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## A Look at the Evidence

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Nicolás Campos, Mateo Jiménez, Solange Sardán, Liliana Serrate y Manuel Urquidí\*  
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## Executive Summary

In Latin America and the Caribbean (LAC), 51% of working-age adults live in working poverty and are affected by widespread informality and low productivity. Active labor market policies are essential to address these problems, but few countries in the region have taken advantage of the full range of such programs. Furthermore, there is disagreement on best practices and how effective they can be in different contexts. This paper sheds light on this issue by exploring the various ways that entrepreneurship policies have been implemented around the world.

Entrepreneurship policies seek to reduce barriers for self-employed individuals and entrepreneurs and increase their productivity. In this paper, we analyze these policies by reviewing 38 research articles covering interventions with traditional and non-traditional training, financial support, technical assistance, and advisory services (also referred to as consulting in some cases).

Key findings indicate that “hard” interventions such as financing can be effective as standalone initiatives in developed economies. However, it takes a combination of “soft” and “hard” interventions to significantly improve employment prospects in developing economies. We also found that well-designed programs can boost inclusion for disadvantaged groups, especially when properly targeted.

Our analysis reveals the importance of promoting productive entrepreneurship, which hinges on identifying individuals highly likely to succeed if not for barriers standing in their way. Another takeaway was that entrepreneurship policies should be seen as a driver of inclusion and labor mobility, not just lower unemployment. Finally, policy designers must take into account the regional, national, or local context, steering clear of one-size-fits-all solutions.

Ultimately, these interventions hold promise for generating employment opportunities and livelihoods, as well as for spurring economic growth. They can valuably complement other active labor market policies, especially in less dynamic labor markets (such as small cities) and for disadvantaged groups. When thoughtfully designed and targeted, such policies can help reshape the region’s employment landscape through gains in inclusion, labor mobility, and regional development.

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## Introduction

Fifty-one percent of the working-age population in Latin America and the Caribbean lives in working poverty (IDB, 2024a)<sup>1</sup>. This region faces the challenge of creating and promoting high-quality jobs amid high levels of informality and low productivity. While most agree that active labor market policies can help tackle this problem, opinions diverge regarding the most effective interventions in different contexts and for different target groups.

Training policies are the region's most common active labor market policies, and they are also the most studied in terms of their effect on employment. While effective when combined with other interventions and implemented long-term (Escudero et al., 2019), they do not necessarily boost employment outcomes more than other interventions, such as wage subsidies and public employment programs (ILO, 2016). The stark disparities in individual-level characteristics and employment opportunities in Latin America and the Caribbean, even within a single country, underscore the importance of exploring innovative means of generating employment opportunities for marginalized populations<sup>2</sup>.

Entrepreneurship policies are a promising alternative solution, but they are often undervalued due to beliefs that they rarely translate into formal employment. A common misconception is that entrepreneurs start businesses out of necessity, leading to assumptions that support for entrepreneurship is limited to the self-employed. This view overlooks business ventures with real potential for growth, formalization, and quality job creation, which are generally started by choice and in response to market opportunities. By reducing barriers and increasing entrepreneurs' productivity (Cho and Honorati, 2013), entrepreneurship policies can both boost employment and ease labor mobility, removing obstacles that perpetuate poverty and inequality.

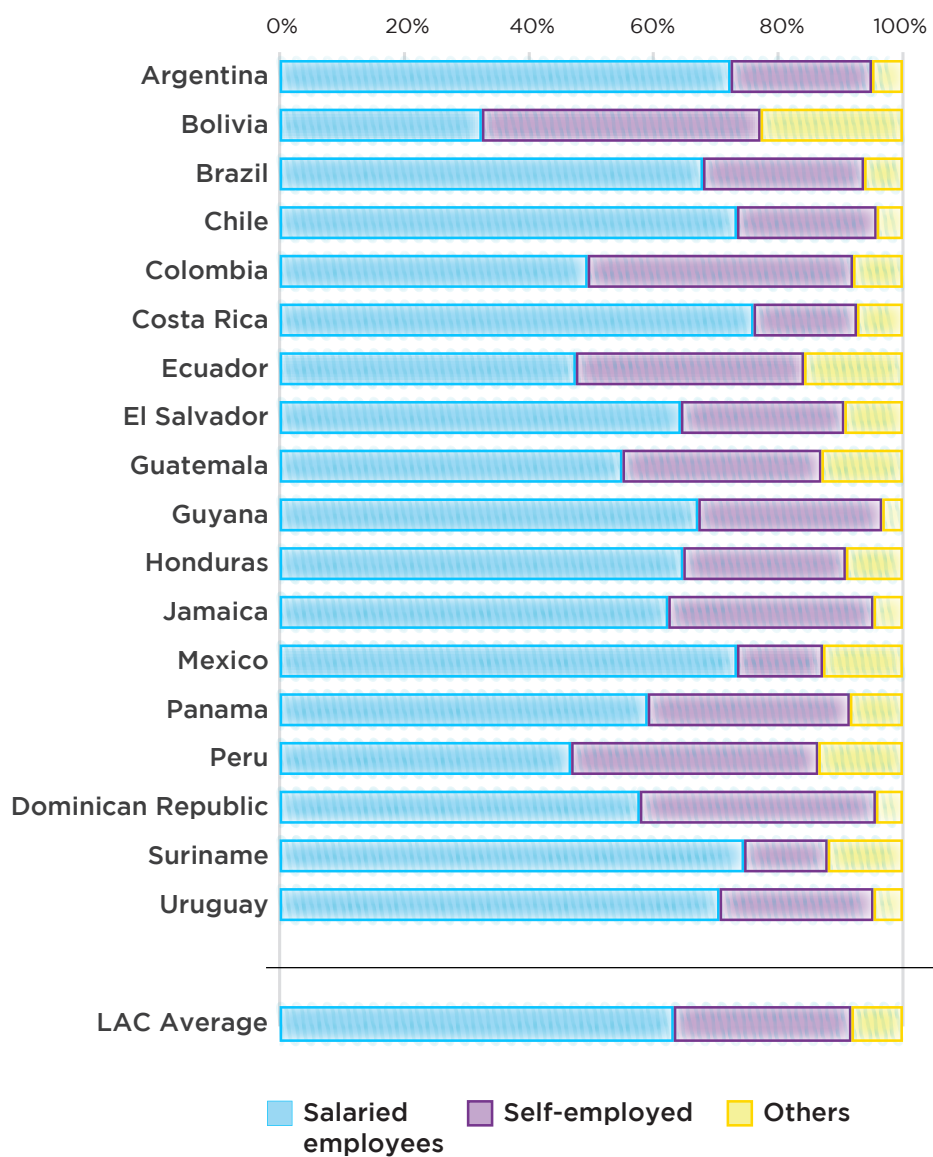
In Latin America and the Caribbean, self-employment is a greater source of employment than in higher-income countries. One in four workers in the region are employers or self-employed (Figure 1), while only 16% of workers in OECD countries are self-employed (Baker et al., n.d.). However, these businesses are often started out of necessity, rather than in response to a real opportunity (GEM, 2023). Market failures may be more to blame for this phenomenon than macroeconomic factors, as many entrepreneurs are unaware of investments that could improve their business or are unable to access them. This is a case where entrepreneurship policies could help boost productivity levels across the region.

1: Defined as work paid at wages below the poverty line of US\$1.95 per day (2011 PPP).

2: For example, Campos et al. (2024) found that a job training program in Paraguay was effective in Asunción and its metropolitan area but not in smaller cities.



**Figure 1: Employment in Latin America and the Caribbean by type, 2023\***



Source: (IDB, 2024b). \*Or for the most recent year of the 2020–2023 period.

It is not entirely clear, however, how entrepreneurship policies impact labor outcomes, specifically employment and income. This is so because the complex nature of these interventions—with varying combinations of “hard” (financing) and “soft” (training, consulting, and advisory services) measures—can make it difficult to tease out their effectiveness (Caliendo et al., 2016).



This paper compiles findings on the characteristics and effects of entrepreneurship policies documented in rigorous evaluations of their impact on employment variables<sup>3</sup>. To gather this evidence, we reviewed 38 academic articles and the specific details of the interventions they evaluate (see “Methodology”). We then present the main findings and discuss lessons and challenges for designing and implementing similar programs.



### **What do we mean by entrepreneurship?**

**Generally speaking, entrepreneurship is a tool and process for taking advantage of market opportunities to create new businesses. A wide range of activities can fall under its umbrella, each with varying impacts on greater society.**

**This paper focuses on policies that promote productive entrepreneurship, or economic activity that contributes to growth, according to the categorization proposed by Baumol (1996). Those who pursue productive entrepreneurship do so by choice and are highly motivated to grow. It is distinct from necessity entrepreneurship, which describes entrepreneurs compelled to start businesses when faced with a lack of traditional employment opportunities.**

**It can be difficult to statistically disentangle the different forms of entrepreneurship. Multilateral organizations such as the ILO have traditionally considered people who identify themselves as employers or independent workers (also referred to as self-employed) as entrepreneurs. More precise definitions, however, consider successful self-employed individuals to be those with employees or income above the poverty line (Gindling and Newhouse, 2014), which one would expect to observe in businesses created by choice. Depending on how success is defined, 40 to 47 percent of self-employed people in Latin America and the Caribbean can be considered successful entrepreneurs.**

3: We did not look at assessments focused on other outcome variables, such as revenue growth or entrepreneurial intention, although such studies can be found in the literature. It should be noted, however, that multi-pronged solutions are also a good policy practice to improve entrepreneurs' revenue (Cravo and Piza, 2016).





### Methodology

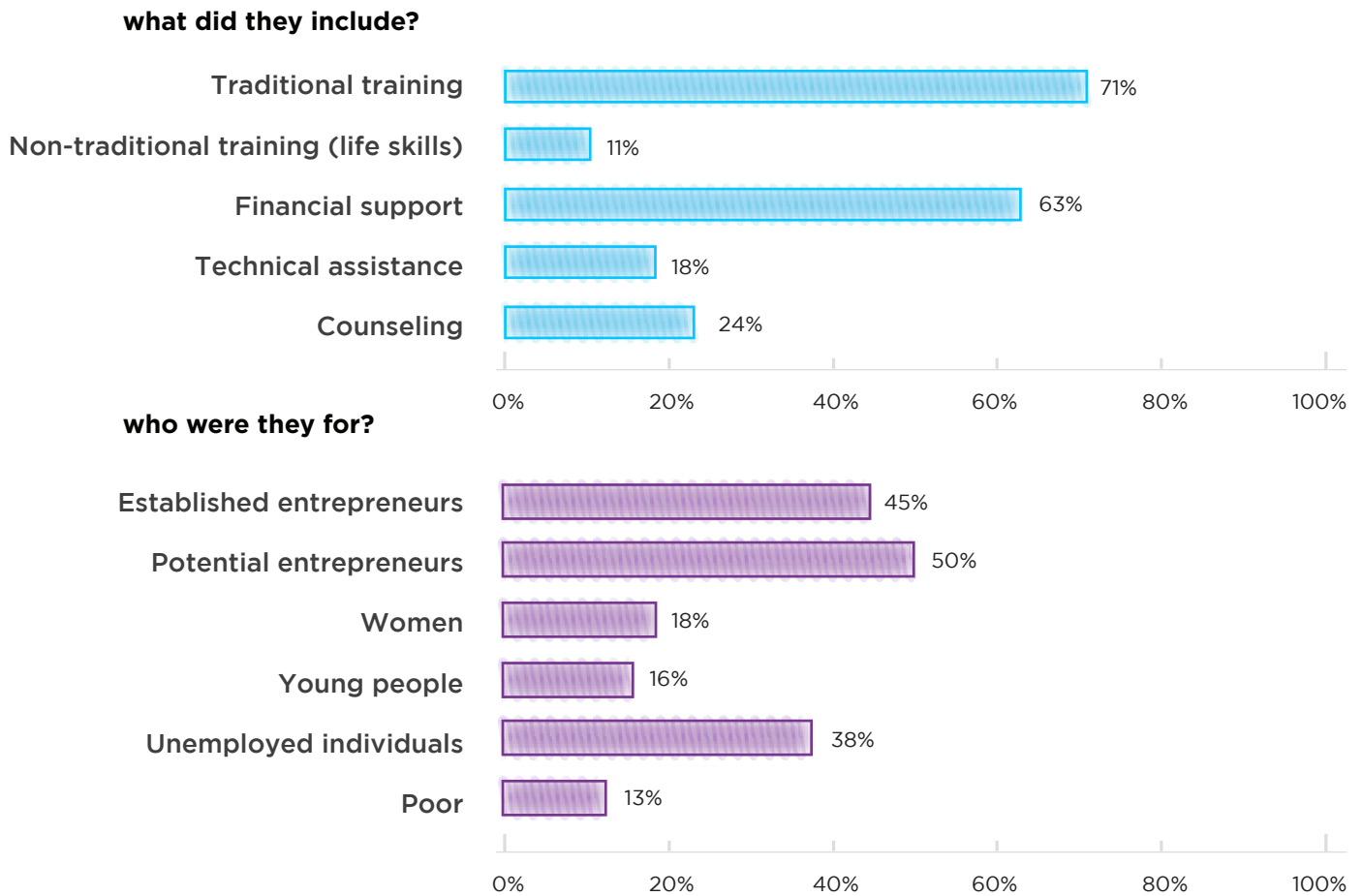
The articles analyzed in this paper come from a database on active labor market policies. This database is the product of a larger project to conduct meta-analyses of different policy types.

To select the articles, we used a structured search and stratification methodology. We began by searching specific terms related to active labor market policies on several academic platforms, finding 268 relevant articles. We then applied exclusion criteria (only studies with impact evaluations and employment or income variables) to bring that number down to 157. After checking additional references, we selected 164 articles and then narrowed them down to articles focused on entrepreneurship policies. The final selection was based on relevance, academic quality, and a specific focus on labor policies. This yielded the 38 articles that we ultimately included our analysis.





**Figure 2: Intervention characteristics**



Source: Created by the authors.

Note: The categories are not mutually exclusive, since some interventions included more than one type of assistance or target group.



## What kinds of interventions did we examine?

- The most common type of assistance in the interventions we analyzed was traditional training (71%), which emphasizes business management skills. This is particularly valuable for developing countries and smaller businesses, where low productivity often stems from poor management and business practices (Bloom and Van Reenen, 2010).
- Nearly two-thirds (63%) of the programs had a financial support component, such as loans, grants, or seed capital to fledgling companies. These interventions are in response to obstacles faced by unemployed or less employable people, including discrimination in lending and human capital depreciation (Caliendo et al., 2015).
- 24% of the programs included Counseling services. This personalized support included mentoring and coaching to address beneficiaries' professional and personal issues.
- Technical assistance (or consulting) was seen in 18% of the programs we analyzed. This transfer of technical knowledge and know-how provides expert, customized guidance on business and growth strategies. For example, beneficiaries may learn how to create a mission and vision statement for their business, implement an organizational structure, or prepare a business or investment plan.
- Finally, 11% of the programs featured non-traditional training focused on life skills for personal development, such as sex education or family planning. Proponents of this type of assistance believe that empowering individuals and investing in their human capital fuels a virtuous cycle of positive outcomes.

Component	a -	100%	15%	52%	22%	33%
	b -	100%	100%	50%	25%	18%
	c -	58%	8%	100%	21%	17%
	d -	86%	14%	71%	100%	43%
	e -	100%	22%	44%	33%	100%
		a	b	c	d	e
	Combined with...					

This chart shows the percentage of programs with each component (vertical axis) that were combined with other components (horizontal axis).

Most program components had a certain degree of complementarity with one or more of the other components, making it possible to address various barriers to employment. For example, training components (both traditional and non-traditional) were frequently combined with financial programs to mitigate barriers related to human capital and access to loans. Similarly, technical assistance was often complemented by traditional training and financial support, indicating that knowledge transfer is most effective when accompanied by additional resources. The one component that tended to have less complementarity was counseling services.

Note: a = traditional training, b = non-traditional training, c = financial support, d = technical assistance, e = counseling services



## Who were the interventions for?

- Most of the entrepreneurship programs targeted potential entrepreneurs<sup>4</sup> (50%), established entrepreneurs (45%), and unemployed individuals (38%). These figures illustrate how a significant number of the interventions promoted self-employment or entrepreneurship as a path out of unemployment. Many of the interventions targeting the unemployed were part of unemployment benefit schemes (López Mourelo and Escudero, 2017; Rodríguez-Planas and Jacob, 2010; Wolff et al., 2016), designed to both provide income support and increase the productivity of those out of the workforce (Dorsett et al., 2013).
- Women were another key group. Eighteen percent of the programs included women, and three of them exclusively targeted this group. These three programs were all in developing countries—two in Sub-Saharan Africa (Adoho et al., 2014; Bandiera et al., 2020) and one in Latin America (Valdivia, 2011), regions plagued by lower demand for female labor and higher rates of violence against women. These interventions were designed to overturn interrelated dynamics that restrict women's labor access, diminish their autonomy, and reinforce their dependence on men.
- Young people and the poor were included as beneficiaries in a lower percentage of the programs we analyzed. Underpinning these interventions is the increasing proportion of young people in the global population and the precarious work and informality faced by many youth (OECD, 2017). Moreover, the working poverty trap often gets perpetuated due to a mix of asset and skill gaps, and hard-to-reach groups frequently missed by public assistance programs can find it hardest to escape.

Group	Combined with...					
	a	b	c	d	e	f
a -	100%	42%	21%	16%	11%	5%
b -	47%	100%	6%	18%	56%	6%
c -	57%	14%	100%	29%	14%	14%
d -	50%	50%	33%	100%	17%	17%
e -	14%	64%	7%	7%	100%	14%
f -	20%	20%	20%	20%	40%	100%

All programs targeting youth also focused on potential entrepreneurs and women, revealing an integrated strategy to engage multiple marginalized groups. Similarly, a considerable percentage (57%) of the programs focused on women also targeted established entrepreneurs, underscoring the importance of empowering this group by promoting self-employment.

Nearly half of the programs that focused on established entrepreneurs also included potential entrepreneurs. This dual approach was likely intended to both strengthen existing businesses and encourage new business creation. We also found that the programs aimed at established entrepreneurs had a high degree of complementarity with programs for the unemployed.

Note: a = established entrepreneurs, b = potential entrepreneurs, c = women, d = young people, e = unemployed individuals, f = poor

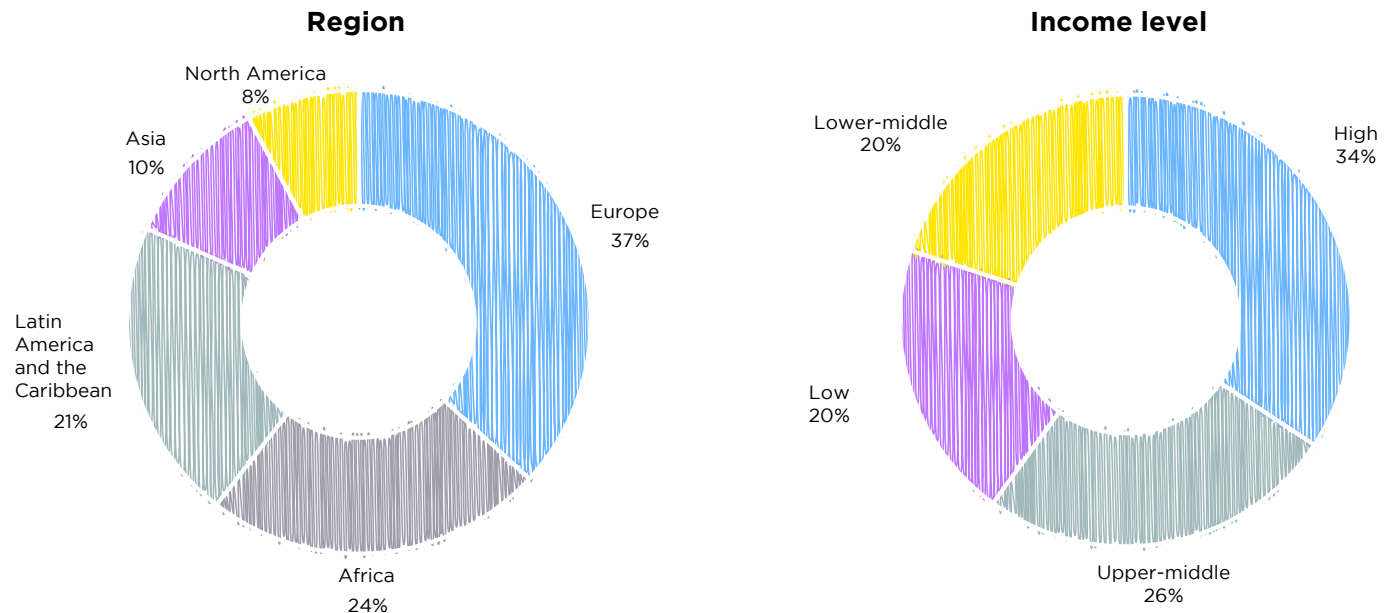
4: Those who are neither self-employed nor business owners but have shown signs of interest in entrepreneurship by, for example, making a business plan.





The first graph in Figure 3 breaks down the geographic location of the interventions. The region with the highest number of programs analyzed was Europe (37%), followed by Africa (24%), Latin America and the Caribbean (21%), Asia (10%), and North America (8%). The second graph shows the income level of the countries when the interventions began. Approximately one-third (34%) of the countries were in the high-income category, followed by upper-middle income countries (26%). These were followed by lower-middle income and low-income countries, at 20% each.

**Figure 3: Interventions by region and income level**



## Lessons Learned

**“Hard” interventions that are standalone initiatives can effectively reduce unemployment, at least in developed countries.**

Caliendo et al. (2015) studied the impact of the Gründungszuschuss start-up subsidy in Germany, part of a entrepreneurship program to support unemployed people interested in starting a business. To qualify, applicants had to be receiving unemployment benefits and submit an approved business plan. The results indicated long-term benefits from the financial support: 40 months after the program started, men who had participated were 8% more likely to be working in traditional employment or self-employed than non-participants, and their wages were 740 higher. Women participants were 10.5% more likely to be in any form of employment and enjoyed wages that were 610 higher.

Also in Germany, Wolff et al. (2016) examined the effects of supporting unemployment benefit recipients through a subsidy to start their own businesses. Just as in the start-up subsidy program, Einstiegsgehd program participants were required to have an approved business plan. While most of the supported businesses were one-person enterprises, the results suggest that financial support to potential entrepreneurs reduces unemployment and dependence on unemployment benefits. Notably, the groups that benefited most were those with the greatest difficulties in the labor market, such as foreigners and the very long-term unemployed.



In Croatia, Srhoj et al. (2019) found that business development grants for firms had a positive effect on capital investment, employment, outputs, and productivity, particularly for smaller firms. They also observed an increase in the number of employees at small companies (5.6% of companies hired more staff). This study demonstrates that small grants spread widely can have significant results, even during recessions or when most recipients are young and smaller firms.

### **Smart combinations of interventions can boost employment in economies in transition and developing economies.**

One example is a set of active labor market policies introduced in Romania in the 1990s, a period of economic transition for the country. The package included a self-employment assistance program that offered small loans and a wide range of services, including skills and abilities assessments, business plan development, advisory services, short entrepreneurship courses, and related services. The interventions effectively strengthened employment prospects and reduced unemployment lengths in a high-poverty context with a large rural population (Rodríguez-Planas and Jacob, 2010).

Similar results were seen in the Atención a Crisis program implemented in drought-stricken regions of northwestern Nicaragua marked by high levels of rural poverty. The intervention combined a business grant with cash transfers for households conditional on children's school and health service attendance. Beneficiaries also received technical assistance and participated in business skills training workshops (Macours et al., 2012). In terms of work, the study shows that the grant component had the greatest impact, increasing the share, gross income, and profits of nonagricultural self-employment activities. The intervention was proven to be effective at diversifying incomes for rural households, making them less vulnerable to climate risks. The results also suggest that, in this context, focusing interventions on the poor does not limit their effectiveness; on the contrary, it improves beneficiaries' future prospects and fuels their job aspirations, which improves their performance in the program (Macours et al., 2013).

López Mourelo and Escudero (2017) examined the impact of Argentina's Seguro de Capacitación y Empleo (SCE) program, which combined direct cash transfers with specific assistance for people interested in self-employment or starting a microenterprise. This assistance included comprehensive guidance and technical support. In the short run, the program improved beneficiaries' working conditions, increasing their probability of formal employment and their real wages. However, the positive effects were greatest for those with better work opportunities in the country, such as male, young, and more educated participants.

### **Well-designed entrepreneurship policies can drive inclusion for disadvantaged groups.**

Even women in patriarchal societies can thrive in their careers through programs that help them become entrepreneurs. This was the lesson from the Economic Empowerment of Adolescent Girls and Young Women (EPAG) project in Liberia. After providing technical and life skills training to the beneficiaries, the program switched to a focus on business development skills. During this training track, the young women learned to identify business opportunities aligned with market needs via modules on business administration, customer service, finance, and accounting. The intervention increased employment by 47% and earnings by 80% for participants (Adoho et al., 2014).

Furthermore, entrepreneurship training for women can empower them both economically and socially. One example that stands out is Uganda's Empowerment and Livelihood for Adolescents (ELA) program, implemented in community clubs for adolescents and led by paid and trained female mentors. The program comprised vocational training, basic financial literacy training, and a sexual and reproductive



health module. Two years post-intervention, participants were 72% more likely to engage in income-generating activities. Lower teenage pregnancy and sexual abuse rates were also observed (Bandiera et al., 2020). This evaluation of this program shows that equipping women with vital life skills can empower them and help them overcome limitations imposed by social norms.

Uganda's Youth Opportunities Program (YOP) was implemented to empower poor and unemployed young adults. The youth were invited to organize into groups and submit proposals for grants for vocational training and business ventures, in the hope of encouraging transitions from underemployment to nonagricultural employment. The grants were found to have a significant and lasting impact, with higher incomes and working hours reported. However, the results suggest that the climate of poor access to credit and no formal insurance coverage constrained participants' investment decisions, particularly women's (Blattman et al., 2014).

### **Interventions for entrepreneurs raise efficiency and reduce productivity barriers.**

Bruhn et al. (2012) analyzed a program that provided subsidized consulting services (technical assistance) to micro, small, and medium enterprises in Mexico. The consultants identified problems that prevented businesses from growing, suggested customized solutions, and assisted in implementing them. Follow-up data revealed long-lasting effects five years post-intervention, including a 57% increase in staff and a 72% increase in total payroll. The companies' growth reflects the power of a combination of inputs to make businesses more scalable and efficient.

However, contextual factors can limit the reach of interventions targeting entrepreneurs. Giné and Mansuri (2014) analyzed a program in Pakistan that offered intensive business training and access to a loan lottery. Only business owners and those in the process of starting a business were eligible to participate. Although the study found that the loans had little effect, the business training improved participants' business knowledge and practices, translating into greater labor supply and business performance. However, this only held true for men. The authors attributed this to Pakistan's segregated labor market and to women beneficiaries' limited power to decide how to use the loans they received.

One training program for women microentrepreneurs in Peru is a prime example of a targeted intervention adapted to the local context. The initiative offered participants training in personal development, business management, and productivity skills. A study by Valdivia (2011) revealed that the business training helped women microentrepreneurs adopt some of the recommended practices, though this depended on the type of training. Entrepreneurs who received only general training tended to close their businesses, likely after realizing through the training module that they were failing to cover their opportunity costs. Conversely, those who received the more specialized business training increased their revenues. This can be interpreted as evidence that while general training may be cheaper and easily scalable, targeted guidance is necessary to help microenterprises grow.

## **The road ahead: Barriers to policy implementation**

### **Supporting entrepreneurship and productive self-employment...**

Entrepreneurship policies have an imperfect track record, but there are compelling reasons to implement them more widely in Latin America and the Caribbean. The findings of this paper and of previous publications suggest that the most effective policies are tightly focused on target group needs (Cho and Honorati, 2013; Escudero et al., 2019). Policy designers and implementers must understand that different combinations of interventions and variations in their content or frequency lead to different results. Cut-and-paste solutions simply do not exist.



While there is ample evidence that these policies effectively reduce unemployment and boost wages, many studies fail to estimate their impact on the economy as a whole (McKenzie and Woodruff, 2014). Also, if interventions centered on active labor market policies are not carefully targeted, they run the risk of recruiting disproportionate numbers of necessity entrepreneurs, who have a minimal effect on job creation. It is also undeniable that some entrepreneurs would have started their businesses even without the programs (Laffineur et al., 2017). These factors may call into question how well aligned the interventions are with the objectives of active labor market policies, namely, to drive down unemployment and improve working conditions.

There is also concern that promoting self-employment in Latin America and the Caribbean could further entrench patterns of informal and low-quality employment. What arguments like those miss is that, in certain contexts, promoting entrepreneurship can create very real opportunities for generating income. One way to help the business ventures accelerate their growth potential would be to make program conditions more favorable upfront. To put to rest concerns about the risks of self-employment versus salaried employment, implementers could assess how productive the companies are in a follow-up intervention, with the aim of increasing overall demand for skilled labor in local economies.

Even if some business ventures supported by these interventions fail to move the needle on job creation—either because they do not grow or never become a source of employment for anyone but the owner and members of their household—self-employment continues to be an effective strategy for tackling unemployment. It provides people who lose their job with options so they are not forced to see their income, skills, and productivity fade away. Productive self-employment ultimately offers jobseekers better conditions than either unemployment or self-employment that is merely motivated by a need to survive.

### **... No entrepreneur left behind...**

In LAC and other regions suffering high levels of informality and poverty, programs to promote productive entrepreneurship must have selection mechanisms to identify those most likely to succeed. These criteria can include, for example, a business plan, pre-defined levels of skills or capital, or characteristics highly correlated with entrepreneurial success<sup>5</sup>.

It may seem that selection mechanisms like these would carry high risks, since some candidates may decide not to apply or participate in the programs out of a belief that they do not qualify, which could undermine the objective of enhancing access to employment. However, our recommendation for more careful selection criteria should not be understood as a call to exclude those with lower employability. In fact, there is evidence that entrepreneurship incentives targeting the most vulnerable groups both reduce unemployment and increase employability (Escudero, 2018), precisely because these programs reached high-potential entrepreneurs whose lack of prior success was explained by the many stumbling blocks in their path.

In order to reach the widest audience possible and avoid perverse incentives, program selection mechanisms and conditions of participation should not always be disclosed, at least not during the recruitment phase. This helps ensure that the intervention's target group will not be discouraged from participating. Another problem that can skew results is cream-skimming, which is when recruiters or facilitators select candidates who are expected to perform the best and leave aside vulnerable groups or those with lower employability. This practice runs counter to policies intended to benefit the most disadvantaged groups. While not the foremost concern for entrepreneurship policies, the designers of these policies should still be alert to possible displacement effects that limit certain groups' access to the labor market.

5: See, for example, Grimm et al. (2012), who identify characteristics to predict the probability of being a successful entrepreneur and then compare their predictions to the actual data to identify top performers, subsistence entrepreneurs, and “constrained gazelles” (i.e., entrepreneurs with low performance but a high probability of success due to sharing certain traits with top-performing entrepreneurs).





### **... And generating innovative evidence to boost inclusion for diverse and marginalized groups.**

Although entrepreneurship programs can point to empirical evidence that bears out their positive outcomes, few interventions targeting diverse and marginalized groups have conclusive proof of their effectiveness. This is especially relevant for people with disabilities, who tend to struggle to enter the job market and be highly dependent on others for financial support (Duryea et al., 2023).

According to one study conducted in Spain, people with disabilities who become interested in entrepreneurship are primarily motivated by a desire for autonomy, the possibility to innovate, and the ability to contribute to society (Pérez-Macías and Fernández, 2021). Somewhat surprisingly, fear of failure is not a significant reason people with disabilities cited for avoiding entrepreneurship, a testament to their resilience and high motivation. However, fear of the unknown and possible risks related to starting a business are deterrents to many people with disabilities. Consequently, entrepreneurship policies targeted to people with disabilities would be strategic for both stimulating job creation and expanding their access to employment.

To date, no entrepreneurship programs have specifically targeted members of the LGBTQ+ community, despite widespread employment discrimination against this group (Muñoz et al., 2024) and a need for interventions that help them access jobs. Surveys in Bolivia have revealed that LGBTQ+ people face multiple struggles, including chauvinistic and heteronormative biases that lead them to conceal their sexual identity (Otazú and Urquidi, 2024). Entrepreneurship policies could be a step toward increased visibility and empowerment, unlocking access to crucial resources to help LGBTQ+ people thrive as business owners.



## Conclusions

Active labor market policies aimed at promoting entrepreneurship allow many people to generate income, leave behind working poverty, and, most importantly, strengthen their employment prospects, providing them with experience and helping them avoid gaps in their resumes. Seen this way, entrepreneurship functions as both a strategy for improving working conditions and a buffer against abrupt drops in income and skills losses during periods of unemployment.

Entrepreneurship programs have been shown to have favorable effects not only on labor outcomes such as employment and income, but also on inclusion and labor mobility. Policymakers and researchers know this because the evidence points to heterogeneous effects that vary according to each intervention's target groups, components, and duration. In developing countries, the most effective programs combine hard measures (financing) with soft measures (training, counseling services) and take aim at barriers that perpetuate working poverty. Still, policies must be designed in response to the specific regional, national, or local context, avoiding generic, one-size-fits-all solutions.

To be sure, the thin line between self-employment and informal or low-quality employment makes some uneasy about promoting entrepreneurship in Latin America and the Caribbean. However, when program implementers make sure to emphasize productive forms of entrepreneurship and self-employment, these interventions can be useful tools for generating job opportunities and livelihoods, as well as for boosting economic growth. Therefore, it is important to identify and include high-potential entrepreneurs in the interventions by using advanced profiling instruments.

A key criterion for evaluating these policies is their long-term impact. It is therefore important to consider following up on study subjects for longer periods to see if program results endure or fade over time. The interventions' externalities and cost-effectiveness must also be evaluated to ensure their viability and sustainability. It is equally important to prioritize evaluating how effective these policies are for groups with limited access to employment, such as people with disabilities, indigenous peoples, Afro-descendants, victims of violence, and members of the LGBTIQ+ community.

Ultimately, promoting entrepreneurship is about much more than just reducing unemployment. It is a catalyst for inclusion and labor mobility in the region, with the potential to invigorate productive entrepreneurship, business activity, and development.



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