

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

By Campello, Junqueira, and Lagaras

Joao Monteiro
EIEF

June 29, 2026

Endless Summer Conference of Financial Intermediation and Corporate Finance

How can we boost entrepreneurship?

Entrepreneurship is risky. Risk-averse agents will only do it if:

- Returns are sufficiently high; or
- Downside risk is minimized - **safety net**.

How can we boost entrepreneurship?

Entrepreneurship is risky. Risk-averse agents will only do it if:

- Returns are sufficiently high; or
- Downside risk is minimized - **safety net**.

What happens to entrepreneurial activity when individuals receive a lump-sum transfer?

- 1 **Negative selection:** higher entry but lower average quality.

Lucas (1978), Evans & Jovanovic (1989)

- 2 **Misallocation:** higher entry and same/higher average quality.

Banerjee & Duflo (2005), de Mel et al. (2008), Hombert et al. (2020)

- Individuals with high quality but low cash were being pushed out.

How can we boost entrepreneurship?

Entrepreneurship is risky. Risk-averse agents will only do it if:

- Returns are sufficiently high; or
- Downside risk is minimized - **safety net**.

What happens to entrepreneurial activity when individuals receive a lump-sum transfer?

- 1 **Negative selection:** higher entry but lower average quality.

Lucas (1978), Evans & Jovanovic (1989)

- 2 **Misallocation:** higher entry and same/higher average quality.

Banerjee & Duflo (2005), de Mel et al. (2008), Hombert et al. (2020)

- Individuals with high quality but low cash were being pushed out.

This Paper: a little bit of both!

Result 1 - Bolsa Família causally increases entrepreneurial activity

	Entry Transitions		Composition
	From Non-employed to Entrepreneur (1)	From Employed to Entrepreneur (2)	Beneficiary Share of Entrepreneurs (3)
Beneficiary Share of Households	0.058*** (2.65)	0.088*** (2.74)	0.626*** (9.93)
Mean of Dependent Variable	0.036	0.106	0.136
First-stage F-statistic	1,099.9	1,112.2	971.9
Observations	42,367	42,316	66,336
Survey Area FE	✓	✓	✓
State × Year FE	✓	✓	✓
Controls	✓	✓	✓
Clustered SE (Survey Area)	✓	✓	✓

- Elasticity from non-employment is around 1.6.

Result 2 - But the new entrepreneurs tend to underperform

Dependent Variable:	1{Business Survival}		1{Business Growth}	
	(1)	(2)	(3)	(4)
<i>Panel A: 1-Year Post-Founding</i>				
1{Cash-Transfer Entrepreneur}	-0.567** (-2.25)	-0.693*** (-2.69)	-0.179*** (-4.96)	-0.202*** (-5.48)
Observations	2,246,740	2,103,518	2,195,389	2,067,359
Adjusted R ²	0.02	0.03	0.03	0.03
Mean Dependent Variable	81.255	81.294	1.671	1.138
<i>Panel B: 2-Year Post-Founding</i>				
1{Cash-Transfer Entrepreneur}	-2.336*** (-8.79)	-2.615*** (-9.97)	-0.318*** (-7.40)	-0.345*** (-8.09)
Observations	2,246,740	2,103,518	2,195,389	2,067,359
Adjusted R ²	0.07	0.08	0.06	0.05
Mean Dependent Variable	68.467	69.401	2.604	1.761
<i>Panel C: 3-Year Post-Founding</i>				
1{Cash-Transfer Entrepreneur}	-4.981*** (-18.96)	-5.303*** (-20.55)	-0.256*** (-3.99)	-0.277*** (-4.34)
Observations	2,246,740	2,103,518	2,195,389	2,067,359
Adjusted R ²	0.09	0.10	0.06	0.05
Mean Dependent Variable	56.289	57.065	4.618	3.219
<i>Panel D: 5-Year Post-Founding</i>				
1{Cash-Transfer Entrepreneur}	-7.082*** (-27.58)	-7.295*** (-28.29)	-0.309*** (-3.51)	-0.327*** (-3.75)
Observations	1,316,732	1,217,363	1,277,309	1,189,929
Adjusted R ²	0.06	0.07	0.07	0.06
Mean Dependent Variable	45.690	45.119	6.661	5.037
Sample:	Full	Matched	Full	Matched
Entrepreneur FE (all characteristics jointly)	✓	✓	✓	✓
Industry × Equity × Year FE	✓	✓	✓	✓
Clustered SE (Municipality)	✓	✓	✓	✓

Result 3 - But they see smaller wage losses than other failed founders

Panel B: Compensation

Dependent Variable:	Monthly Salary (4)	Salary per Hour (5)	1 {Stable Pay} (6)
1 {Cash-Transfer Entrepreneur} $\times$ 1 {Post}	77.520*** (23.11)	1.879*** (16.04)	-0.870*** (-2.75)
1 {Post-Entrepreneurship}	-126.022*** (-34.65)	-2.755*** (-36.64)	0.528*** (6.15)
Pre-Entrepreneurship Mean	850.166	20.905	92.045
Post-Entrepreneurship Mean	727.175	18.223	92.538
Observations	522,014	517,218	523,164
Adjusted R ²	0.65	0.61	0.35
Individual FE	✓	✓	✓
Industry $\times$ Equity $\times$ Year FE	✓	✓	✓
Clustered SE (Municipality)	✓	✓	✓

The data construction is a contribution by itself

SIX DATA SOURCES



PNAD Continua / IBGE

National household survey - income, take-up, occupation



CNPJ Firm Registry / Min. da Fazenda

All firms, active & inactive - equity, legal form, tax events



Bolsa Familia Payments / MDS

Monthly benefits for 27.3M recipients (2013-21)



RAIS Employment / Min. do Trabalho

Formal jobs - wages, demographics, titles (the spine)



Divida Ativa da Uniao / PGFN

Tax & penalty debts escalated to enforcement



BNDES Indirect Ops. / BNDES

Subsidized SME credit - loan amounts & rates

LINKED BY EXACT-MATCH KEYS



THE KEY INNOVATION

Founder CPFs (individual tax IDs) recovered from sole-proprietorship legal names, then verified against the Serasa Experian credit bureau.

16.3M of 18.8M firms matched (87%)

CPF

person - firm

RAIS <-> CNPJ

NIS

person - benefits

RAIS <-> Bolsa Familia

CNPJ

firm - debt & credit

Divida Ativa / BNDES

RESULT



Founder - Firm - Lifecycle panel

One linked record per entrepreneur, tracked annually from founding through five years (to Dec 2024).

2.3M

linked sole proprietorships

76.2K

founded by cash-transfer recipients (3.3%)

6

lifecycle outcomes: survival, growth, jobs, credit, tax, debt

Comment 1: Are Results 1 and 2 two sides of one coin?

Entry barriers $\downarrow \implies$ induces entry of marginal entrant.

Result 1

- Absent misallocation, this lowers quality of entrants.

Result 2

Composition: even if transfer has no causal effects on performance, regression returns negative coefficient.

- CEM only picks up observables.
- Latent ability (which drives entry) is unobservable.

Solution: use the same instrument!

- ① Construct instrument at the municipality level like in Result 1.
- ② Aggregate firm-level data and estimate via 2SLS.

Comment 2: is municipal GDP a good price index?

Authors test “more cash is not enough” by interacting the cash-transfer dummy with local GDP per capita, a proxy for the price level (PPP). *Clever idea* – two small concerns:

Problem 1: GDP per capita $\neq$ PPP.

- It reflects where output is *booked*, not what residents pay.
- Refinery town: high GDP, low prices. Interior town: low GDP, high prices.

Problem 2: the interaction flips sign across outcomes.

- Survival gap *widens* with GDP $\rightarrow$ reads as price level.
- Credit gap *narrows* with GDP $\rightarrow$ reads as thick markets.
- One regressor cannot be both.

Solution: use a real price index – housing.

- Diamond and Moretti (2024): 95% of low-income spatial price variation is housing.

Comment 3: how much of Result 3 is human capital?

Failed cash-transfer founders lose less and return faster — a nice test that rules out the pure safety-net story (more search would mean *slower* returns).

But two base effects could mimic this:

- 1 **Floor effect:** they start much lower (R\$513 vs R\$850 pre-wage), so less room to fall.
- 2 **Selection into return:** they re-attach a median of 6 months *before* closure (vs 4) — consistent with marginal, easily-abandoned firms.

Solution: compare wage losses within pre-founding wage bins.

- If the gap survives, it is human capital — not mechanics.

Final Thoughts

I really like this paper!

The big wins:

- First-order question - the gap between countries is also a gap in entrepreneurship.
- The data construction is beyond impressive.

What would make it even stronger:

- Tie the IV to performance.
- Use a housing-based price index - crucial to disentangle transfer from insurance.
- Separate human capital from base effects.

One open question: is this entrepreneurship a stepping stone into the formal sector?