

Basic Entrepreneurship: A Big New Idea in Development

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The question of what keeps people mired in poverty is one of great importance to policy-makers and economists alike. The world's poor typically lack both capital and skills, and each of these two factors have been emphasized by different strands of the academic and policy literatures as the root cause of poverty.

Subsequently most anti-poverty programs attempt to tackle these constraints, for example, through microfinance and asset transfer programs, or vocational training and adult education. However, it appears uncertain



whether many of these programs are able to transform the occupational choices of the poor, who tend to be employed in low-return and insecure occupations, and thereby enable them to permanently exit poverty.

The issue at hand is whether one can create successful entrepreneurs – who acquire skills and make use of productive capital – out of poor people who started out without either. Key to this question is whether asset transfers can induce the poor to alter their occupational choices, as opposed to simply enabling the poor to increase their consumption in the short term or reduce their labor supply. The size of the transfer is an important factor here. These questions become more salient as the world is littered with examples of anti-poverty programs which, despite their best intentions, fail to have any appreciable impact on their intended beneficiaries.

To shed light on these issues, Oriana Bandiera (LSE and IGC), Robin Burgess (LSE and IGC), Narayan Das (BRAC), Selim Gulesci (Bocconi), Imran Rasul (UCL and IGC) and Munshi Sulaiman (BRAC and IGC) evaluated an anti-

Bandiera et al (2012) found that the very poor can be transformed from laborer into entrepreneur by providing them with assets and training to run a small business, and that this occupational transformation has striking implications for their welfare.

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poverty program in Bangladesh – a program that provides both asset transfers and skills training to the poorest women in rural communities. The program aims to move these typically asset-less and unskilled women from low-return and seasonal wage labor to the more secure, self-employment based occupations which the middle classes and rich tend to occupy in these communities.

Evaluation

BRAC, one of the world's largest NGOs, targets the poorest women in rural Bangladesh via its Ultra Poor Program. In close collaboration with BRAC, Bandiera et al (2012) randomized the roll-out of the Ultra Poor Program across 40 BRAC office branches, in the poorest areas of the country. Each branch covers 35 communities on average, for a total of 1409 communities. Of these 40 branches, half were allocated to the treatment group, and half were allocated to the control group. The communities covered by BRAC branches in the treatment group received the Ultra Poor Program in 2007, whereas the communities served by BRAC branches in the control group did not receive the program until 2011. The evaluation thus utilizes the communities that did not receive the program until 2011 as a comparison group, against which to assess changes in outcomes in the treatment group following the introduction of the program.



The Ultra Poor Program has two main components: an asset transfer and skills training. Specially Targeted Ultra Poor (STUP) women identified by BRAC are offered a menu of self-employment activities, including different combinations of livestock and poultry, vegetable cultivation, small retail outfits or small crafts for them to run. Each option combines a transfer of assets with training specific to that particular business. Over 97% of beneficiaries in communities evaluated by the study chose livestock and poultry rearing, activities which are typically operated by

middle class and rich women in these rural communities. Program beneficiaries thus received live animals (cows, goats and chickens) as well as training on how to rear them. This training includes classroom training as well as household visits from a specialist every 1-2 months for the first year of the program, and from BRAC program officers every week for the two year duration of the program.

Before the program, the ultra poor households appear severely disadvantaged relative to other households which were deemed poor by their communities, as well as relative to middle class and rich households. Targeted households are much more likely to lack a male head of household and to be illiterate. Their productive asset holdings, whether in livestock or land, are negligible and the per capita expenditure for these households lies below that of other poor as well as middle and rich households.

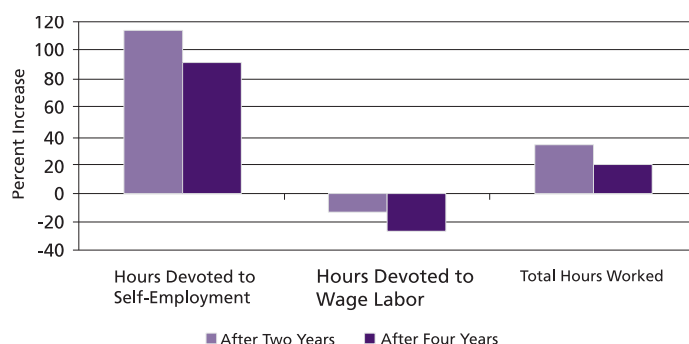
Relative to other women in these communities, ultra poor women are also much more reliant on wage labor, such as agricultural work or work as a domestic servant, as opposed to self-employment. They work more hours but less days per year and thus have earnings that are much more seasonal in nature. Other poor, middle and rich households, who are more reliant on self-employment activities such as running a livestock business can spread their labor supply more evenly across the year.

Results

The results of the evaluation are striking. The research found that BRAC's Ultra Poor Program transforms the occupational choices of the targeted women. Labor supply dramatically increases as the women spent more time in self-employment running their new livestock businesses and less time in insecure wage labor. Their labor supply becomes less seasonal and they begin to diversify out of their livestock businesses into renting and owning agricultural land. Four years after the start of the program, the initially ultra poor begin to resemble the middle class in their rural communities on dimensions such as time devoted to self-employment, regularity of economic activity, asset holdings, total earnings and per capita expenditure.

The Ultra Poor Program transforms the occupational choices of the ultra poor

Labor force participation rises: after two years ultra poor women are 11.3 percentage points more likely to be engaged in at least one income generating activity and the corresponding figure after four years is 7 percentage points. Program beneficiaries also increase total labor supply, by increasing hours in self-employment (by 92% after four years) and reducing hours devoted to wage work (by 26% after four years). The program raises ultra poor women



above the other poor, middle class and rich women in terms of labor force participation, and onto a comparable level with middle class and rich households in terms of self-employment hours.

Ultra poor women also increase the number of hours they work by 295 hours after two years and 219 hours after four years, representing increases of 35% and 19%. They similarly increase the number of days they work per annum by 39 days after two years and 36 days after four years (a 15% increase after four years). The program results in a decrease in the average hours worked per day by .7 hours after two years and 1.15 hours after four years (a 26% decrease after four years). The fact that these changes persist and some are even more pronounced after four years suggests that these changes in occupational choices may be permanent. Crucially, the program enables women to spread their labor supply more evenly across the year similarly to those in the middle class, and in doing so brings them closer to full employment.

The Ultra Poor Program transforms the economic lives of the ultra poor

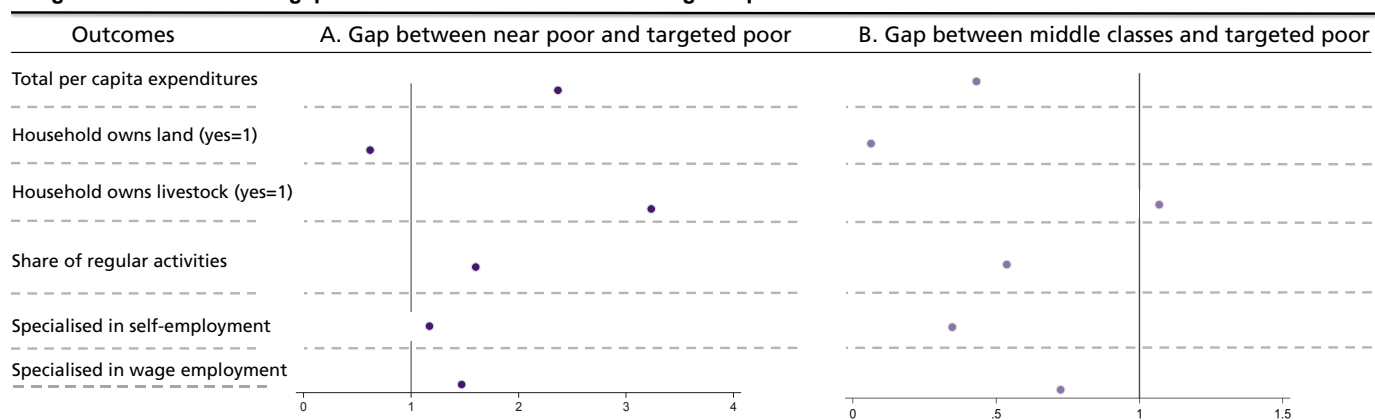
After two and four years the total value of beneficiaries' livestock assets increased by 9983TK and 10734TK, respectively. In addition to livestock assets, beneficiaries are 7 and 11 percentage points more likely to be renting land after two and four years, and 0.5 and 3 percentage points more likely to own land, indicating that the economic



power of these women is growing over time. After four years, land rental and ownership levels of the ultra poor are comparable to those of the near-poor in 2007.

Per annum earnings of the ultra poor women increased by an average of 34% and 38% after two and four years, respectively. The arrival of new livestock businesses allow ultra poor women to work significantly more hours and this effect, combined with diversification into land and improved per hour returns are all likely to

Programme effects on the gap between other classes and the targeted poor



Notes: Each dot represents the impact of the program on the outcome on the left hand side column divided by the initial gap between other poor and targeted poor (panel A) and between middle classes and targeted poor (panel B). The vertical line at 1 indicates the level at which the effect of the program is such to close the gap. Specialised in wage labor=1 if the individual only engages in income generating activities where they are employed by others. Specialised in self-employment activities=1 if the individual only engages in income generating activities where they are self-employed. Share of income generating activities held regularly equals the fraction of income generating activities the individual engaged in more than 300 days per year.



be factors underpinning these very large increases in earnings. Increased earnings were met by total per capita expenditure increases of 9% and 15% after two and four years, relative to pre-program levels.

The observed retention of livestock assets, expansion of these and land assets and increased earnings and expenditure demonstrate that ultra poor women are not only capable of basic entrepreneurship in the form of

running small livestock businesses, but also growing these businesses (even after BRAC assistance is withdrawn), and leveraging this opportunity to transform their economic lives.

The Ultra Poor Program is cost effective

The Ultra Poor Program costs roughly 300 US\$ per household, including the value of the asset and the cost of training. Compared to an unconditional cash transfer of the same magnitude, the poverty impact of the BRAC program is greater.

Assuming beneficiaries of a cash transfer program are able to safeguard, rather than consume a transfer of roughly 300 US\$, they may be able to deposit the cash in a savings account and consume the accrued interest every year. Even in this best case scenario, at the going interest rates (4.5%) this yields 932 TKs per year, which is significantly lower than the average impact of the Ultra Poor Program on beneficiaries' yearly earnings, which were increased by 1750 TKs.

Ideas for Growth

The results of this evaluation suggest that inadequate capital and skills among the poor do indeed perpetuate poverty. Easing these constraints via a transfer of assets and skills can change the occupational choices of the poor. The Ultra Poor Program transforms the poor from relying on predominantly seasonal and insecure wage work into entrepreneurs. This shift is associated with dramatic improvements in the economic lives of the poor, bringing them closer to the middle classes in their communities on dimensions such as assets, earnings and expenditure.

This evaluation documents the success and cost effectiveness of the BRAC Ultra Poor program in providing a sustainable route out of poverty. The large scale of BRAC Ultra Poor Program, with 370,000 ultra poor households currently treated in Bangladesh and pilots running in 10 other countries, makes the results of this evaluation particularly important. The study lends support to the

case for further expanding and scaling-up the BRAC program, as well as the replication of its model by other organizations with the aim of reducing poverty. This is in fact happening. Based on the documented success of the BRAC Ultra Poor Program, CGAP, in conjunction with the Ford Foundation, have sponsored the implementation and evaluation of similarly structured programs in [8 different countries](#). [Banerjee, Duflo, Chattopadhyay and Shapiro \(2011\)](#) evaluated one of these pilot projects implemented in West Bengal, India. They find that the intervention succeeds in improving the economic lives of the poorest, evidence that suggests this model is effective in other contexts.

Findings of this research are already influencing policy design and program expansion decisions within BRAC as well as in other NGOs. However, further evaluations of the program in different countries and regions would serve to strengthen the case for the reproduction of this model in other settings.

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