Research Note
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Skin in the Game: Microequity and Mentorship for Online Freelancing-based Microentrepreneurs in Bangladesh

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In this pilot project, we demonstrate the exciting potential of online freelancing for improving the incomes of poor youth in rural Bangladesh. We also highlight the constraints to this type of work: financing constraints for the high training cost, access to the necessary work infrastructure, and soft skills requirements to success in the market. We shed light on some promising possibilities for innovative financing contracts and for 'virtual exporting companies' to act as freelancing incubators and assist students in their development.

Introduction

Youth unemployment is a major issue in many developing countries, particularly in locations not well-connected with large urban markets. A limited number of available job opportunities in urban centres may reduce the benefit of policies that encourage rural-urban migration. In this project, we investigated the feasibility of 'virtual migration' by training rural youth in Bangladesh to become online freelancers, enabling them to export their labour services to a global online marketplace.

We explore the potential for training and financing virtual migration, primarily because physical migration out of rural areas is not always a viable option for many youth, for example due to limited urban job opportunities and family obligations. The spatial disparity in opportunities can exacerbate the incidence of youth unemployment and poverty, particularly in regions that are not well connected with large urban markets. For example, most of the jobs in the ready-made garment (RMG) sector, widely considered as the main driver of growth and employment in Bangladesh, are concentrated in Dhaka and in the port city of Chittagong. The poorest regions in Bangladesh, such as the northern district of Rangpur, where we implemented our pilot, have the lowest participation rate for workers in the garment sector[1].

Methodology

With the help of a local research collaboration partner, MOMODa Foundation, we began the pilot in January 2018, implementing it in two waves. In the first wave, we proceeded with the original plan of only providing

[1] Shonchoy, A., Fujii, T. and Raihan, S. (2018), "Barriers to Labor Migration for the Rural Poor: Experimental Evidence from a Vocational Training Program in Bangladesh," *Working Paper*. Available: https://ssrn.com/abstract=3395229 or http://dx.doi.org/10.2139/ssrn.3395229

the detailed training programme (as well as offering some people a loan to finance the programme cost, discussed below). However, we observed that, while the students were indeed acquiring some useful technical skills (specifically in graphics design), their communication and marketing skills were likely to inhibit their ability to succeed on the competitive online marketplace. We therefore decided to include, in the second wave, a post-training internship with trainers providing additional support to the students in navigating the online marketplace, building up online profiles (for example, by taking part in 'contests' to demonstrate their skills), and securing jobs. In this second wave, we also trialled an income-sharing financing model, whereby participants repaid the cost of the training programme through performance-contingent repayments (as opposed to a fixed-repayment loan). We collected administrative data on student performance throughout the pilot, and we also went into the field two years later (summer 2020) to explore longer-term outcomes for our participants. By design, this pilot utilised observational data analysis to summarise findings.

Figure 1: *Pilot participants attend a training session on Graphics Design at GUK Institute of Engineering & Technology, Gaibandha, Bangladesh.*

Main findings

At baseline, most of our sample were students (65%) or unemployed and looking for a job (9%). Less than 10% were self-employed. Average income was only US$13 per month. The sample was primarily males (83%), with an average age of 22. We worked in collaboration with a large IT company from Dhaka (CreativeIT) and recruited participants from local colleges in Gaibandha as well as using social media. 373 students applied to our programme (across the two waves), out of which 126 passed CreativeIT's minimum computer literacy screening exam.

We randomly offered to participants different payment options for the relatively high cost of the training programme (approximately US$100): (i) the full up-front payment (with some people randomly offered a partial subsidy); (ii) a zero-interest loan (with potential for different durations); and (iii) income-sharing contracts (with 25% or 50% income-sharing ratios). We used an incentivised take-up elicitation task to explore preferences over different contract structures and it is clear from this exercise that credit and liquidity constraints are a big barrier for enrolment in such programmes.

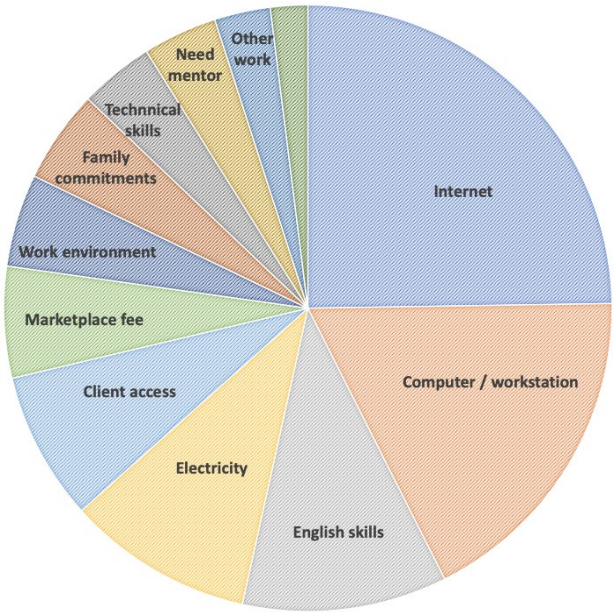
Specifically, we found lower take-up for individuals who were randomly offered the full up-front cost (51%), with take-up increasing to 87% in the case of a 50% subsidy. Take-up for the six-month loan was 76%, which increased to 98% when the duration was increased to 12 months. In practice, many students struggled to make their payments for the programme cost, even with a subsidy or a loan, and some dropped out. Of the 38 students who initially enrolled in the first wave, 21 of them completed the training programme. 11 students continued to the internship phase and nine of these finished the six-month-long internship. In the second

wave, we offered income-sharing contracts, and observed a high take-up rate of 84%. 52 students initially enrolled under the income-sharing contract, 25 completed the training programme, 20 continued to the internship phase and 15 completed it. In a 'laboratory-style' experiment with the participants, where we further tested the demand for debt contracts compared to a series of income-sharing contracts with various different sharing ratios, we find strong evidence of 'debt aversion' and a preference for income-sharing contracts, even with very high sharing ratios.

Unfortunately, repayment rates for the up-front fee and loan contracts were very low, which in hindsight was not surprising given the low baseline income that many had at the time, and what we learnt to be the significant amount of time that it took to begin earning income on the platform. For the income-sharing contract, which is not directly comparable because payments were only due when income was earned, we observed higher repayment rates, which in a way was not surprising, since the income was taxed at source based on earnings on the platform.

Our high-frequency surveys during the pilot revealed that several of the trainees had started to earn relatively large sums of money on the online marketplace at the end of the training and internship programme. In total, students participated in approximately 580 contests and earned $750 by the endline survey. Reassuringly, the performance increased over time as we refined the structure of the internship and optimised the mentoring and bidding assistance process for students. In July 2020, we conducted a long-run follow-up survey on our sample, approximately two years after we had started. We managed to re-contact 86% of our original sample (109 individuals) and found that 33% were actively engaged in freelancing-like work, earning on average $90 per month from freelancing-related activities. In our sample, freelancer.com was the most used online marketplace, followed by fiverr.com and upwork.com. While this was reassuring, it highlighted the difficulty in implementing income-sharing contracts outside of the programme period given the variety of online platforms from which people were earning (as well as the fact some people had "taken their client offline" and had started doing direct tasks for them).

Figure 2: Constraints to earning income for respondents participating in freelancing-related activities



We asked those who were earning income from freelancing-related activities what the major constraints they faced to earning income were, and the most popular reasons are illustrated in Figure 2. Access to reliable internet was the most cited challenge, followed by access to a well-functioning computer/workstation, English language skills and electricity. The pie chart in this brief shows the distribution of the main constraints, as reported by respondents.

Policy implications

Online freelancing has great potential but the transition from freelancing student to income-earner is not smooth. It requires financing the significant programme cost, takes time to bear fruit (with a large proportion of people not succeeding in earning), and there are a number of constraints. Our pilot study demonstrated strong technical skill acquisition, but significant challenges from communication skills (particularly in terms of English language and marketing skills) and infrastructure (an appropriate work environment, reliable electricity, and high-speed internet). We managed to overcome some of these constraints with the setting up of a 'freelancing incubator' that provided the necessary workspace and infrastructure, as well as the required mentoring to assist in navigating the competitive online marketplace and building a reputation.

Moving forward

We believe that there is potential for many young rural poor to earn income from online work, but more research is needed on how one can overcome the significant barriers they face related to financing, soft skill requirements, and more structural challenges such as access to necessary infrastructure. We found some promise for income-sharing contracts, but to make these more financially feasible for the capital provider would require a larger number of students to earn income from such programmes and to overcome the significant monitoring challenges to implementing performance-contingent repayments. We are currently conducting more research on this with the help of a PEDL ERG grant.

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