefitted close to 50,000 households, suggests promising results [12]. However, the challenges of providing multifaceted support may be exacerbated during the transition from pilot to large-scale programs because the provision of services must be coordinated across various agencies and government departments. This stresses the importance of gathering more information about which components of multifaceted productive inclusion programs are essential for guaranteeing their success, in order to streamline program design and minimize coordination challenges. As the Ugandan entrepreneurship program, which had minimal supervision, has shown, supervision-intensive programs may not be the only way to ensure program effectiveness.

The second challenge is the integration of productive inclusion programs into the social assistance network. The more programs work with one another to provide a tailored package of services that corresponds to the beneficiaries' needs and profiles, the larger and more sustainable the impact is likely to be. The integration agenda is picking up pace, with an increasing number of countries working towards building social protection systems, as opposed to the more conventional approach of implementing standalone programs to address specific vulnerabilities, which typically involve little coordination among themselves. There are, however, important implementation aspects that need to be taken into consideration when integrating productive inclusion programs [13]:

- *Profiling the demand for productive inclusion services.* While traditional CCT programs target households by characteristics that proxy their poverty status and vulnerabilities, such as self-declared income or households' assets, profiling for productive inclusion programs also needs to identify characteristics associated with individuals' ability to participate in productive activities, such as the type of education received, previous work experience, or local labor demand. The focus when characterizing the target population must therefore be broadened, from exclusively considering poverty status to including an assessment of productive capacity and employability. Accordingly, social registries should broaden their focus by merging databases with others

managed by the labor, production, and/or agriculture departments; alternatively, new questions on the social registry or additional surveys need to be designed to capture these productivity related characteristics. Productive inclusion can also benefit from community level interventions, where non-poor households may be program actors and beneficiaries; to the extent that the development of value-added chains is key to ensuring sustained gains in productivity, all local level economic actors should be involved. As such, registries may have to expand to include the non-poor population.

- *Adjusting services to match beneficiaries' capacities, market demands, and local contexts.* Productive inclusion programs need to be adapted to local conditions, so that they can respond to both the local economy (labor demand) and the skill specificities of the local population (labor supply). Productive development packages accompanying social assistance interventions need to be flexible when combining different components (e.g. cash, training, commercialization, small infrastructure) at different levels of beneficiaries (e.g. individuals, households, communities). It is therefore important to involve local actors and give them a prominent role in implementation. The services provided will also need to adjust to different baselines and evolve in time to reflect progress in the development of skills and capacities.
- *Institutional coordination within the public sector and between the public and private sectors.* The integration of social assistance with productive inclusion programs requires intensive coordination between several public-sector agencies and the private sector. While normative frameworks are important—such as agreements and memorandums of understanding between government departments—organizational arrangements and incentive structures will define the system's overall effectiveness. In addition to formal agreements, incentives will depend on the way the budget is allocated and how funds flow through the various institutions involved. The inter-institutional coordination must also include information sharing and joint monitoring efforts to ensure an adequate and effective response to beneficiaries' needs and profiles.
- *Integration of the provision of services across the territory.* An integrated provision of services requires adjustments to the way services are delivered locally. To effectively deliver social and productive inclusion services, governments need to approach families in a coherent manner and must tailor program benefits to match their specific profiles. This delivery strategy is in stark contrast to the typical approach in which beneficiaries are required to navigate the complex bureaucratic network of social services. When addressing and integrating the territorial component of the provision of social services, the interface between program operators and beneficiaries is essential for the success of poverty reduction strategies.

LIMITATIONS AND GAPS

Further research is needed on the effectiveness of various implementation modalities of productive inclusion programs. A better understanding of the relevance of specific implementation features, such as training, the intensity of supervision, and the provision of additional services like consumption support and health components, would help to identify the driving impacts and outcomes associated with productive inclusion programs that may go beyond the economic dimension.

It is likewise necessary to gain a greater understanding of ways to integrate productive inclusion programs into broader social assistance systems. For integration to work, it must take into account local capacity and political economy considerations. For instance, in low-capacity settings or given poor communication across government departments, sophisticated integration and communication mechanisms, such as complex registries drawing from various databases, or automatic profiling and referrals, can backfire. Moreover, in addition to formal agreements, designing the right incentives to ensure cooperation and integration is an essential component of any system, though this can be quite difficult due to institutional contexts that often prevent, rather than favor, inter-institutional cooperation. Another limiting factor regarding the evaluation of existing programs is that most data come from pilot programs, with little long-term evidence on large-scale efforts available.

SUMMARY AND POLICY ADVICE

Productive inclusion programs appear to be promising policy options for helping households escape poverty. However, while impacts and returns from these programs have been remarkable, they should be considered as complementary to social assistance, rather than as a substitute. While most households benefit from productive inclusion, only a few manage to escape poverty altogether, while many remain in need of some form of additional support.

Effective poverty reduction strategies must be broad-ranging and multisectoral in nature; they need to include elements of income support, individuals' and households' personal development, and improvements of the environments where poor households reside. While not a panacea, productive inclusion programs can provide many benefits that help address these goals, particularly when it comes to improving the productive potential of poor households in rural areas.

Acknowledgments

The author thanks an anonymous referee and the IZA World of Labor editors for many helpful suggestions on earlier drafts. Previous work of the author contains a larger number of background references for the material presented here and has been used intensively in all major parts of this article [6], [11], [13]. The views expressed in this paper do not necessarily represent the views of the International Bank for Reconstruction and Development/World Bank and its affiliated organizations, or those of the Executive Directors of the World Bank or the governments they represent.

Competing interests

The IZA World of Labor project is committed to the *IZA Guiding Principles of Research Integrity*. The author declares to have observed these principles.

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