

# Is entrepreneurship among the poor a way to growth?



ABHIJIT BANERJEE

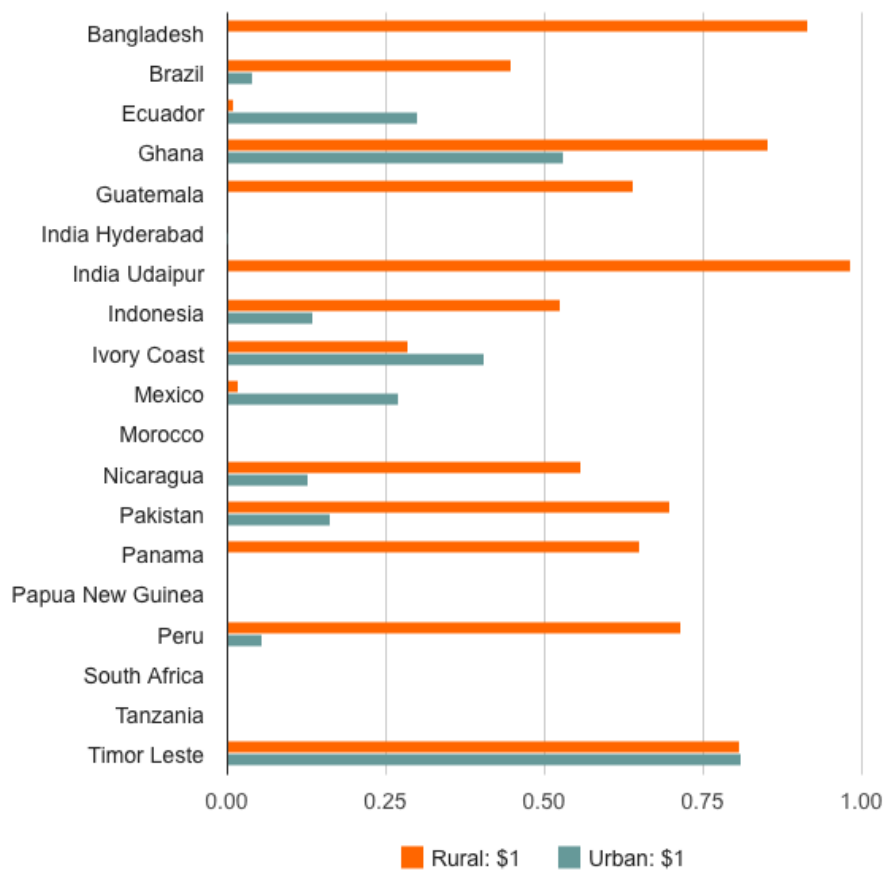


# Lots of entrepreneurship among the poor

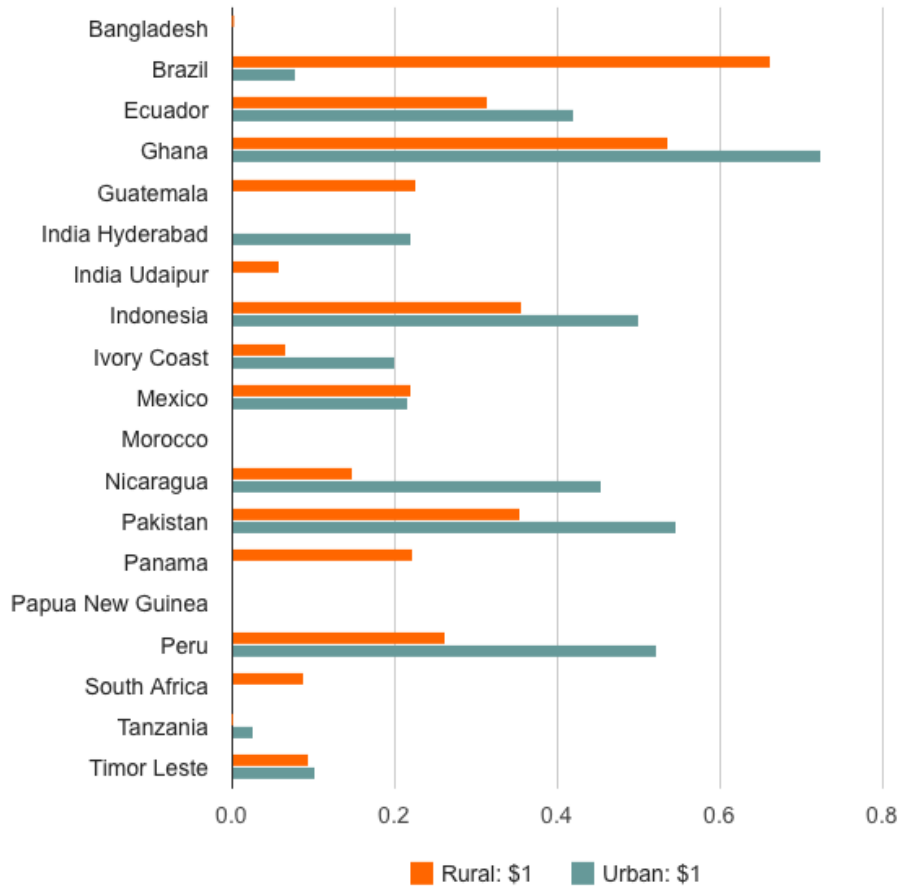


- Who is an entrepreneur?
- 12% of people in the OECD describe themselves as self-employed
- The corresponding fraction among the poor is much higher.

# How many households had at least one person self employed in agriculture?



# How many households have at least one person self-employed in non-agricultural work?



# Why is this surprising?



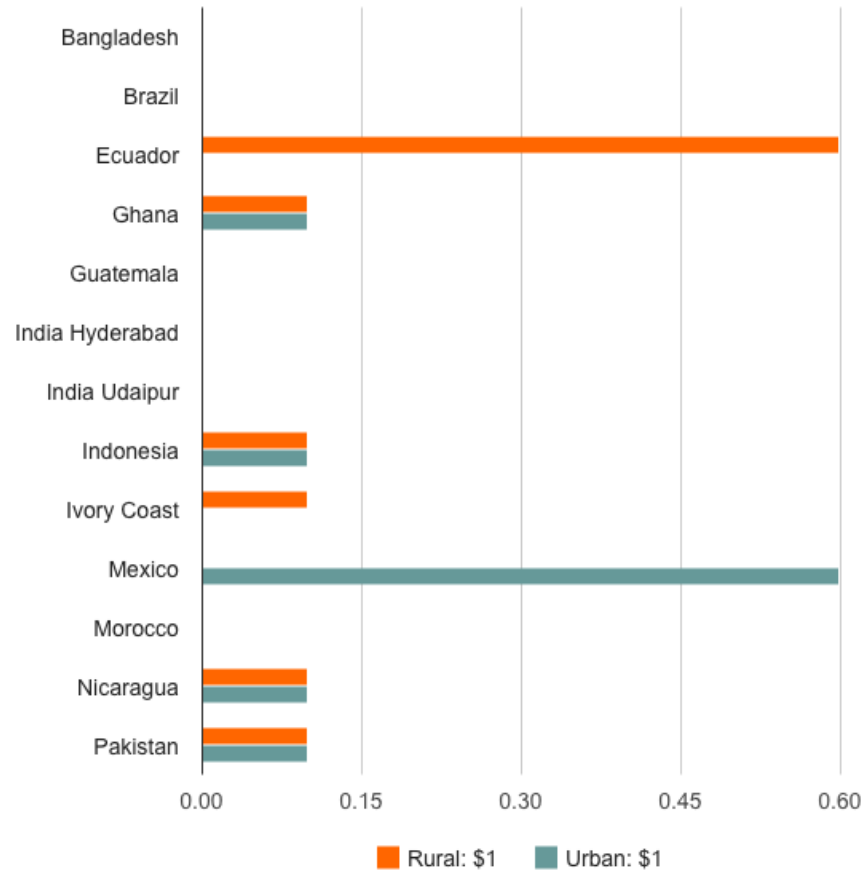
- Credit constraints
- The pain of bearing risk
- Lack of Skills
- Limited Connections

# “Natural Entrepreneurs”

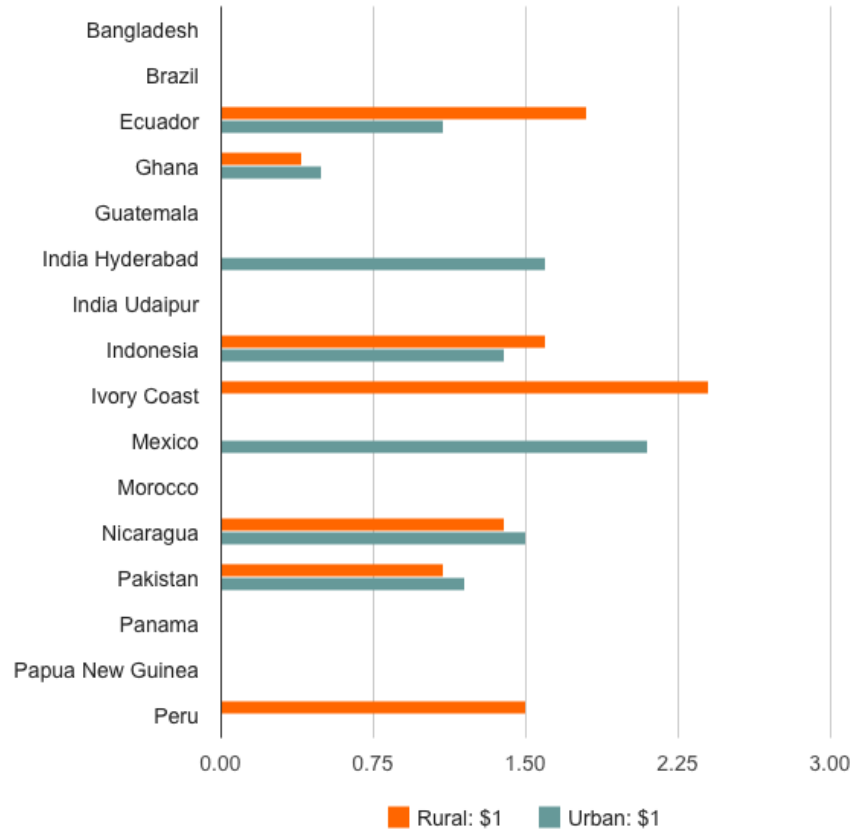


- Does this mean that the poor are natural entrepreneurs?
- What do we know about the businesses of the poor?
  - Size
  - Type
  - Multiplicity
  - Durability
  - Aspirations

# How many paid employees do these businesses have?

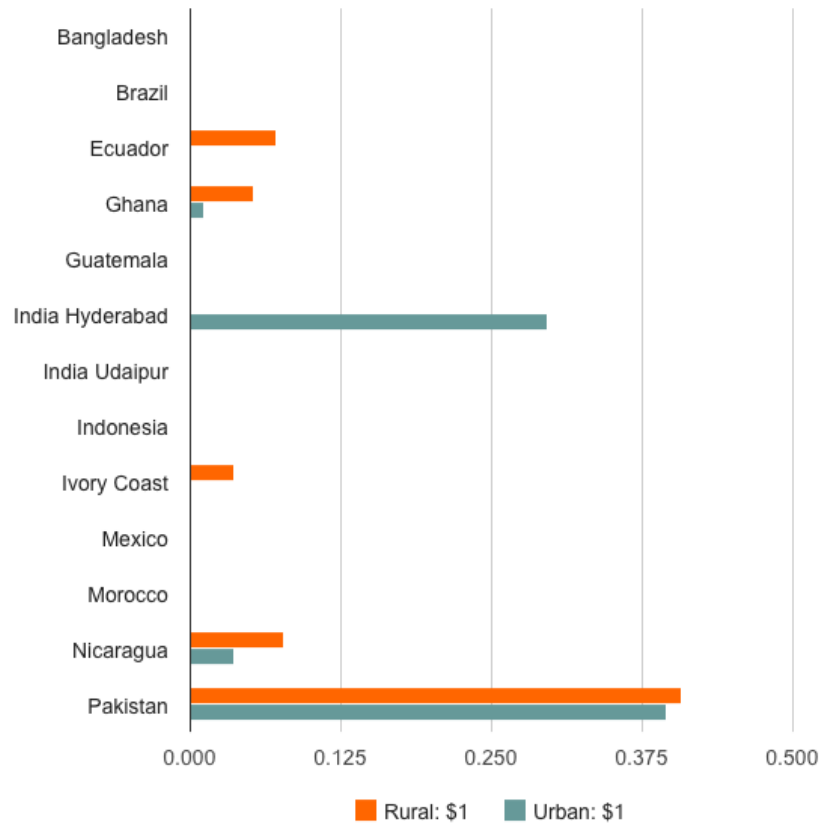


# How many total employees do these businesses have?

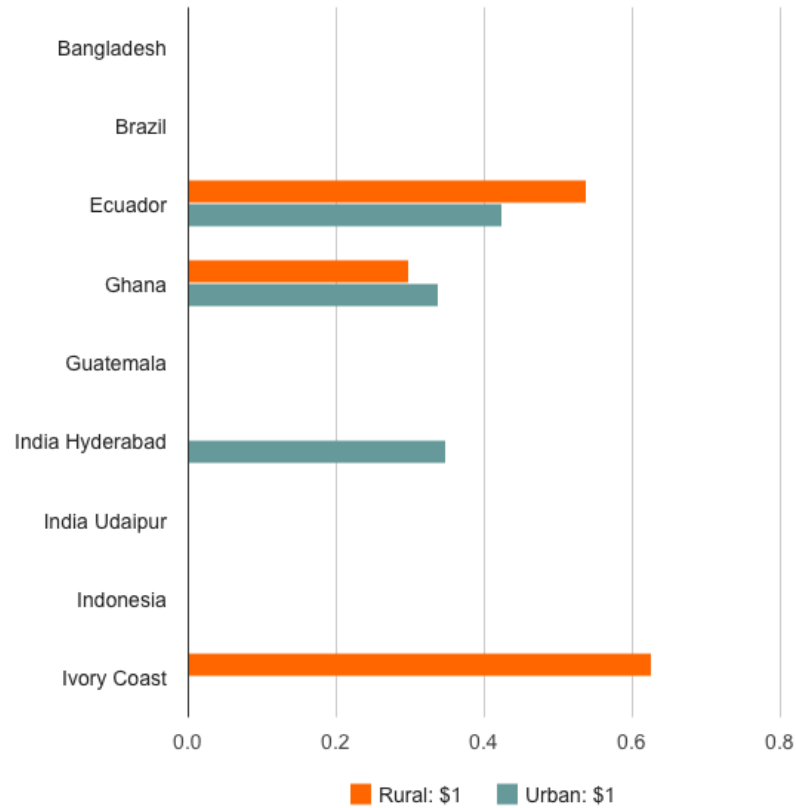




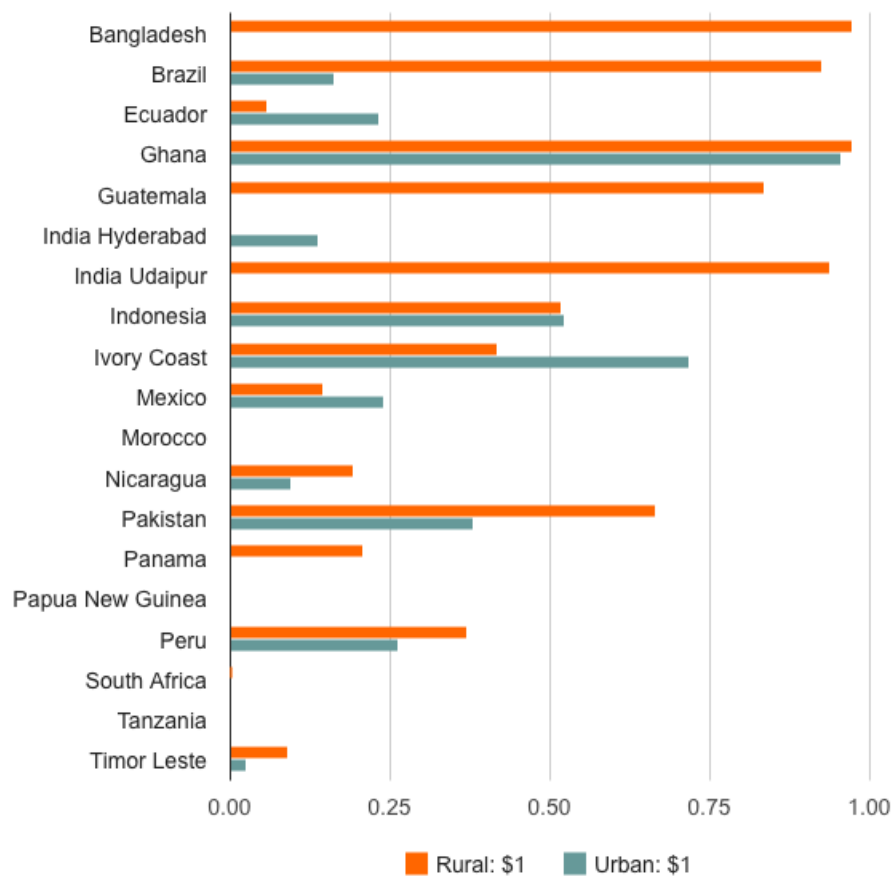
# What percent of businesses own a vehicle?



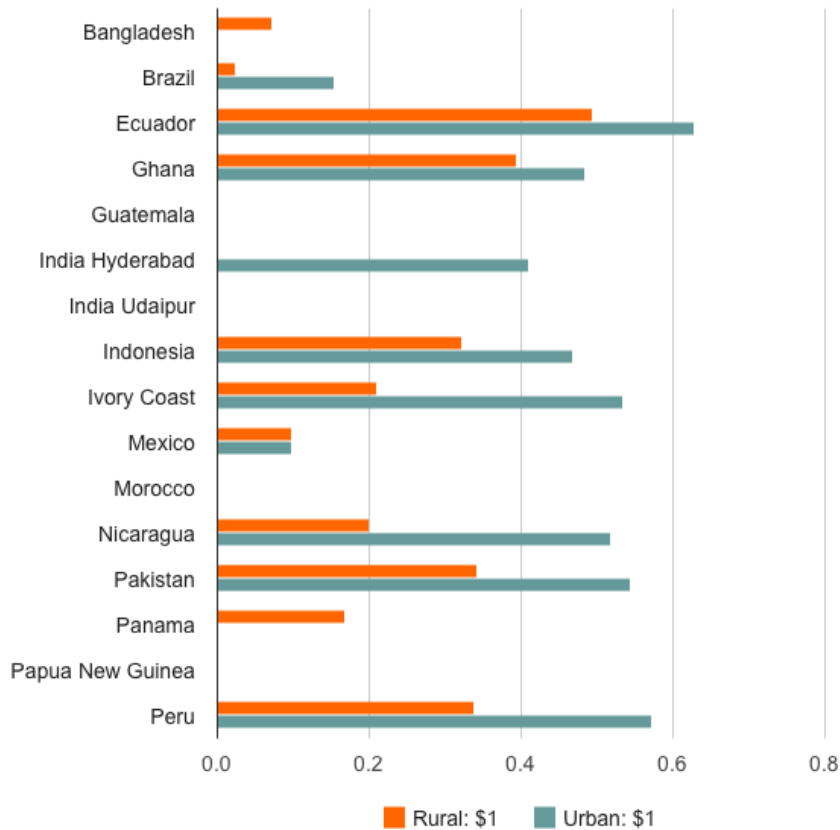
# What percent of businesses own some machines?



# How many households receive income from multiple sectors?



# How many poor households have at least one non-agricultural business?





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POOR WITHOUT BUSINESSES IN 2002 - 85%

POOR WITH BUSINESSES IN 2002 - 15%

SURVIVED BUSINESSES IN 2005 - 6%

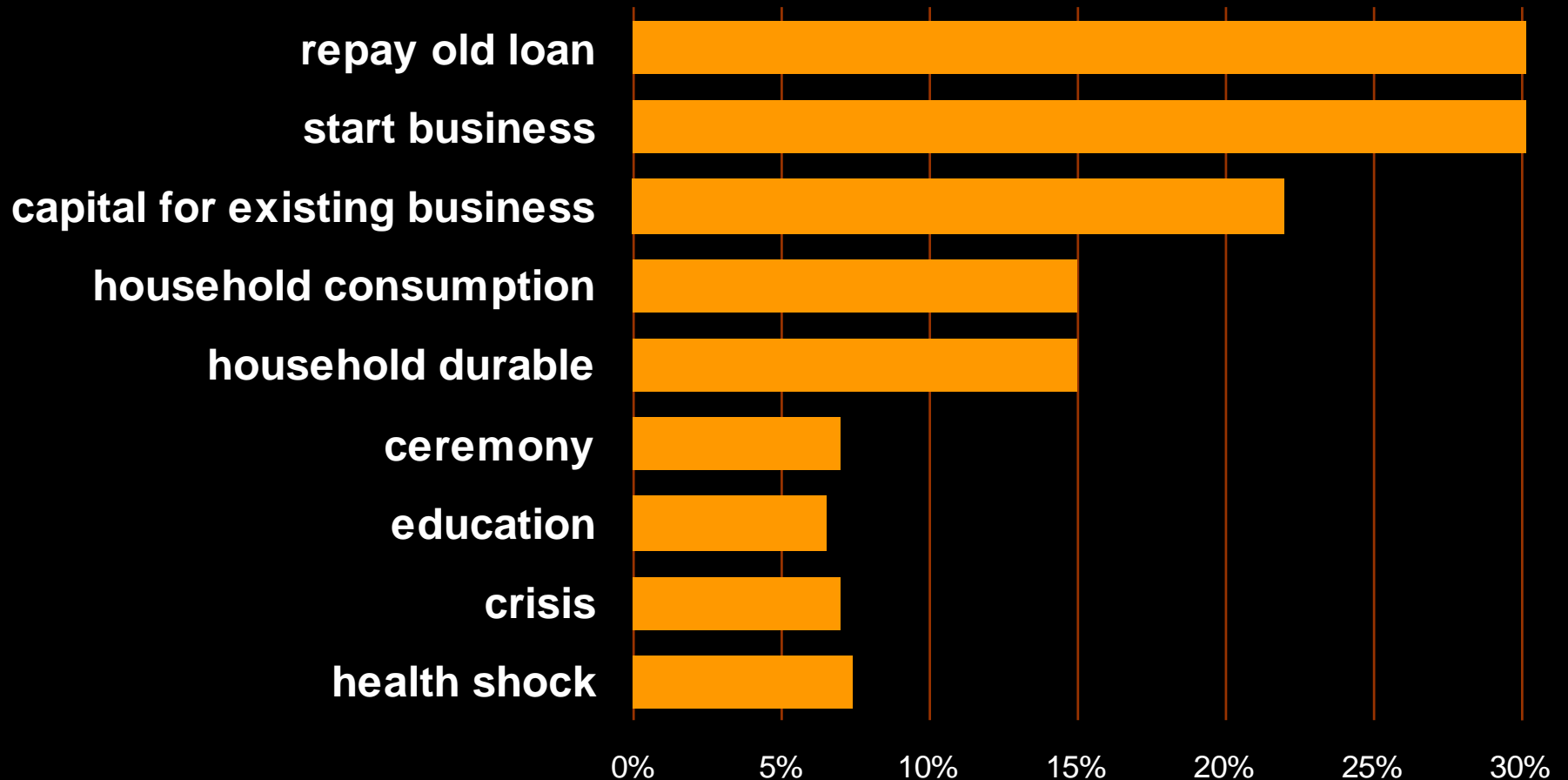
RETAINED ORIGINAL WORKFORCE THROUGH 2005 - 1.8%

# How much effort are they putting into growing businesses?



- In a previous paper we calculated that some business owners could double their capital stock by cutting back their per capita consumption by 2.5% for a year.
  - Why don't they?
- Results from randomized evaluation of Spandana's microcredit program confirm this.
  - 104 “slums” in Hyderabad.
  - 52 chosen for microcredit

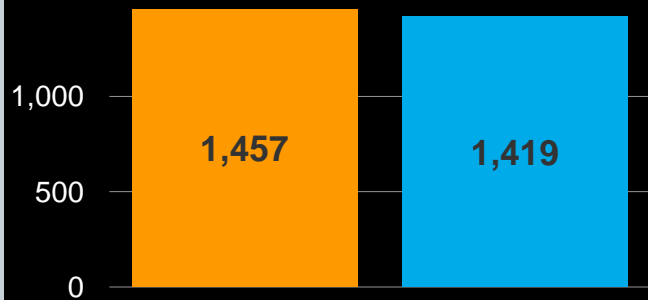
# Why do you want a loan?



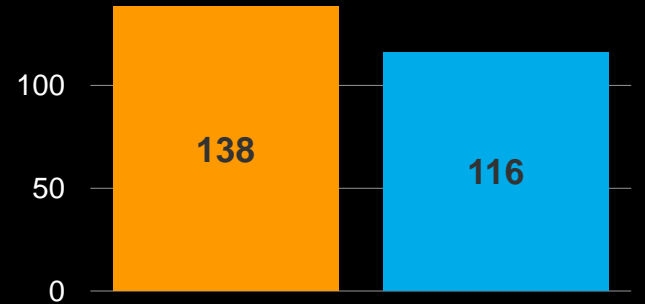
# Impact on expenditure



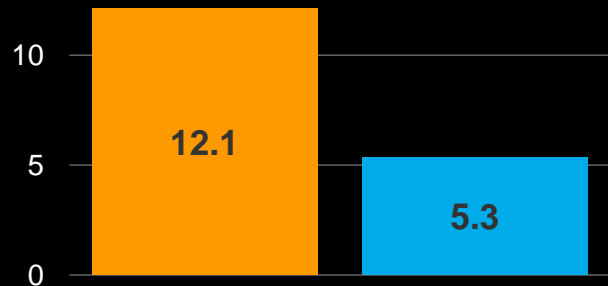
**PCE**



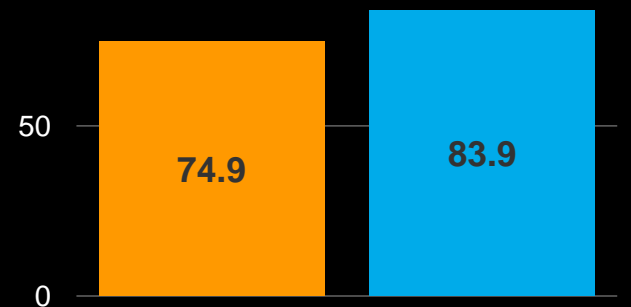
**Durable\*PCE**



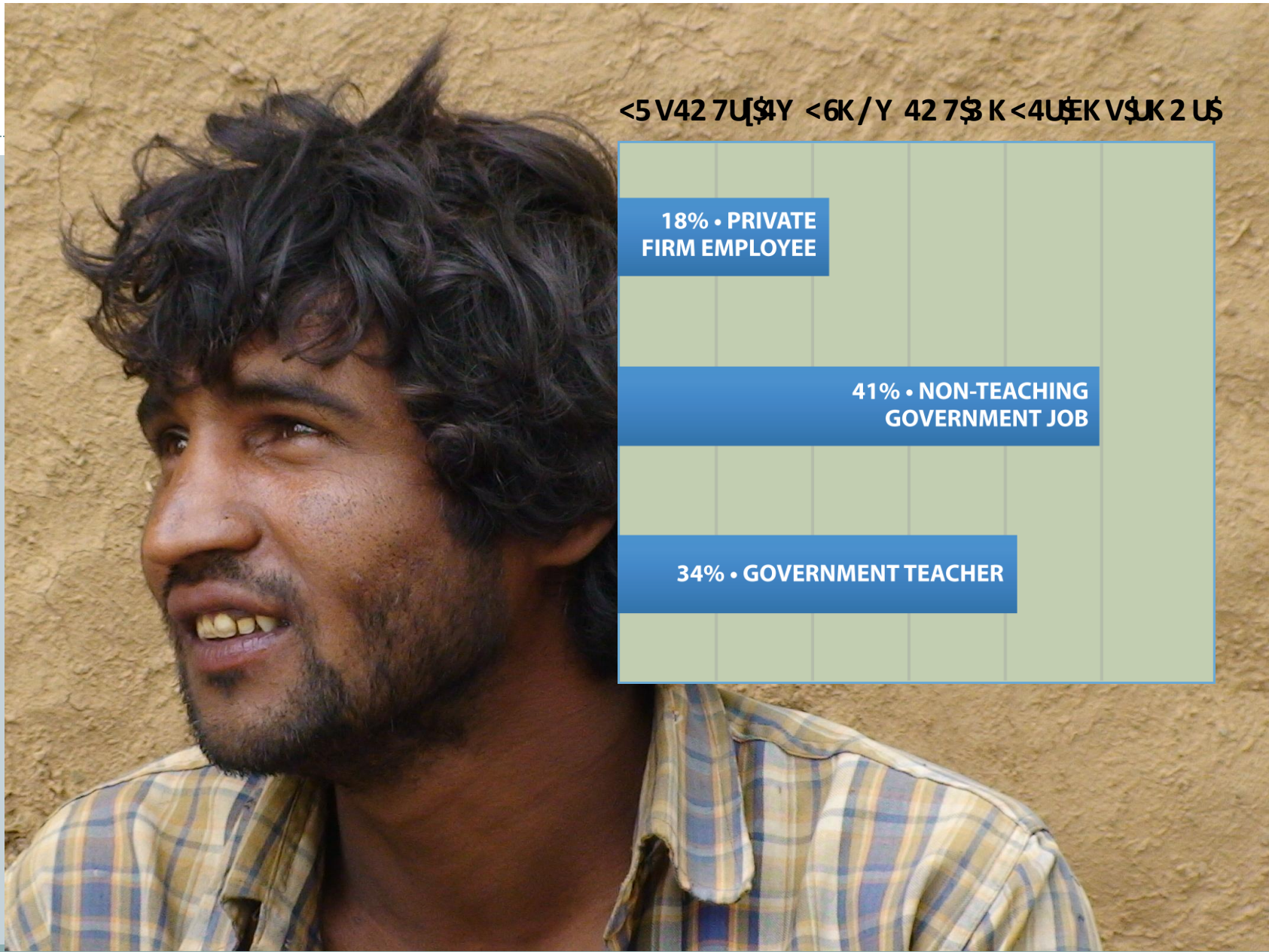
**Business durables**



**Temptation goods**







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18% • PRIVATE  
FIRM EMPLOYEE

41% • NON-TEACHING  
GOVERNMENT JOB

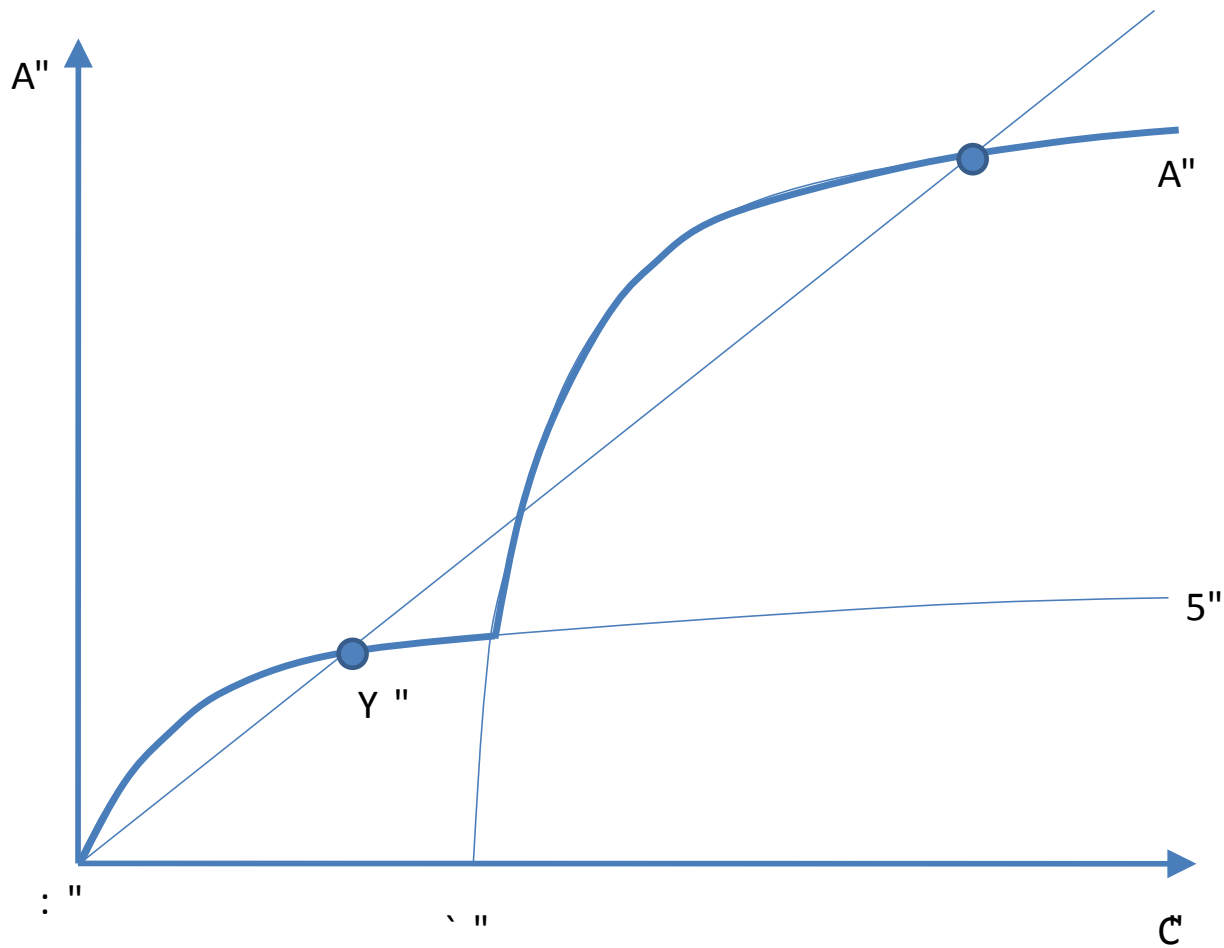
34% • GOVERNMENT TEACHER

# Are these profitable businesses?



- In Hyderabad, when household labor was priced at minimum wages most businesses lost money
- On the other hand they pay high interest rates—so marginal returns must be high.
- Confirmed by the results from De Mel, Mackenzie and Woodruff and other related work
- How do we square these facts?

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# Implications of this shape



- There is limited scope for growth.
- As noted earlier, in Sri Lanka those who got \$250 in lottery got 60% or more return on their capital
- However many of those who got \$500 did not invest the second \$250.

# Why are they in business

- Lack of good jobs:  
Almost nobody grows  
therefore no one creates  
good jobs
- Flexibility
- “Idle” women

