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AUTHORS AND/OR EDITORS

Morales-Zurita, Leonardo Fabio Bonilla-Mejía, Leonardo Hermida-Giraldo, Didier Lasso-Valderrama, Francisco Javier Pulido-Pescador, José David

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Approach

The COVID-19 crisis in Colombia posed major economic challenges for businesses. As a measure to ease labor costs, preserve formal employment, and prevent closures, the National Government implemented a payroll subsidy program targeting small and medium-sized enterprises (SMEs) with fewer than 50 employees. The monthly subsidy amounted to 40% of the minimum wage for men and 50% for women, while in particularly vulnerable sectors—tourism, hospitality, gastronomy, arts, entertainment, and recreation—the subsidy was set at 50% regardless of gender.

Contribution

This study compares eligible and non-eligible firms before and after the implementation of policy, leveraging the eligibility cutoff at 50 employees and analyzing firms close to that threshold, while excluding sectors unaffected by the pandemic. This strategy allows the observed effects to be attributed to the program rather than other factors. The study provides evidence that a temporary and well-targeted subsidy can generate persistent effects on formal employment in contexts of high informality without requiring permanent expenditure. In crises with severe fiscal constraints, policies like this can preserve formal jobs, with benefits that last beyond their implementation.

> ***The results show a significant increase in formal employment among eligible firms, ranging from 11 to 18 percentage points compared to non-beneficiaries. This impact persisted for up to two years after the program ended.***

Results

The results show a significant increase in formal employment among eligible firms, ranging from 11 to 18 percentage points compared to non-beneficiaries. This impact persisted for up to two years after the program ended. The program's effects on employment were mainly explained by the creation of new jobs and the reduction of closures among treated firms. This suggests that the policy helped maintain productive activity and prevent job destruction. At the sectoral level, tourism, hospitality, gastronomy, arts, entertainment, and recreation recorded larger employment gains. In contrast, the additional incentive for women did not produce significant gender differences.

From a fiscal perspective, even under conservative assumptions, the program proved profitable: estimated internal rates of return ranged between 58% and 169%, positioning the second stage of PAEF as a cost-efficient intervention.