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# Overview of ILAB-OTLA Contract Research Program on Livelihoods and Consumption Smoothing

## Abstract

[Excerpt] In 2010, ILAB sought proposals in three topic areas: sustainable livelihoods; strategies to support consumption smoothing; and impacts of trade preference programs on labor rights. In each case, the population of interest was workers and their families in developing countries. The competition resulted in award of four contracts:

- Mushfiq Mobarak, Yale University “Under-investment when Experimenting is Risky: Evidence from a Seasonal Migration Experiment in Bangladesh” [Responded to Topic 1: Sustainable Livelihoods; 2 papers]
- Erica Field, Rohini Pande and Y. Jeanette Park, Harvard University, “Designing Microfinance to Enable Consumption Smoothing: Evidence from India” [Responded to Topic 2: Consumption Smoothing]
- Emla Fitzsimons, Bansi Malde and Marcos Vera-Hernández, Institute for Fiscal Studies, “Do Participatory Community Interventions Improve Consumption Smoothing? Evidence from Malawi” [Responded to Topic 2: Consumption Smoothing]
- Bama Athreya, International Labor Rights Forum, “Comparative Case Analysis of the Impacts of Trade-Related Labor Provisions on Select U.S. Trade Preference Recipient Countries” [Responded to Topic 3: Impacts of Trade Preference Programs on Labor Rights]

These four contracts produced five research papers that are available from the ILAB Web site [<http://www.dol.gov/ilab/programs/otla/elrcontracts.htm>]. This overview paper assesses lessons from the four papers on livelihoods and consumption smoothing.

## Keywords

consumption smoothing, livelihoods issues, trade preference programs, labor rights

## Comments

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## **Overview of ILAB-OTLA Contract Research Program on Livelihoods and Consumption Smoothing**

by

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Bureau of International Labor Affairs

The Office of Trade and Labor Affairs (OTLA) in the Department of Labor's Bureau of International Labor Affairs (ILAB) funds contract research to help ILAB better fulfill its mandates and mission. This overview paper discusses the ILAB-OTLA Contract Research Program and identifies some lessons from the research contracted in 2010 and completed in 2011. The audience for this paper includes ILAB staff, potential contract researchers, and others with research, policy and programming interests in consumption smoothing and livelihoods issues.

Research contracts are selected for funding using a competitive process. ILAB, through the DOL Procurement Office, releases a request for proposals (RFP) on topics selected for their relevancy and contribution to the ILAB mission. The RFP is generally released late spring or early summer and researchers are given one month to submit proposals. The technical portions of all proposals are evaluated against criteria identified in the RFP by a peer-review panel chosen by ILAB. The results of the technical evaluation are shared with the DOL Procurement Office where a comparison of technical merit, past performance and price results in award offers for proposals determined to be the "most advantageous" to the Government.

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***Lesson 1: Consumption smoothing and livelihoods are difficult to separate.***

It is attractive to think of livelihoods and consumption smoothing as distinct phenomena. *Livelihoods* are the capacity to make a living. *Consumption smoothing* is the ability to spread the proceeds from that capacity over a stable pattern of consumption. But the two may be linked and difficult to distinguish experimentally.

In their paper, Field, Pande and Park analyze the effect on consumption smoothing of a field experiment in which the repayment period for microcredit clients in Kolkata, India, is varied from a weekly cycle to a five-week cycle. The expectation is that clients on the longer cycle have greater flexibility to smooth their daily consumption expenditures. But the experiment revealed no significant difference in the variability of daily consumption patterns between the clients on different repayment cycles. Interestingly though, households on the five-week cycle made larger investments in business inventories and showed fewer hours worked by household members other than the head couple. The higher investment in inventories is a livelihoods effect: it increased the profitability of their business and enhances their capacity to make a living. The withdrawal of household member work hours is likely a further outcome of this enhanced capacity. When coupled with the results on consumption patterns, it may signal a change in consumption smoothing strategies. The labor of additional household members, particularly of children, is sometimes a consumption smoothing strategy used by the poor.

The papers by Mobarak demonstrate that for the poorest households, consumption smoothing may be impossible without addressing risk to livelihoods development. Mobarak examines why households in regions of Bangladesh that are prone to seasonal famine tend not send a household member to migrate seasonally to other regions to pursue available superior earnings opportunities. He notes extreme poverty among these households and the seasonal variability in their consumption patterns. His work suggests that even though people may be aware, in general, of the existence of good opportunities at the destination, they are held back because they understand that not all migrants make out well, and they are concerned about the risk that they will be among the unfortunate. Being unfortunate has potentially catastrophic effects in terms of household subsistence, but households know from experience that they can find some way to survive without migration. The interventions in his experiments are designed to ensure household subsistence in the event households do participate in seasonal migration. His results show that this encourages higher levels of migration in the year of treatment, and that even without treatment, household whose members were successful in finding gainful work when they migrated, were significantly more likely to send those members again in future years when the supporting interventions were no longer available. This suggests that it may not be enough to generally inform about possible opportunities, but that instead individuals may need one-time support *to experience* whether those opportunities are a good match *for them*. Migration is associated with smoother patterns of

consumption, and so inducing the households to pursue migration as a livelihoods strategy also provided for better consumption smoothing on average.

***Lesson 2: When Randomized Controlled Trial (RCT) experiments are grounded in theory, external validity can be a broad concept.***

RCT experiments allow researchers to identify the impacts of an intervention on the studied population with a high degree of confidence. However, the generalizability of the study findings to other populations – or the external validity – is a major concern in RCTs, as well as other evaluation methods. A key question to policy makers is, *will the results of the intervention tested export to other contexts or scale up to a larger population?* A number of factors could limit the generalizability of the results. These include fixed effects, such as the characteristics of the study population, setting, or the intervention itself. These also include general equilibrium effects related to the scaling up of a project, such as spillover effects, economies of scale, or insufficient supply.

To be widely useful, a RCT must be connected to a well-developed and generally valid theory that identifies the likely behavioral channels through which an intervention is expected to have its impact. The experiment can then validate and perhaps further clarify those channels providing guidance on how other interventions may work, and this may provide useful insights for other contexts. Ideally further experimentation and repetition will test the theories in a variety of contexts. Without this explicit connection to theory, RCT is just about what works in a very specific setting, and there is no clear reason to expect it to work more broadly.

In their paper, Fitzsimons, Malde, and Vera-Hernández consider the potential indirect effect of community-based participatory health interventions in Malawi on risk sharing and consumption smoothing. In this case, the direct intervention, targeted at improving reproductive and infant health, is seemingly unrelated to consumption smoothing. However, the literature suggests that trust, familiarity, and reputation are important in informal risk sharing arrangements, which are a mechanism for consumption smoothing. As such, theory gives us a reason to look for an effect of participatory community interventions – which increase social interactions, which in turn, increase trust and information sharing – on consumption smoothing. In this paper, the authors find this impact. They investigate several channels through which the improved consumption smoothing outcomes could arise, and are able to eliminate the channels other than increased social interactions. This link to theory and the ability to eliminate other potential channels of influence, suggest that the findings may be more broadly applicable.

***Lesson 3: Extensions of existing experiments can provide big bang for the buck.***

The ability of well-designed RCT experiments to establish causal impacts of interventions results makes them desirable inputs to program and policy design. However, the time and monetary costs associated with designing and conducting large RCT experiments put them largely out of reach for moderate budget research programs. The projects discussed here made experimental methods accessible to ILAB by building

upon existing RCT experiments, either by using previously collected data from experiments to study new questions (e.g., Field et al. and Fitzsimons et al.) or by collecting and studying additional rounds of data (e.g., Mobarak).

The financial cost saving achieved by supporting research extensions of existing RCTs is plain to see. The large upfront costs associated with design and implementation, coordination and funding of data collection, and field work are eliminated or minimized. The savings in terms of time costs are significant as well. The funding stream used to support the ILAB-OTLA research program dictates a one year performance period for the contracts. In all but rare events, one year would not allow for the design, implementation, and analysis of an experiment without sufficient ground work already in place.

In each case, the researchers had worked with the data on related research before embarking on their studies for ILAB. For an earlier study, Field and Pande (along with John Papp) studied their Daily Consumption Survey data to learn the impact of microfinance repayment flexibility on entrepreneurial behavior and loan default. Likewise, Fitzsimons, Malde, and Vera-Hernández had previously used their Malawi community intervention data to study the effects of reproductive health on poverty. This not only provides a literature to build upon, but it means that the researchers are strongly familiar with the data, its limitations and properties.

Finally, building upon existing RCTs allows for the study of the longer term effects of an intervention; important information for technical assistance design. In one of his papers, Mobarak collected data from experiment participants two years after the original intervention and found evidence of persistent long term impacts in terms of migration during lean seasons and higher consumption levels. The full picture provided by two years of observations allowed him to attribute those gains to learning from “successful” migration episodes.

Caveats, of course, apply. The research extension must comport with the original experimental framework in place. A follow up study that requires randomization at the individual level, for example, cannot use data from an experiment that randomized at the factory level. For obvious reasons, the data collected through the original experiment must include information necessary to study the new question. And, extensions that test new interventions must be careful to account for differences the original experiment introduced to control group and treatment behavior.

### ***Conclusion***

The papers prepared for this program provide potentially useful insights for ILAB’s technical assistance projects addressing exploitative child labor managed by the Office of Child Labor, Forced Labor, and Human Trafficking (OCFT). Since a consumption smoothing strategy sometimes utilized by poor households is the use of child labor, the identification of other successful and more desirable consumption smoothing strategies can help OCFT design interventions that reduce child labor. Further, the findings of the

Fitzsimons, Malde, and Vera-Hernández paper suggest it might be useful for to study the broader impact of community groups formed during OCFT interventions and how best to harness any positive externalities. Finally, the Mobarak paper provides insights about the provision of information through awareness-raising campaigns about child labor.

Vulnerable families may not act on that information if they are uncertain about whether it applies to them. For example, even if the likelihood is large that schooling will pay off for a child and her family, the small risk that it will not may mean that vulnerable families require more specific information, perhaps through experience, about the prospects for *their* child.

A very similar phenomenon may apply to the matching of adult workers to jobs in the labor market. There may be reluctance to leave the sure thing of a subsistence livelihood to pursue an opportunity that *on average* provides better prospects. What people who can not afford risk may need to know is whether the opportunity will work out for *them*.

Recent research suggests that women in garment factories are often unaware of the full value of the skills they hold. As a result they do not look for better job opportunities and stay stuck in low-level positions. This is relevant for OTLA efforts to improve the working conditions and livelihoods of workers in the export garment sector. Following upon the findings of Fitzsimons et al, there might be a role for community groups to share labor market information among garment workers. In addition to the direct benefits to workers attending the meetings, community-based interventions may also increase social interactions among participants and increase informal risk sharing, trust, and the sharing of information. This may build an atmosphere of trust and common experience and encourage workers to report workplace abuse or poor labor conditions

ILAB's mission is to use all available international channels to improve working conditions, raise living standards, protect workers' ability to exercise their rights, and address the workplace exploitation of children and other vulnerable populations. The research papers prepared under this program have implications for efforts to raise living standards. Most importantly is the implication that seeking to raise a poor household's productive potential may be insufficient to ensure it a higher standard of living.

Attention may need to be paid to risks that keep a household from choosing to pursue productive opportunities, and to the variety of formal and informal consumption-smoothing strategies that it can pursue. The aim is to promote strategies that mitigate risks and that replace consumption smoothing strategies (such as child labor) that draw resources away from the achievement of sustained increases in productivity.