

# Occupational choice in the developing world

Citation for published version (APA):

Nagler, P. (2015). *Occupational choice in the developing world*. [Doctoral Thesis, Maastricht University]. Boekenplan. <https://doi.org/10.26481/dis.20151009pn>

## Document status and date:

Published: 01/01/2015

## DOI:

[10.26481/dis.20151009pn](https://doi.org/10.26481/dis.20151009pn)

## Document Version:

Publisher's PDF, also known as Version of record

## Please check the document version of this publication:

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# Valorization

This thesis analyzes and discusses two examples of occupational choice within the labor market framework of developing economies. How can the results of this research effort be used as a helpful component in shaping future research and policies?

Labor provides the main and often only source of household income around the world. As a consequence, the occupational choices of household members determine their labor allocation and income, and thus their livelihoods. This thesis provides new insights for researchers, as well as for policy makers, to understand and shape labor market conditions that facilitate a more favorable framework and that allow workers to generate sufficient income under good working conditions in emerging and developing economies.

For the first theme, entrepreneurship in Sub-Saharan Africa, the thesis provides new insights in two areas where limited knowledge has so far existed. First, on the patterns and determinants of enterprise operation: I describe the nature of rural entrepreneurship in six African countries, and identify which individual, household and location characteristics are significant to enter the sector and to operate an enterprise. Second, on the performance of these enterprises: I identify the individual, household and location characteristics that have an impact on the success of business operation, measured as labor productivity. The thesis also shows that enterprises are ubiquitous and contribute with a significant share to household income, underlining their importance in the rural economy.

Governmental policies shape the conditions in which the economy operates. Having knowledge about the relevant factors that motivate households to become entrepreneurial, presents a critical step in formulating policies that have the potential to support this process. My findings provide a number of insights, suggesting entrepreneurship policies that can support the rural population from two angles. On the one hand, by supporting

aspiring entrepreneurs who plan to set up businesses, for example through the access to credit or through the improvement of local infrastructure. On the other hand, by helping poor households in times of economic constraints, and therefore limiting the number of low-productive and necessity-driven enterprises, or by preventing existing businesses to stop operations. The measures suggested in the following list can be applied for individuals and households that face the decision to enter entrepreneurship, as well as for existing enterprises, where the owner or manager intends to enhance labor productivity.

### **Supporting aspiring entrepreneurs**

- Training and education matter. Investing in overall better education while providing specific training for entrepreneurs, can significantly enhance the entrance of opportunity-motivated businesses and increase labor productivity.
- Access to information, e.g. via ICT, plays a decisive role, for example through information on supply chains, the client base, or the possibility to buy and sell products and services online.
- Provision and access to credit are crucial in offering financial support, especially in poor rural areas where financial institutions are scarce, and where people possess limited wealth that can serve as collateral.
- Improving the local infrastructure, for example by connecting rural areas to electricity or by providing space to establish businesses, can offer new opportunities that will create both higher supply and demand of products and services.
- Providing roads and public transportation in rural areas to regional towns or major cities that connect businesses with the client base, and where products and services can be offered and sold, has the potential to significantly increase and diversify the sales.
- Generating a positive business climate, including simple access to public services and the possibility to formalize businesses in an uncomplicated and inexpensive procedure, can decisively increase the number of entrants and increase the productivity of businesses.

## Shielding households from negative external events

- Establishing social protection schemes, for example conditional or unconditional cash transfers that provide poor households with sufficient means to overcome periods of extreme hardship, can limit the creation of businesses that are born out of necessity. This type of business is often small, low-productive and exits the market once the household overcomes the negative shock, providing little value-added to the labor market and the economic development.
- Providing (micro)-insurance schemes that can shield aspiring entrepreneurs from harsh negative consequences if their businesses fail will motivate more people to become entrepreneurial. (Micro)-insurance schemes can also operate in other areas, for example agriculture, where a failed harvest might lead to the necessity type of entrepreneurship.

These suggestions have the potential to generate new and effective policy measures based on empirical evidence that will allow people to enter entrepreneurship when they perceive opportunities, while shielding them from necessity motivated entrepreneurship or adverse events. However, it remains important to take the specific socio-economic context of each country into account when designing policies to support entrepreneurship. In this thesis I analyze six countries in Sub-Saharan Africa and show that individual, household and location characteristics vary from one country to the other. It is therefore also a call for more country specific research of African, or more general, developing countries, to study labor market conditions in which businesses are established and operate.

The thesis also made use of the recently available LSMS-ISA data set, initiated and executed by the World Bank in close collaboration with national statistics offices, where the learning process of representative surveys is part of the data collection effort. The data collection is taking place over several years with the intention to create panel data (the data collection process is still ongoing). Working closely on the entrepreneurship section and in collaboration with the World Bank's LSMS-ISA team also gave me the possibility to identify shortcomings and to suggest improvements of the questionnaires for further data collection rounds.

Finally, the research so far conducted has been widely disseminated, in working papers, conferences, seminars, public events and blogs. It has also been taken up by non-governmental organizations for their work and discussed by a broad audience, clearly

indicating interest in and relevance of the topic.

For the second theme, unemployment insurance savings accounts, the thesis studies two aspects of this type of unemployment protection scheme and the impact on labor market outcomes. First, whether the introduction of UISA had an effect on employment duration. And second, whether it had an effect on subsequent employment quality measured by the difference in wages and contract types.

The results show that the introduction of UISA led to shorter employment duration, which can be interpreted as a reduction in labor market rigidities, but might also imply more unstable labor relations. With regard to subsequent employment quality, the results support the finding of increased labor market flexibility. While the scheme did not have an effect on the difference in contract types, the results are significant for the difference in wage growth, suggesting that workers put less emphasis on higher wages when changing employment. However, wage growth is marginally higher and significant once the UISA amount is added to net wages. The difference-in-differences analysis is positive for workers who experienced a period of unemployment compared to the control group, suggesting that workers could search for a subsequent job with higher employment quality if measured in wage growth.

These findings are useful information for Chile, as well as for other countries that plan to introduce this type of unemployment protection or to modify existing schemes. Different outcomes can be deduced from the results, and are summarized as follows.

### **Findings for Chile**

- Higher labor market flexibility, described by shorter employment duration. However, more unstable labor relations might equally apply.
- No impact on the subsequent contract type.
- The difference in the growth of net wages is lower among workers with UISA affiliation. However, it is marginally higher once the UISA amount is added to net wages.
- The difference-in-differences for wage growth is positive for workers experiencing a period of unemployment compared to the control group, suggesting that these workers had a financial cushion while searching for a new employment.

## Findings for other countries

- The implementation of this type of unemployment protection scheme is possible while keeping a severance pay scheme. It might therefore also be possible to introduce UISA alongside unemployment insurance, in a similar procedure.
- The UISA scheme is affordable, as shown by Chile, when certain aspects are taken into account, for example embedding the scheme into existing institutions.
- UISA have the potential to reduce moral hazard, as shown by Reyes et al. (2011). For countries that struggle with the high cost of unemployment insurance, this type of unemployment protection therefore presents a viable alternative, replacing the existing unemployment insurance or introducing it as an additional component.

While these outcomes are important points to note, further research is recommended. I suggest to conduct follow-up studies for the Chilean UISA scheme based on the current findings, for example to study the consequences of shorter employment duration for workers affiliated to UISA and to identify if increased labor market flexibility or more unstable work relation dominate the overall effect. I also want to make the research community aware that the data set used, the Chilean Social Protection Survey, is a rich and freely available data set that can be employed for further research to study the Chilean labor market.

If other countries are interested in the UISA scheme, either to replace or to implement it alongside existing schemes, it is necessary to account for the specific socio-economic context of each country, as previously also mentioned for the research on entrepreneurship in rural Sub-Saharan Africa.

Overall, the research of this thesis is innovative and fills a research gap, since labor markets in developing economies have not been studied to the same extent as labor markets in more advanced economies. Adding more insights into the area of entrepreneurship in rural Sub-Saharan Africa using a comparative cross-country data set has been lacking so far. Also, studying unemployment insurance savings accounts has the potential to disseminate information on this type of unemployment protection, raising awareness of this alternative scheme, as well as providing information of the impact on labor market outcomes.

Finally, I would like to outline which persons could benefit from the results of this thesis.

First, the research community of labor economists who work on emerging and developing countries, and who are interested in the determinants of enterprise operation and labor productivity, or in the effects of introducing social protection schemes to improve rigid labor markets. Second, government officials that are involved in formulating, designing and implementing new policies that have an effect on the labor market, for example in facilitating more favorable labor market conditions, such as improvements in the local infrastructure, implementation of changes in the national education system or the provision of training. Third, anyone involved in the analysis, evaluation and implementation of policies, who is not necessarily part of the research community nor the government, for example aid workers, or more broadly the development community.