

Self-employment: Prospects and Challenges

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Abstract

The unemployment problem in Bangladesh is getting more complicated. Around one-sixth of the total population is unemployed and 1.8 million youths enter into the job market every year. In this backdrop, Bangladesh will have to create 2.3 million jobs every year which is a daunting task for the Government. Under these circumstances, self-employment is considered to be the quickest and easiest way to create employment. This article explores the role of self-employment in economic development. It compares the data on the socio-economic background of the non-farm self-employed in various places of Dhaka city. It also gives an insight into the challenges of self-employment, and training and the support required by the self-employed. The findings are important for policy implications to overcome the challenges by providing possible support to the self-employed so that more people are encouraged to create their own jobs rather than waiting for someone else to give them a wage employment.

Keywords: *Self-employed, Labor Market, Unemployment, Formal Sector, Informal Sector*

1. INTRODUCTION

Bangladesh is among the top achievers in terms of the MDGs. Bangladesh has already met several targets of the MDGs like reducing headcount poverty and poverty gap ratio, gender parity in primary and secondary education, under five mortality rate reduction, containing HIV infection, combating malaria and other communicable diseases. Bangladesh has also been at the forefront of the SDG's dialogues from the beginning. Bangladesh could be the model of development even in the SDGs. The new Global Goals, and the broader sustainability agenda, go much further than the MDGs, addressing the root causes of poverty and the universal need for development that works for all people. But without addressing the concern of income inequality, Bangladesh cannot achieve the unfinished task of MDGs as well as the SDGs.

In spite of having one of the highest population densities, Bangladesh has sustained a GDP growth rate more than 6% in recent years. The comprehensive growth has resulted in notable poverty reduction from 56.7% in 1991-92 to

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31.5% in 2010. According to the Household Income and Expenditure Survey (HIES) 2010 data, the incidence of poverty has declined at an annual rate of 2.47% in Bangladesh during 1992-2010. Despite the progress that has been made, an enormous problem remains.

The mismatch between the growth of GDP and creation of new job opportunities has been one strikingly alarming aspect of Bangladesh's development performance over the years. Creation of jobs is important for a country like Bangladesh where unemployment is huge and where new entrants to the labor market (Labor market comprises both employed and unemployed. employed includes both who sell labor services to others in an employment relationship and those who sell their labor services to themselves in self-employment) is substantial. The unemployment rate in Bangladesh is theoretically considered to be at around 5%. The estimated population of Bangladesh is 156.3 million in 2013, which is growing at a rate of 1.4% per annum in recent years (BBS). Considering the total size of the population, the number of unemployed population is low. The standard unemployment rate does not give the real picture of the supply-demand balance as well as the degree of inefficiency that prevails in the labor market. Practically the unemployment rate is close to 30% with disguised unemployment and underemployment taken into consideration. (BBS, 2010). The problems of unemployment and underemployment are dominant among the youth (between 15 to 24 years of age. This age group comprises nearly 9% of the country's population and 23% of the labor force. Moreover the unemployment problem in Bangladesh is getting more complicated by the reality that around 1.8 million youths enter into the job market every year when the size of backlog unemployed workforce is estimated at 25 million i.e. one-sixth of its population. In this backdrop, Bangladesh government will have to create 2.3 million jobs annually in an effort to make a dent into the existing unemployment situation (LFS, 2010).

The logic of promoting self-employment as a way to combat unemployment is quite simple. The most important remedy for poverty reduction is to create employment and income opportunities for the poor. But the traditional economic system gives more emphasis on wage employment. There is little room for self-employment of the poor in the traditional wage-based economics.

Moreover, self-employment can be an important mechanism for improving the income of those who are closer to the poverty threshold. Such activities may also provide an employment opportunity for the family members who would otherwise remain out of the labor force[1].

Self-employment can reduce unemployment in two ways

- Directly by removing a newly self-employed individual from the rolls of the unemployed, and
- Indirectly because some of these new entrepreneurs will contribute to job creation by hiring workers.

In Bangladesh both public and private sectors are giving their best efforts to create new job opportunities for the unemployed. But it is indeed a daunting task

to provide employment opportunities for such a huge number of unemployed. Under these circumstances, self-employment is the quickest and easiest way to create employment [2]. Self-employment generates income not only for the individual but also for others in society.

2. LITERATURE REVIEW

This analysis is inspired by 2 strands of the literature. The first strand attempts to identify the constraints that the self-employed generally face in various countries. And the second strand of literature focuses on various policy interventions that can play an important role in providing support and encouraging the young generation to be self-employed.

The formal sector in Bangladesh is simply too small to absorb more than a fraction of the labor force entrants even under the most favorable economic conditions. Despite the fact that in most informal sector employment opportunities are insecure, irregular and verging on exploitative terms, the role of informal sector in poverty alleviation cannot be underestimated [3]. Providing further evidence on the liquidity constraints that stand in the way of self-employment, Lindh and Ohlsson (1998) argue that self-employment rates should be higher in countries where income distribution is more unequal, because the number of people who are able to provide collateral for loans is higher with unequal income distribution [4].

A key area of policy intervention to mitigate the constraints and risks experienced by the self-employed is the provision of small scale loans through micro finance in order to stimulate entrepreneurship. Providing greater access to credit to finance self-employment activities can be particularly beneficial in regions with limited paid employment opportunity due to labor market discrimination, imperfect information or insufficient labor demand [5].

Previous research suggests that the targeted use of small loans can support self-employed and promote economic welfare. For many poor people in Bangladesh, self-employment has the potential of improving their poverty situation by participating in microenterprises funded by different MFIs [6][7][8][9][10]. For example, assessing the impacts of Bangladesh's largest micro finance programs, Hashmi et al. (1996) concluded that loan recipients used the credit primarily for self-employment for small scale activities [11].

Other research has shown that credit and non -credit services made available by participation in Grameen programs has contributed to positive profits from self-employment in Bangladesh. However, microfinance is not the single silver bullet that can overcome all the challenges of self-employment, but it is also hard not to believe that quality financial services are the most cost effective form of development assistance for addressing the needs of the poor. But it is also true that credit alone is not enough to stimulate productive self-employment which is, Wright (2000:36) says, *is like a carpenter using only a hammer to build the platform upon which the poor will stand. Other tools are necessary.* For example, the "Self-employed Women's Association" (SEWA) of India, a trade union for self-employed women from poor household raised the productivity of

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its members by providing integrated services that connect important aspects of business creation such as training, capital and access to markets [12]. A study conducted by Dr. Tazul Islam (2007) adds that credit initiated by microenterprises without enhancing the efficiency of the entrepreneurs can at best reach the income stabilizing stage and at worst can be trapped in debt circle [13].

Training can play an effective role in raising the productivity of the entrepreneurs. There is a substantial literature on training effectiveness. After reviewing the literature, Nilsson (2007) concluded that vocational training played a significant role in improving the productivity of enterprises [14].

Although existing studies indicate that the microfinance program and training can play a positive role in employees' productivity and enterprise growth, there has been a very few studies on the challenges the self-employed are facing and the support they require. This study focuses on the role of self-employment in economic development and the challenges and support needed by the non-farm self-employed in Dhaka city.

3. SELF-EMPLOYMENT: DEFINITION AND PROFILE

Self-employment is the act of generating one's income directly from customers, clients and other organization as opposed to be an employee of a business (or person).

Self-employment is also defined as person's operating individual enterprises, mostly in family enterprises. According to International Labor Office (ILO), the self-employed are own account workers and employers (working owners of unincorporated business) [15].

Yamadau argues that self-employment in LDCs mainly occurs in the informal sectors. In many LDCs, slow economic growth, economic crises and the pursuit of structural adjustment accompanied by disillusionment with centralized planning and the public sectors as instruments for promoting growth and full employment have fuelled the interest in self-employment as a means of creating employment, income and capital [16][17].

In the developing countries, self-employment is the norm: 53% of workers in low income countries and 36% of lower middle income countries are self-employed [18]. In Latin America, self-employment comprises more than 30% of all employment [19]. In Brazil, self-employment is the self reported working status ; 82% of those self-employed workers run business on their own, with no partners or employees [20]. In South Asia, 51% of Indian workers are in self-employment, and self-employment accounts for 25.5% of agricultural employment and 18.9 % of non-agricultural employment in Bangladesh. Self-employed in Sri Lanka was last measured at 42.2 % in 2009. In South-East Asia: self-employment accounts for 23.4 % of total employment in Malaysia (in 2011); 56% in Thailand (2011); 60.6% in Indonesia (in 2011); 15.3% in Singapore (in 2011) and 43.3% in Philippines (2011). In sub-Saharan Africa, self-employment accounts for 66% of total employment in Kenya, 83% in Mali, and 85% in Madagascar and Ghana[21].

4. THE ROLE OF SELF-EMPLOYMENT IN ECONOMIC DEVELOPMENT

Self-employment can provide an access for workers who cannot find a job in the formal sector. Self-employment is the pervasive and persistent economic future in most developing economies, contributing significantly to employment creation, production and income generation.

The emergence of self-employed workers can play a very important role in the economic development of Bangladesh because of the following reasons:

1. The increase in self-employed workers can lessen the decline in quality of life caused by higher unemployment and poverty;
2. In many rural areas self-employment is considered to be the only viable source of economic growth and development available. The alternative is unemployment and population loss from outmigration;
3. The self-employed could become crucial stakeholders for community and economic development practitioners in the field.

Self-employment and GDP have a peak correlation of 0.629 at a lag of 0. This means that self-employment is procyclical and adjusts contemporaneously with the GDP cycle [22].

5. OBJECTIVE

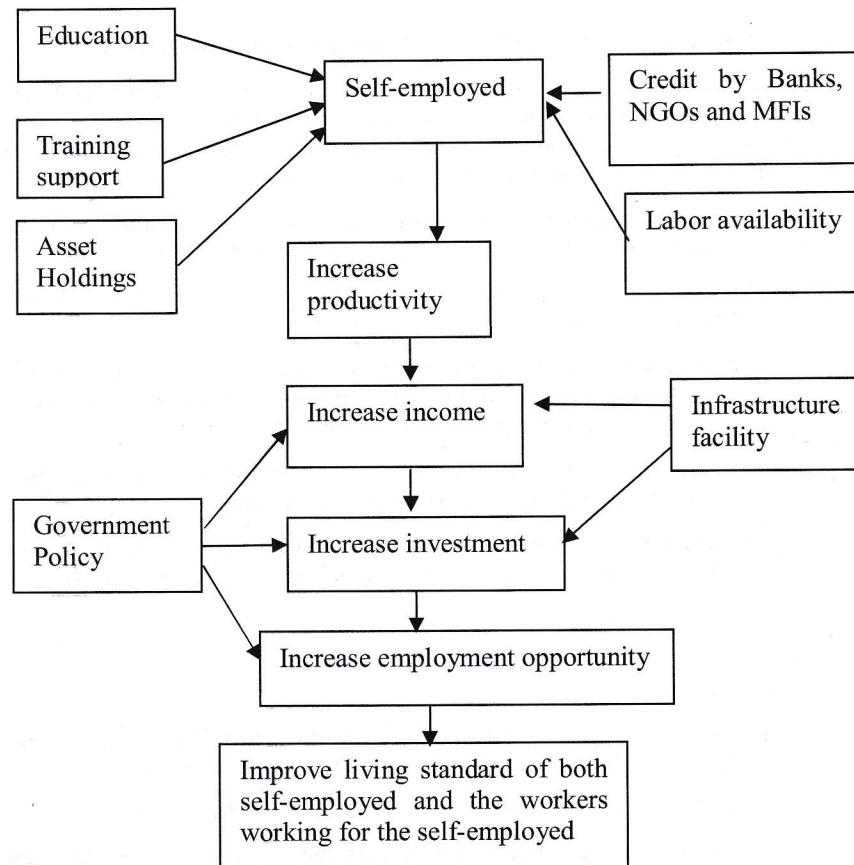
The research brief was to gain insight into the barriers to self-employment and the support they need. The principle aims of the research report were to:

- To identify the constraints of self-employment in Dhaka city;
- To determine the supports the self-employed need to continue their business;
- To find out whether the wage employed are interested to become self-employed or not.

6. CONCEPTUAL FRAMEWORK OF IMPROVING THE PRODUCTIVITY AND LIVING STANDARD OF THE SELF-EMPLOYED

The conceptual framework has been adapted and modified from Mahmud *et al.* (2014).

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Self-employment alone does not and probably cannot enhance productivity. Injection of credit, for example, can work as a positive factor here. More credit will lead to more production and more investment and more income will lead to a virtuous circle of income generation. Therefore, access to credit along with other various factors such as training, asset holdings, labor availability, family size, educational status of the household, possession of the assets and infrastructural facility can play an important role in improving the productivity and efficiency of the self employed and thereby can improve their standard of living.

7. METHODOLOGY

The core research consisted of interviews and questionnaires. The interviews were conducted among 284 participants from two focus groups in Dhaka city: self-employed and wage employed. Only non farm self-employed and wage employed were selected as respondents. 196 of these participants were self-employed (non-farm) and 88 were wage employed in non-farm sector. Since the major objective of the article is to reveal the challenges that are generally faced

by the self-employed and the support they need, self-employed were given more importance over wage employed.

A qualitative and quantitative approach was adopted with mainly open-ended questions so that individuals could personally explore issues around self-employment further. The questionnaire focused on three main areas: Constraints experienced by self-employed, Training needs and Support needs.

8. FINDINGS

RETURNS TO LABOR

This section presents data on average monthly income of self-employed and wage employed to examine the inequality of returns from the two types of employment. It is believed that self-employment requires some qualities which are not essential for wage employment. Moreover, self-employment involves some risk elements. Therefore, it is likely that the returns from self-employment will be higher than prevailing wage rates.

TABLE 1: MONTHLY INCOME OF THE WAGE EMPLOYED VS. SELF EMPLOYED:

Responses	Wage employed		Self employed	
	Number	Percentage	Number	Percentage
0- 20,000 tk	64	72.73 %	40	20.40 %
More than 20,000 less than 40, 000 tk	16	18.08 %	60	30.60 %
More than 40,000 less than 60,000 tk	4	4.54 %	68	34.69 %
More than 60,000 less than 80,000 tk	1	1.14 %	8	4.08 %
More than 80,000 tk.	3	3.41 %	20	10.20 %
Total	88	100	196	100

Source: Field Survey of the author, 2014

The findings of the study show that the average monthly income of 72.73% of the wage employed is in between TK. 0 to TK. 20,000 and only 4.54% of the wage employed earns TK. 40,000 to TK. 60,000 on an average per month.

On the other hand, the average monthly income of 30.60% of the self-employed is in between TK. 20,000 to TK. 40,000 and 34.69% of the self-employed earns between TK. 40,000 to TK. 60,000 per month. And 10.2% earns more than TK.

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80,000 monthly on an average while only 3.41% of the wage employed earns more than TK. 80,000 per month.

The findings show that the returns to self-employment are higher than that of the wage employment. Now the question is if non farm self-employment can raise income levels, why is this not spreading at an accelerated pace? This question can be answered only through direct queries. In this research, we have tried to find out some constraints of self-employment and the supports and some specific trainings required by the non-farm self-employed working in various places of Dhaka city.

A number of constraints may hold back access to self-employment (non-farm). The findings of the research displayed some significant barriers to self-employment. Many of these barriers are directly or indirectly related to the initial low income level of house holds. Most of the self-employed and wage employed thinks that lack of capital and lack of access to bank loans are the binding constraints behind self-employment. Many of the respondents both self-employed and wage employed believe that lack of assets and lack of access to bank loans are the major constraints behind self-employment. (See table 2)

TABLE 2: BARRIERS IDENTIFIED

Barrier Identified	Self-employed		Wage employed	
	Number	Percentage	Number	Percentage
Lack of assets	64	33.33 %	28	31.81 %
Political Unrest	27	14.29 %	20	22.73 %
Lack of access to Bank loans	39	20.41 %	16	18.18 %
Lack of proper training ,education on business and experience	20	10.20 %		
Lack of Government Support	11	6.12 %	8	9.09 %
Lack of suitable staffs/ trained workers	8	4.08 %		
Fear of failure	19	10.20 %	16	18.18 %
No Barrier	8	4.08 %		
Total	196	100	88	100

Source: Field Survey of the author 2014

Many of the respondents also think that political unrest, lack of proper training, education and experience are the major barriers to self-employment. In our findings, 10.2 % of the self-employed believe that lack of proper training, education on business and experience are the major constraints behind self-employment. Most non-farm activities require special skills which are generally obtained through family tradition. Even if some non-farm activities do not require specific skills, such activities often require literacy and management abilities[1]. Only few of the respondents think that there are no barriers at all to self-employment.

TABLE 3: SUPPORT REQUIRED:

Responses	Self-employed	
	Number	Percentage
Yes	148	75.51 %
No	48	24.49 %
Total	196	100

Source: Field survey, 2014

Around 76% of the self-employed stated that in order to be successful they need some essential support.

TABLE 4: SPECIFIC SUPPORT NEEDS IDENTIFIED

Specific Supports Needed	Self-employed	
	Number	Percentage
Finance	79	53.06 %
Business Mentor	15	10.20 %
Government Support	30	20.41 %
Marketing	24	16.33 %
Total	148	100

Source: Field survey, 2014

More than half of the self-employed who think that they need some fundamental supports specified that they require financial assistance and many of them affirmed that they need government support in the form of lowering tax rate, investment tax credit and subsidy or lower interest rate on credit for self-employment.

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TABLE 5: TRAINING NEEDS IDENTIFIED

Training needs	Self employed	
	Number	Percentage
Basic training on business management	68	34.69%
Specific training in Business skills	64	32.65 %
Marketing	20	10.20 %
Administration	16	8.16 %
No training needs stated	28	14.29 %
Total	196	100

Source: Field survey, 2014

With regard to training needs, the findings show that many of the self-employed think that they would require basic training in business management and training on specific business skills. The research also found that some people who are self-employed for 5 years or more have learned a lot from experience and they feel that they don't need any kind of training.

Moreover, the research found that even after all these barriers, 77 % of the wage employed are interested to be self employed to earn a higher income and enjoy freedom.

9. CONCLUSION

Self-employment is perceived as the predominant mode of economic activity to reduce unemployment and thereby enhance economic growth. Self-employment can be the basis of a secure, profitable career, and a better option for people on low incomes. But unfortunately there are few opportunities in Bangladesh for the self-employed to earn enough to escape poverty. Even after a decade of self-employment they can only raise their heads above water. People are afraid of becoming self-employed due to some risk factors and barriers: legal and social sanctions, lack of social security protection, lack of financial support, education and management skills, lack of training, lack of proper design of technology. These obstacles make it challenging to realize the untapped development potential and demands for multifaceted measures to boost their earnings and earn more for the work they perform.

Self-employment should be recognized as an important avenue of providing the poor with a decent livelihood and thus help in reducing poverty. The role of self-employment in poverty reduction can, therefore, be enhanced by developing comprehensive policies to increase economic mobility. A gender sensitive strategy is required for education, training and entrepreneurship development in response to the needs of men and women. Skill development for the self-

employed often requires training at an affordable cost in formal and non-formal settings. It can also include vocational training and education and entrepreneurship training. Economic security is certainly a crucial factor for the self-employed. In this regard, some policies can be highlighted to encourage people to become self-employed: the credit disbursement procedure should be easy, interest rate should be lowered and the volume of credit should be increased for income generating activities. To sum up, though the performance of self-employed workers is improving, it could even be more impressive if pro-poor skill-enhancing activities and microcredit on flexible terms are provided.

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