Who are the entrepreneurs and what constraints do they face?

Labor Markets Core Course

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Who are the entrepreneurs? (1)

• Which person comes to your mind first?
Who are the entrepreneurs? (2)

- What about these people?
Who are entrepreneurs? (3)

What makes them entrepreneurs?
• New ideas/innovation
• Risks

Are they an engine of growth?
• Yes: for Steve Jobs
• Sorry, but no: for cotton candy makers

Can everyone be entrepreneurs?
• No: not everyone can be Bill Gates
• Yes: as long as you improve a bit in what you are doing --- a self employed person → entrepreneur
Can/Should entrepreneurship be promoted?

Can entrepreneurship be promoted?
• Yes: a bit of capital, a bit of skills, a bit of knowledge, a bit of networks...
• No: it depends on the innate ability and traits---willingness to take risks and try out new things.

Should entrepreneurship be promoted (with public funding)?
• No: those who are born with the entrepreneurial abilities would become one even without any promotion, and investing public funds is waste.
• Yes: there are a number of market failures and inefficiencies such as limited access to credits that require government intervention.
Should we promote entrepreneurship? It seems that we don’t have any other choice.

- Wage and salary employment is less prevalent in the developing world.
- Many people whose primary job is for a salary or agriculture have a self-employment activity as a secondary revenue source.
- MSEs (Micro and Small Enterprises) remain the main source of jobs in the developing world.
- When jobs are needed but employers are not creating them, self-employment and entrepreneurship is a way for people to create their own jobs.
Even with the best case scenario, wage jobs wouldn’t be sufficient

Based on simulation with the Sub Saharan African countries, even with an annual wage job grow rates at 8 percent, wage employment share would be between 8-25 percent.
Then the questions are...

HOW?

FOR WHOM?

WHAT?
To answer these...

A conceptual framework
Profiles
Constraints
Policy tools
A Conceptual framework for understanding self-employment and entrepreneurship

Currently self-employed?

- NO
  - Wants to expand?
    - NO
      - Is happy with status quo?
        - NO
          - Wants to move into other self employment?
            - NO
              - WAGE EMPLOYMENT
            - YES
              - Constraints assessment
        - YES
          - Constraints assessment
    - YES
      - Wants to move into other self employment?
        - NO
          - Constraints assessment
        - YES
          - PROGRAM (to enable reorientation to an alternative sector)

- YES
  - Wants to move into other self employment?
    - NO
      - WAGE EMPLOYMENT
    - YES
      - Constraints assessment
  - Constraints assessment

Has enough information?

- NO
  - Provide information
- YES
  - Constraints assessment

Economically viable?

- NO
  - PROGRAM (to facilitate growth/ Start up in sector selected by individual)
- YES
  - Constraints assessment

Wants to start up a business?

- NO
  - Constraints assessment
- YES
  - PROGRAM (to facilitate growth/ Start up in sector selected by individual)

END

Wants to expand?

- NO
  - Constraints assessment
- YES
  - PROGRAM (to facilitate growth/ Start up in sector selected by individual)

Is happy with status quo?

- NO
  - Constraints assessment
- YES
  - Constraints assessment

Wants to move into other self employment?

- NO
  - Constraints assessment
- YES
  - PROGRAM (to facilitate growth/ Start up in sector selected by individual)
But the world is not without constraints

• The wage and salary jobs that people want may not be available

• The entrepreneur may want to expand but lack access to capital

• A business that is not viable initially might be profitable if the individual were better at it

• An individual may lack ideas about what to do, but giving a good plan could make it work

• A person may be located in an environment where he/she is cut off from profitable value chains

• etc..
Profiles of the self employed and entrepreneurs
(based on Gindling and Newhouse, 2012)
Are the entrepreneurs better or worse off than wage employees?

Comparing household income:

- Wage employees live in wealthier households than own-account workers.
- Employers live in wealthier households than wage or own-account.
- Agricultural workers live in poorest households.
...must be correlated with education...

Table 5: Mean years of education completed by education category, by region and income group

<table>
<thead>
<tr>
<th>Region</th>
<th>Non-agriculture</th>
<th>Wage and Salaried Worker</th>
<th>Non-paid Employees</th>
<th>Employer</th>
<th>Own Account</th>
<th>Agriculture</th>
<th>Not Employed</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Countries</td>
<td>9.4</td>
<td>7.1</td>
<td>10.4</td>
<td>6.9</td>
<td>4.2</td>
<td>6.7</td>
<td></td>
</tr>
<tr>
<td>East Asia and Pacific</td>
<td>10.3</td>
<td>8.3</td>
<td>9.8</td>
<td>7.5</td>
<td>5.7</td>
<td>8.5</td>
<td></td>
</tr>
<tr>
<td>Europe and Central Asia</td>
<td>13.0</td>
<td>10.5</td>
<td>12.8</td>
<td>10.5</td>
<td>10.0</td>
<td>10.2</td>
<td></td>
</tr>
<tr>
<td>Latin America and Caribbean</td>
<td>9.8</td>
<td>8.5</td>
<td>10.4</td>
<td>7.7</td>
<td>4.8</td>
<td>7.7</td>
<td></td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>9.3</td>
<td>6.8</td>
<td>10.2</td>
<td>7.2</td>
<td>5.7</td>
<td>8.4</td>
<td></td>
</tr>
<tr>
<td>South Asia</td>
<td>7.0</td>
<td>6.4</td>
<td>10.3</td>
<td>6.2</td>
<td>3.4</td>
<td>5.3</td>
<td></td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>9.6</td>
<td>5.7</td>
<td>8.3</td>
<td>6.2</td>
<td>4.2</td>
<td>6.3</td>
<td></td>
</tr>
<tr>
<td>Low Income</td>
<td>6.7</td>
<td>6.0</td>
<td>7.8</td>
<td>5.3</td>
<td>3.9</td>
<td>4.9</td>
<td></td>
</tr>
<tr>
<td>Lower Middle Income</td>
<td>8.5</td>
<td>6.9</td>
<td>10.1</td>
<td>6.8</td>
<td>4.1</td>
<td>6.2</td>
<td></td>
</tr>
<tr>
<td>Upper Middle Income</td>
<td>10.9</td>
<td>8.9</td>
<td>11.0</td>
<td>8.2</td>
<td>6.5</td>
<td>8.8</td>
<td></td>
</tr>
</tbody>
</table>
• Wage and salary --- tend to be concentrated around the service sector
• Own account holder --- retail
• Caution --- huge variation across regions...
Is youth entrepreneurship a reality today?

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**Male**

- own_account
- employer
- non_paid_employee

**Female**

- own_account
- employer
- non_paid_employee
Lessons from profiling...

• Differences in observable characteristics...
  – Compared to wage and salaried workers, self employed workers tend to be older, less educated, and engage in the retail sector.
  – Huge heterogeneity in successful vs. less successful entrepreneurs (successful=being employers, wealthy)

• Differences in observable characteristics are not all that explains one’s success in business
  – Profiles of the successful vs. less successful
  – Calculate the probability of success based on their profiles
  – There are many individuals who have exactly the same observable features [such as gender, age and education] with the successful entrepreneurs, but are not successful.
Why aren’t those who have high potential successful...

• Unobservable characteristics & constraints...
Constraints
What sorts of constraints can affect entrepreneurial success?

Three broad types

Skills / Individual Level:
- No Business knowledge
- Illiteracy
- Insufficient Education
- No basic skills
- Language Barriers
- No entrepreneurial traits

Business Environment
- Excessive Bureaucracy
- Restricted Access to Finance
- Uncertain Regulatory Environment
- Corruption
- Restricted Access to Services

Social Environment
- No Mentors
- Cultural factors
- Societal Stigmas
- No safety net (in case of failure)
- No Exposure to “Entrepreneurship”
How to assess the constraints?

• Individual constraints
  – Psychometric Tests
  – Household Surveys
  – Standardized Assessments (PISA/TIMSS)
  – Educational Administrative Records

• Business Environment
  – ICA / Informal Sector Employer Survey
  – *Doing Business* Legal Framework Analysis
  – NGO / Consultancy Reports

• Social Environment
  – Household Surveys
  – Focus Groups
  – Sociological Research
  – NGO / Consultancy Reports
1) Desire and passion: I have a fervent drive to succeed and zeal for the tasks required
2) Energy: I have stamina to tackle problems
3) Ability to Thrive on Uncertainty: I can prosper in an environment with many questions and few answers
4) Persuasiveness: I convincingly communicate with others – bankers, vendors, employees
5) Self Discipline: I can do the tasks necessary to succeed, whether pleasant or unpleasant

Example: individual constraint – entrepreneurial traits (Kauffman Foundation)
Example: individual constraint – entrepreneurial traits (Kauffman Foundation)

6) Self confidence: I believe that somehow I can solve whatever problems arise
7) Ethics: I deal with others with honesty and integrity
8) Problem solving: I have an ability to anticipate and troubleshoot problems
9) Networking: I connect with others and build strategic relationships
10) Business knowledge: I have a basis for making effective, profitable business decisions
Example: business environment

Top 10 Business Environment Constraints for Firms

Source: Enterprise Surveys (www.enterprisesurveys.org), The World Bank
Example: Assessing social constraints: social networks

<table>
<thead>
<tr>
<th>1. Is there a [GROUP] in your community?</th>
<th>2. Are you an active member of this [GROUP]?</th>
<th>3. How much input do you have in making decisions in this [GROUP]?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes...1</td>
<td>Yes...1</td>
<td></td>
</tr>
<tr>
<td>No..2</td>
<td>No...2</td>
<td></td>
</tr>
</tbody>
</table>

Self-help group, non-credit related

Formal trade, business, or professional associations

Micro-finance group

Informal savings or loan group
Multiplicty & Diversity of Constraints

• Of course, none of the tools are perfect – suggestive evidence, but more info is better than less...
  
  E.g., business environment: requirement of collateral & individual constraints: access to finance

• Interventions need to target the relevant and common constraints: some constraints are common to all
  
  E.g. Mexico (Bruhn 2012): the number of procedures=15, days=67 to register a business → Reform in 2002 to the number of procedure =2, days=3 → number of new firms significantly increased

• Some populations face specific constraints
  • Women/Youth
  • Rural / Remote
  • Fragile States / Demobilized
  • Lower Castes

• Profile the binding constraints → Design tailored programs
Entrepreneurship Programs
## Tools to address constraints

<table>
<thead>
<tr>
<th>Constraints</th>
<th>Programs</th>
<th>Examples</th>
<th>Effectiveness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual: Lack of Skills</td>
<td>Training</td>
<td>Vocational and/or business training often combined with financing and counseling (Uganda, Malawi, Liberia, etc)</td>
<td>A large knowledge gap exists: emerging patterns are that youth benefit most especially from technical skills training with counseling; (relatively short) business training can make difference.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Comprehensive entrepreneurship model like BRAC, IRC</td>
<td></td>
</tr>
<tr>
<td>Business environment: Limited access to finance</td>
<td>Microfinance and grants</td>
<td>Microfinance: Many countries including Bangladesh, Pakistan, India, Morocco, Mongolia, etc.</td>
<td>Mixed results between different target group with different goals (setup vs. expansion); Usually larger effects on prospect than existing entrepreneurs; can be more effective for financially constrained enterprises.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Grants/in-kind transfer: Sri Lanka, Mexico, Ghana</td>
<td></td>
</tr>
<tr>
<td>Social: Lack of network/information</td>
<td>Advisory service as part of training or value chain integration</td>
<td>Counseling, psycho-social support, mentoring, role model setting, and consulting Ashoka, Endeavor, SEWA</td>
<td>Useful to complement training</td>
</tr>
</tbody>
</table>
Examples: Training

- Vocational training: addressing lack of technical skills
  - Malawi (Cho et al. 2013) -- apprenticeship training for vulnerable youth
  - Uganda (Blattman et al. 2012) – training+grants for vulnerable youth
  - Liberia -- AGI

- Business training: addressing lack of managerial and business skills
  - ILO– KAB (Know about business) etc...

- Financial training: addressing lack of financial literacy and accounting
  - Usually among existing entrepreneurs, microcredit clients, etc. who have basic knowledge and skills
  - Bosnia & Herzegovina
Examples: Access to finance

- Based on global inventory
- Various approaches
- Combinations of them
Examples: Consulting/advisory service

- India: business advisory service (Bloom et al. 2011)
  - Significantly improved profits
  - Caveat: experimented for large firms
  - Experiments being conducted in MSMEs...
Yarn inventory management before advisory service

Yarn piled up so high and deep that access to back sacks is almost impossible

Yarn without labeling, order or damp protection

Different types and colors of yarn lying mixed

A crushed yarn cone, which is unusable as it leads to irregular yarn tension
Stock is organized, labeled, and entered into an Electronic Resource Planning (ERP) system which has details of the type, age and location.

Bagging and racking yarn reduces waste from rotting (keeps the yarn dry) and crushing.

Computerized inventory systems help to reduce stock levels.
Improved yarn inventory storage system after advisory service

Shade cards now produced for all surplus yarn. These are sent to the design team in Mumbai to use in future products.
Among these menu of options... …what programs to implement?

• Maybe those that are proven to be effective...
  – But only limited evidence exists...
  – After the break: (based on Cho and Honorati, 2012) “What do we know about the impact of Self-employment programs?”

• Monday morning: discuss most commonly used tools
  – “How to Provide Access to Finance to the Self-employed and Small Entrepreneurs”
  – “Entrepreneurship Training”

• Tuesday morning: discuss innovative and comprehensive approaches
  – “Inclusive Value Chains”
  – “microfranchising”
THANK YOU!