

Micro-entrepreneurs and Occupational Hazards

Why do poor people settle for low-return employment?



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Riajul's first job as an uneducated youth was to follow in his father's footsteps, breaking bricks into chips to make concrete, a low-prestige and physically demanding task. He didn't like it, and when he found that he could get a loan from a microfinance institution (MFI), he took one and set up a tea stall. This venture lasted for two months. Disillusioned, he turned to pedalling a hired cycle rickshaw, the stand-by job for poor men in Bangladesh. These days, he pedals his own rickshaw, bought with the help of another loan. For the time being, he has no bigger ambitions.

Shiraz completed primary school and then worked as an assistant to a house painter. He soon learned both the craft and the business skills. When his boss moved away, he set up his own painting business. Although it has been running profitably, Shiraz is not content. He wants to stop painting—and set up (that's right!) a tea stall.



Just a few of the tea-stalls within walking distance of Shiraz's home

Why doesn't Riajul learn some skills, take another loan, and try another business that might raise his income? Why should Shiraz, who already has a profitable business and a good reputation, want to "downgrade" from painting to run a tea stall, especially when there are dozens of tea stalls already in the area, many which have been barely able to survive?

We could call this question the "Ozler puzzle", after Berk Ozler, an economist at the World Bank. While reviewing a program that offered cash grants to poor people for self-employment, he noted that within a few years, most of the businesses either had closed or were stuck in a no-growth state. Ozler was puzzled.



WHY IS BEING A TAILOR OR A WELDER OR A HAIRDRESSER NOT BETTER THAN WORKING IN A FIELD OR RUNNING A SMALL KIOSK IN TERMS OF EARNINGS? IF IT IS, WHY DO MORE BENEFICIARIES NOT TRY TO MAKE THOSE THEIR MAIN OCCUPATION RATHER THAN AT BEST A SIDE JOB?

Riajul and Shiraz are both respondents in a "financial diary" research project in central Bangladesh, which has been recording the daily transactions of low-income households since 2015. We can use these highly detailed records to offer some tentative answers to the Ozler puzzle.

Ozler asks two questions. The first is simpler: can you really earn more from running a higher-skilled business than from engaging in low-skilled casual daily work or petty trade? Our data provide an answer: broadly, yes.

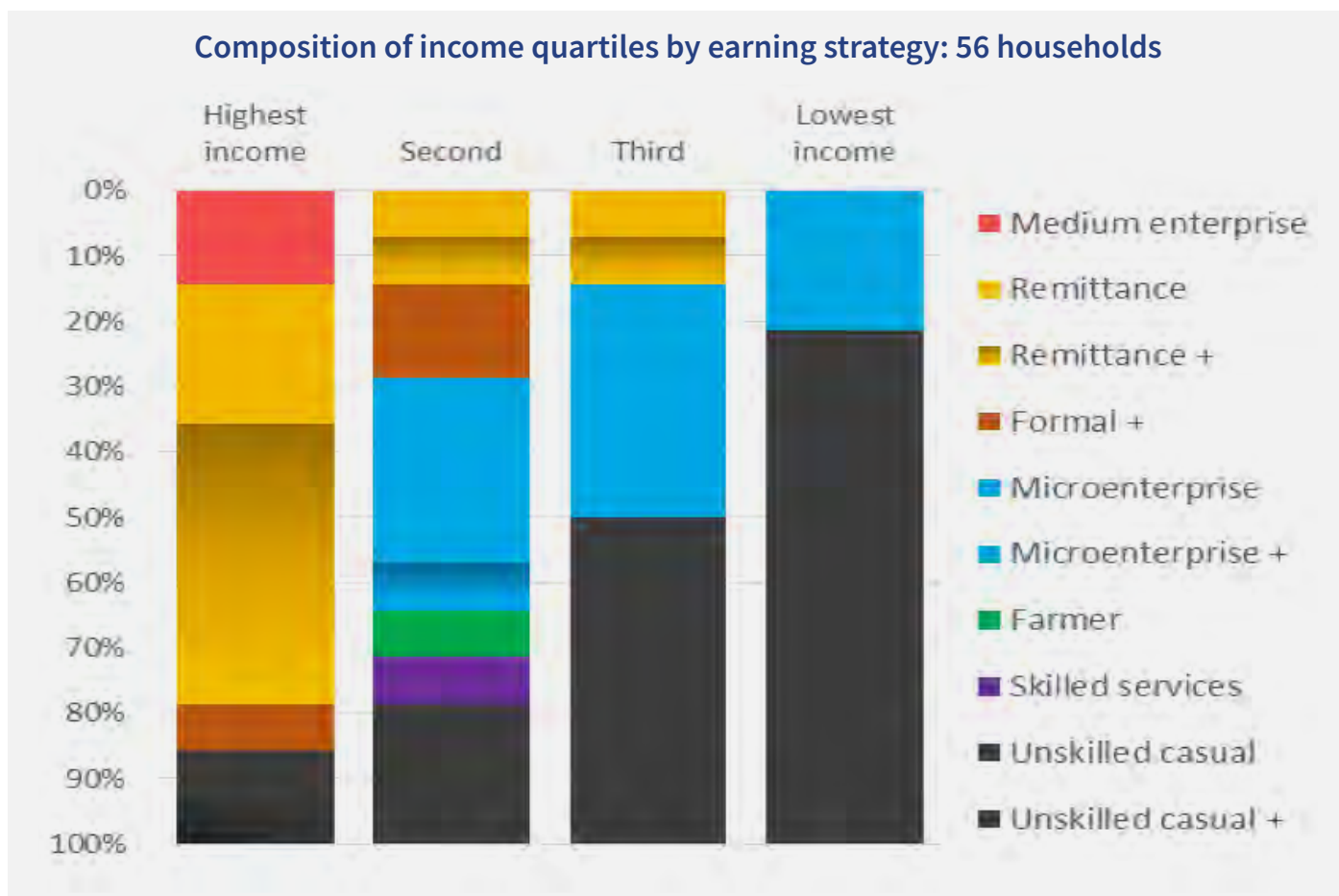


Chart 1: Composition of income quartiles by earning strategy: 56 households.

Chart 1 presents the diary-based evidence for this conclusion. We took 56 of our diary households and divided them into income quartiles based on their total earnings for the past 12 months. We then examined the composition of their earnings and allocated them to one of 10 household “earning strategies” (see the chart legend). Many households have more than one income source. So we have, for example, both “microenterprise” and “microenterprise+”, where “microenterprise+” means they do something else in addition to microenterprise.

We included two diarists who run medium rather than micro-enterprises. As the chart shows, they enjoyed the highest incomes. Next comes living off money remitted from family members who work overseas. This is the “gold standard” strategy for those bold enough to try it. What the chart plainly shows is that those who depend on unskilled casual employment and self-employment, such as Riajul, dominate the lower quartiles. On the other hand, those who run micro-enterprises, such as Shiraz, do better.

This positive answer to Ozler’s first question leads to the second: if there is an earnings premium from running a microenterprise, why do more poor people not opt for it? Or, having achieved it, why don’t the poor stick with it? This is a tougher question, and our answers will be tentative. To pursue them, we interviewed many of our diarists, including Riajul and Shiraz, and quizzed them about the decisions they made and about how they think about various occupations. At the same time, we scrutinized their transaction records.

What are the factors that lead households to their occupations? How did those factors influence the three strategies that dominate chart one: overseas employment, micro-enterprise, and casual employment?

Overseas employment

Several million Bangladeshis work overseas. They come from all over Bangladesh but some localities have managed to specialize in sending people (usually men) overseas, and the diary project's working area is one of them. The rewards from overseas employment are evident everywhere, especially in the form of the large modern houses that have been springing up, often in poor neighborhoods. Everyone knows it is the way to make big money, and many try for it, including some of the poorest.

For example, Kamrul had been working as a farm laborer, paid by the day, when he first determined to go abroad. By selling what was left of his family's land, and borrowing heavily from relatives and neighbors, he made it to Singapore. He had a few successful years before he returned home because he lacked formal skills training. He brought back enough money to repay his debts and open a tea-stall. However, the tea-stall failed for the same reason, as did Riajul's. Neither of them was good at recovering money from people who took goods on credit.

Kamrul went abroad again, this time to Saudi Arabia. He left his wife to discover, to her horror, the pile of debt he had left behind from neighbors, family, and MFIs. He has now been remitting some money to her. However, Kamrul's wife has been in considerable distress as she has been paying off debts by incurring new ones, as we see day-by-day in her transaction record. She would like to start a shop but her husband will not permit it, on grounds of religious propriety and family pride.

Kamrul's example also shows that there are ways to overcome financial constraints to migration. With enough determination, even the poor can achieve their overseas dream. With enough self-confidence to suppress any fear of risk, they can try and try again. In Kamrul's case, it seems a good dose of selfishness helped him offload some of the costs on to his wife.

Both Kamrul and Riajul's experience echoes a finding from a recent study in Bangladesh (UNCDF, 2018), which shows 73% of the merchants sell goods on credit to customers. Many merchants value customer relationships over business profits even if it does not always make good business sense. They often fear that they may lose their customers. For micro-merchants, recovering cash for goods sold on credit is a leading business management challenge.



Micro-enterprise

It may be that the very existence of the opportunity to go abroad means that many of the most ambitious people—who might otherwise have chosen to set up a micro-enterprise—are diverted into going overseas.

The case of diarist Rameza suggests this. She runs a moderately successful cake-and-bun shop. However, after having raised her children and becoming fed up with an unsupportive husband, she decided to go to Saudi Arabia. Her transaction record shows her selling her tin-and-timber shop building in early November, 2018. By the middle of the month, she had a passport, a ticket, the promise of a job, new dresses and shoes—and some fresh debts. Her sons were at first dismayed. Like Kamrul, they worried about social disapproval but seeing her determination, they now support her.

Arun, on the other hand, does not want to go abroad. He is capable, ambitious, and shrewd. Arun used to live in a

poorer district and came to work as a construction laborer. By the time that ended, he was married. He turned to rickshaw pedaling but disliked the work. He resented the patronizing behavior of some of his customers.

When a friendly shopkeeper suggested he set up a food stall and offered to advance him some goods to get going, he leapt at the chance. Since then, he has set up his teenage son in the same business and has recently branched out into a second outlet—a tuck-shop attached to a high school. He sells freshly cooked goods, so he needs extra labor. For now, he has called in a nephew from the village, but he realizes he may have to employ someone from outside the family—a big step that is a major hurdle to enterprise expansion.

Let us return to Shiraz, whose case illustrates that expansion hurdle. He thought about going abroad but decided his health was not up to it and sent his brother instead. When not busy painting, Shiraz spends his time supervising the construction of a new home for the family, financed largely from his brother’s remittances. Shiraz is still young and unmarried. Why does he now talk of giving up the painting business and opening a tea stall? Of his many reasons, two stand out.

1. He thinks it will not be possible to grow his business because the competition is fierce in the area that he can serve from home. Expanding the business would entail much too big a leap—into multiple premises, complex arrangements for storing materials, and taking on more staff including perhaps a permanent employee.
2. He says that with the new home nearing completion, his focus is now on stability. He reasons that while a tea stall would provide a much smaller income than painting, it will provide a consistent flow with little fluctuation, no need for fresh capital, and low levels of supervision.

Unskilled casual work

Our photo shows Ranjit pedaling his rickshaw. His machine is old and muscle-powered, at a time when rickshaw drivers are quickly converting to battery-powered ones, which are faster and preferred by customers. Ranjit’s income has been on the decline, even though he is still quite young, and has to support his wife and three children at home.

Across the village, Rahman, after failing as a self-employed mason, found someone willing to sell him a battery-powered rickshaw on a pay-as-you-go basis. He earns about USD 10.6 a day from driving long hours and pays off the debt at USD 10.7 a day (these values are converted from Bangladeshi taka at the ‘Purchasing Power Parity (PPP)’ rate which we use throughout this blog).

USD 27.5 at the ‘Purchasing Power Parity (PPP)’ rate (we use the PPP rate throughout this blog) a day from driving all hours and pays off the debt at BDT 350 (USD 10.7) a day. Our records show him paying consistently, and within a few weeks, he had purchased a newer battery-powered rickshaw, this time paying back BDT 400 (USD 12.2) a day. These days, he drives the second vehicle and rents out the first one. Once he has paid off his debts, his income will be in the order of four times what it was before he started.



Why does Ranjit not emulate Rahman? First, he says, he has nowhere at home to store the rickshaw and nowhere to charge the battery. He pays to store his rickshaw overnight. Second, battery-powered rickshaws are expensive, so any damage or loss would be serious. Third, these vehicles need maintenance and batteries are liable to fail. While these are valid concerns, Rahman was able to overcome them. So why could Ranjit not do the same?

A likely reason is that Ranjit has a second occupation as a drummer in the village band. This is a side-line in terms of

¹ ‘Purchasing Power Parity (PPP)’ rate adjusts for the fact that one can buy much more with a dollar in Bangladesh than one can in the US.

working hours but it makes him good money during the festival season. During the years we have known him, he has also become more religious and his drumming has become an important part of his spiritual life. He also asks “what would I do with an expensive rickshaw during the few months each year when I am busy drumming?” He admits he has a problem with the declining rickshaw income but waves it aside with vague ambitions to change occupations at some unknown future date.

Conclusions

Within our diarist sample, households with micro-enterprises generally earn more than those that depend mostly on unskilled labor. That is an answer to Ozler’s first question.

As for the second question, there are indeed those who neglect opportunities to shift up to micro-enterprise, and there are micro-enterprise owners content to let their businesses stagnate or even to downsize in favor of an unskilled occupation. Their reasons have to do with business opportunities, personal attributes, and social pressure. Under opportunities, finance, often thought to be critical, seems to be less of a constraint to expansion than day-to-day business issues like managing assets, staff, debt collection, and, to some extent, competition.

Social norms too can prove to be a constraint. Kamrul forbade his wife to open a shop, and Rameza shocked her sons when she said she wanted to go abroad. Personal attributes, such as ambition, self-confidence, determination, and openness to risk play a big role. Family relationships and even spirituality count. Education, in these samples at least, plays only a small part in answering Ozler’s puzzle—shrewdness may be more important than schooling.



If the answers to the Ozler puzzle lie in vaguely-defined “business issues”, “personality traits”, “social norms” and the like, does that make our conclusions vacuous? Could we not have assumed such factors *a priori* before we started the research? Perhaps we could have. Yet watching them play out in real cases that we have watched closely, day-by-day, for as much as three and a half years, transforms them from working assumptions into observed data. That is an advantage of the daily financial diary approach.

Stuart Rutherford and Rahul Chatterjee, Hrishipara, Bangladesh, January 2019

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Author: Stuart Rutherford

Trained originally as an architect, Stuart Rutherford later became interested in how poor people manage their money, and how they might be helped to do it better. He has collected details of many financial devices in dozens of countries and has described them in his book *The Poor and Their Money*.

With David Hulme of Manchester University, he devised and then led the first ‘financial diary’ research project, in Bangladesh in 1999. Results from the first crop of financial diary exercises were written up in *Portfolios of the Poor*, of which he is a co-author. Rutherford has also looked at money management for poor people from the point of view of a service provider, having established the MFI SafeSave in Dhaka, Bangladesh, in 1996, and has also worked as a teacher and consultant. He is married and now lives in Nagoya, Japan.



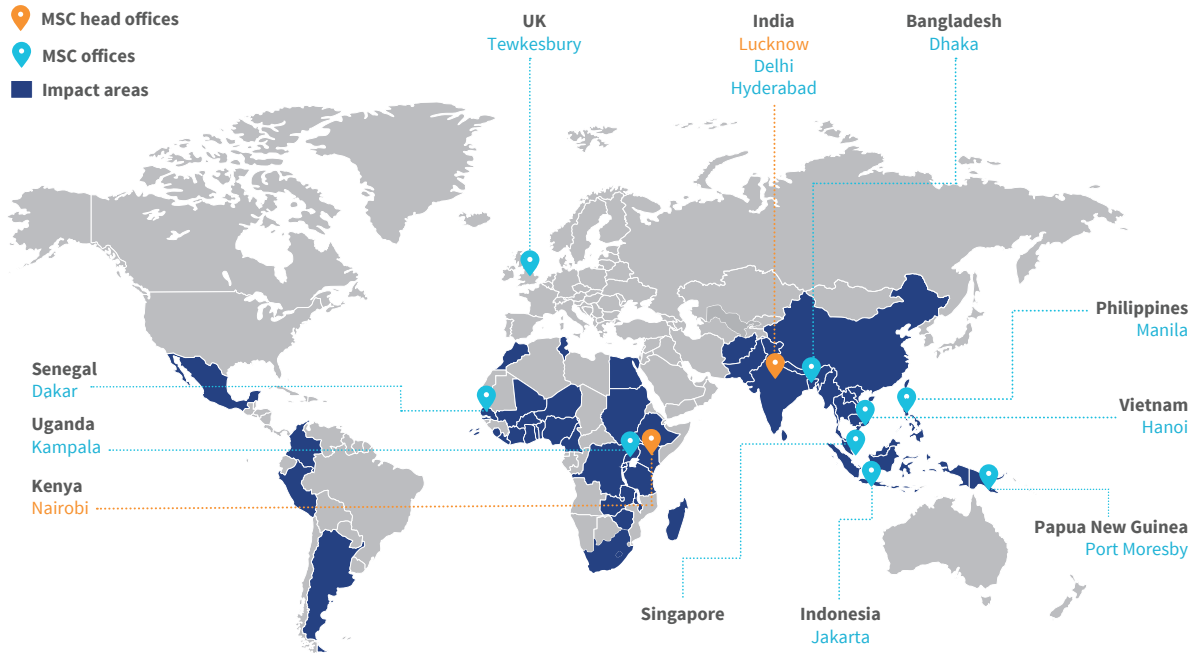
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