Can basic entrepreneurship transform the economic lives of the poor?

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Background

- The world’s poor lack both capital and skills
- They tend to be employed in low-return, often insecure, occupations
- Economic theory studies whether and how giving capital and skills can alter the poor's occupational choices and make them exit poverty
- Most antipoverty programs attempt to do this:
  - capital: microfinance, banking, asset transfers
  - skills: vocational training, adult education
Questions

Low capital and skills

Occupational choice

Poverty
Reasons to be skeptical:

- beliefs or behavioral biases
- low capital accumulation
- occupational choice

lack of capital and skills are a symptom rather than the cause of poverty
This paper

• Evaluate BRAC's ultrapoor program in Bangladesh
• Ultrapoor program aims to promote structural change from wage labor to self-employment
  • 370k ultra poor households currently treated Bangladesh
  • pilots running in other countries (Haiti, Honduras, India, Pakistan, Ethiopia, Ghana, Peru)
• Provide evidence that transferring both capital and skills transforms the occupational choices of the poor
  • providing a sustainable route out of poverty
Program description

• Beneficiaries: poorest women in rural Bangladesh
• Main components:
  • asset transfer (from a menu: livestock, small retail outlets and small crafts such as basket weaving)
    • most choose a livestock combination, 90% at least one cow
    • average value TK9500=USD140
  • asset specific training
    • classroom training at BRAC’s
    • asset specialist every 1-2 months for 1 year
    • BRAC officer every week for 2 years
  • complementary services for the first 1.5 – 2 years
    • Cash stipend for first 40 weeks, health and legal services
  • microfinance training and enrollment after 18-24 months
Program Description: Targeting

• PRA exercise: community ranks all households into 5 wealth groups
  • yields precise wealth rank for all households (Atlas et al, 2011)

• BRAC officers visit households in the lowest wealth groups and choose those that satisfy the program’s criteria to become Specially Targeted Ultra Poor (STUP)

• Baseline characteristics of the selected poor relative to other households shows targeting was successful
Snapshot at baseline

- targeted poor, relative to others in their community, have:
  - lower productive assets (livestock and land)
  - lower human capital (education and health)
- they are employed in low return, insecure wage labor
  - they work fewer days per year, but more hours per day
  - earnings per hour lower
- can asset transfers transform the occupational choices of the poorest women?
Evaluation strategy

• BRAC decided on 40 branch offices where they wanted to implement the program gradually over 4 years
• We randomize the program roll-out across 40 BRAC branch offices (1409 communities)
  • 20 treated in 2007, 20 in 2011
  • average distance between treatment and control branch: 12km
• Beneficiaries selected in both treatment and control communities, informed of their status only when treated
• We survey beneficiaries + all other poor + a sample of other wealth classes at:
  • baseline (2007)
  • right after the intensive supervision phase (2009)
  • endline (2011)
Methodology

- We compare potential beneficiaries in treatment and control communities before and after the program (ITT)
- Participation rate is 86%
- Measure effect of the program on:
  - occupational choice
  - productive assets
  - earnings and consumption
- Benchmark size of effects on gaps vs. other wealth classes
Program transforms occupational choices

- 92% increase in hours devoted to self-employment after four years
- 26% decrease in hours devoted to wage labour after four years
- 15% increase in days of work per year after four years
- 26% decrease in hours of work per day after four years
- 15% increase in income per hour of work after four years
Program increases productive assets

- **Share of Households with Livestock**: 79% increase after four years
- **Share of Households with Land**: 38% increase after four years
Program increases income

33% increase after two years
38% increase after four years
Program increases consumption

8% increase after two years
15% increase after four years
Lessons

• The program succeeds in transforming the occupational choices of the targeted poor

• Structural change: from wage labor to small businesses
  • compared to other (less successful) programs: massive asset transfer and intensive training

• Implication: capital and skills constraints drive the occupational choices of poor women in rural Bangladesh
  • structural change requires relaxing these constraints
Open questions

• Studies on CCTs have shown that spill-over effects of large-scale antipoverty programs can be significant (Angelucci and De Giorgi 2009)
  • In the case of the ultra-poor program, the magnitude of the effects is such that:
    • it can affect prices/wages
    • It can affect non-treated households
  • Community-level randomization allows us to evaluate the effect on the non-treated
  • Coming soon
Lessons for industrialized countries?

Can the basic idea of the ultra-poor program be adapted to a developed country setting?

• Transfer of assets and skills to move people out of poverty
  • Different types of assets/businesses needed.
  • What types of businesses may work in an urban setting?

• Targeting
  • Participatory techniques may not work as well in urban settings – in suburbs, migrant communities?

• Evaluation techniques
  • Long-run vs. short-run effects
  • Spill-over effects on non-targeted households/individuals
THANK YOU!
Selection: Criteria

- **3 binding exclusions:**
  - borrowing from MFI
  - receiving government anti-poverty
  - no adult women

- **3 out of 5 inclusions:**
  - land owned $\leq 10$ decimals
  - no adult male earner
  - adult women work outside the homestead
  - school-age children working
  - household has no productive assets
Baseline: gender and skills

<table>
<thead>
<tr>
<th>Percentage Share</th>
<th>Male Headed Households</th>
<th>Literacy</th>
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<tbody>
<tr>
<td></td>
<td>Targeted Poor</td>
<td>Other Poor</td>
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<td>Targeted Poor</td>
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<tr>
<td>Other Poor</td>
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<tr>
<td>Middle Class</td>
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</tbody>
</table>
Baseline consumption

![Bar chart showing Total Per Capita Expenditure in Taka (TK)]

![Bar chart showing Food Security Percentage Share]
Baseline productive assets

- **Share of Households with Livestock**
  - Targeted Poor
  - Other Poor
  - Middle Class

- **Share of Households with Land**
  - Targeted Poor
  - Other Poor
  - Middle Class
Baseline occupational choices

<table>
<thead>
<tr>
<th>Hours Devoted to Self-Employment</th>
<th>Hours Devoted to Wage Labour</th>
</tr>
</thead>
<tbody>
<tr>
<td>Targeted Poor</td>
<td>Other Poor</td>
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</tbody>
</table>

- Hours/Year

- Targeted Poor
- Other Poor
- Middle Class
Baseline occupational traits

Days of Work/Year

Hours of Work/Day

Income/Hour of Work
Nobody loses but income gains are uneven..
Cost-benefit analysis - earnings

- Program costs 20,700TK per HH, yields 1754TK per year
- Useful to compare to cash transfer
- Requires assumption on counterfactual return to cash
  - possibly zero if cash is easier to consume or more difficult to protect from relatives
  - possibly higher if invested in individual specific “best activity” (if not present on the program’s long menu)
- Bank accounts are very rare in these communities (only 3.6% of sample HH, including the rich, have them)
- MFI accounts more common (17%)- return 4/5%
- 20,700 at 4.5% yields 932<1754
Cost-benefit analysis- utility

• Difference in utility might be higher or lower
• For given earnings, the program brings utility gains:
  • reduction in seasonality
  • more even allocation of hours across days
  • psychological boost of closing gaps with higher classes
• For given earnings, the program brings utility losses:
  • leisure hours fall by 219
• Utility gains and losses are difficult to quantify
• Making further (conservative) assumptions we can show that the program yields more utility than the cash transfer for at least 40% of the beneficiaries