Entrepreneurship: sowing the seeds

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Encouraging ‘micro-entrepreneurs’ – especially among women, the young and rural dwellers – is one of the most effective ways of tackling poverty.

A good investment climate is the key.
agents of innovation in an economy – and keep people in poverty. Growth and entrepreneurship cross-fertilise in a great variety of climates. Thus there is no stock formula for forcing entrepreneurship (Hausmann, Pritchett, and Rodrik 2005). But several principles emerge clearly from the literature on investment climate.

First, creating a good investment climate is a process, not an event. Persistence is more important than immediate results in signalling to investors large and small that the government is serious about improving the climate for investment (World Bank 2004). Especially important is persistence in practice – that is, in implementing decreed or legislated reforms.

Second, reforms must focus on the specific constraints to entrepreneurship found in each country, without overestimating or overtaxing the government’s capacity for policy formulation and enforcement. Measures that might produce a huge blossoming of entrepreneurial activity in one country may be ineffective or irrelevant in another. One country's problem may be unreliable infrastructure or difficulties in enforcing contracts. Others may be struggling with crime, corruption, or unpredictable regulation. In cases of wholesale ‘state capture’ by a few large firms bent on exploiting economic activity for their short-term advantage, measures that increase transparency and accountability are likely to be more relevant and effective than, say, shortening the time required to obtain a business licence.

Third, common measures and benchmarks can be a powerful tool to get countries to change their practices and approaches. Investment climate data gathered and analysed by the World Bank, Transparency International and other organisations can help donors make the necessary distinctions, but solutions must still be adapted to local conditions. It is possible to transfer practices and approaches when bringing practitioners together, since the ability to learn from doing is high when such peer groups are interacting.

Fourth, broad reforms that benefit all players are more likely to encourage small entrepreneurs and less likely to create perverse incentives for protected firms. Narrowly targeted reforms that create a comfortable climate for privileged firms can thwart competition and stifle innovation. Firms protected from competition are far less likely to innovate than those not protected (Desai and Pradhan, 2005). Under most circumstances, policies that put into effect systemic changes such as the universal rule of law and the protection of property rights are the most important. Once these are in place, donors can support good programmes with financing and technical assistance to remove constraints to business formation and expansion.

Fifth, to maximise productivity growth and job creation, reforms should facilitate the entry and exit of firms from markets. Turnover accounts for a significant share of total productivity growth in many countries (Bartelsman, Haltiwanger, and Scarpetta 2004). Moreover, the entry of new businesses into the market pushes existing firms to adopt new technology or change their business practices to become more productive.

Finally, safety nets are necessary to help workers temporarily displaced by the ‘creative destruction’ of high firm turnover. In addition to protecting the most vulnerable members of society, safety nets can reduce popular opposition to policies that encourage inefficient firms to leave the market in favour of more productive start-ups.

The foregoing general principles apply differentially to countries at different income levels. In low-income countries, where hundreds of millions of poor people make their living as micro-entrepreneurs, and data to access the investment climate is weak, reforms should aim to improve the overall investment climate and knowledge about the status of key constraints, as well as strengthening the conditions that allow new and established firms to develop. Those conditions include macroeconomic stability, the rule of law, labour market flexibility, infrastructure, predictable and transparent taxation and regulation, financial market efficiency, and administrative and management capacity. Without progress in these basic areas, interventions to foster enterprise creation, even among microentrepreneurs, are likely to have limited impact.

As governments build credibility through a steady commitment to sound business-climate policies,
they must also enlist donor assistance to invest in human development through basic education, public health services, water supply and sanitation, and, particularly in Africa, action against the catastrophe of HIV-AIDS. “This is an urgent matter of basic human rights and social justice,” notes the Commission for Africa (2005) in calling for a substantial and sustained increase in aid to the continent. “But it is also sound economics: a healthy and skilled workforce is a more productive one.”

Once basic literacy and numeracy have been achieved, education continues to reinforce and complement improvements in investment climate by producing workers who are better able to use new and more productive technologies. The complementarity of education and investment climate grows stronger as economies become larger and more sophisticated. Lifelong learning systems that provide the opportunity for people to keep up high-technology skills, renew skills, and learn new skills, play a critical role by supporting flexibility in the labour market. Lifelong learning is increasingly demanded in middle-income countries undergoing major structural change, such as China.

**Growing hardy varieties**

With the removal of binding constraints to entrepreneurial activity, selective interventions to foster enterprise creation in specific sectors or among certain populations can enhance growth while reducing poverty. To spread the benefits of entrepreneurial activity as widely as possible, it may be wise to cultivate entrepreneurship in unlikely places – for example, among the poor, the young, rural dwellers, and women. Where the poor are in the majority, and where entrepreneurship must survive under less than optimal conditions, the focus on micro-entrepreneurship may be especially productive.

Advances in productivity often can be traced to entrepreneurial activity among excluded groups, a paradox that may be intuitively explained by analogy to the principle of biodiversity. Among the excluded groups that have proven to be particularly fertile matrices for productivity gains are women and rural residents. A little nurture can help coax untapped entrepreneurial energy from those groups. Consider just a few examples:

- **Grameen Bank** provides financial services to more than two million women in Bangladesh. Grameen set out to provide services not to women specifically, but to the poorest. After women’s repayment performance proved superior to men’s, Grameen began targeting women by design. Grameen’s mimickers have adopted the practice, so that women make up a rapidly growing share of microfinance transactions in Bangladesh.
- **India’s Self-Employed Women’s Association (SEWA)** is a trade union of 550,000 poor women. In addition to offering financial services through its co-operative bank, SEWA provides insurance, pensions, home improvement loans, and trade facilitation services to link poor women to rich markets.
- A World Bank-supported programme in the poor Indian state of Andhra Pradesh links self-help groups of poor women to banks, government services, insurance providers, and markets. In three years of operation, the programme has been scaled up to reach 85 per cent of the eight million poor households in the state.
- **BRAC**, an NGO in Bangladesh, has built on government welfare relief for vulnerable women to create a vibrant poultry sector where none previously existed.

Women and girls constitute three-fifths of the world’s poor. Their poverty level is higher than that of men because of gender disparities in education, employment opportunity, and decision-making power. Women have less access to education, less access to health care, and are often last to be fed. By necessity many turn to self-employment, often the only employment option open to them (Minniti, Arenius, and Langowitz 2004). Yet they do so without access to the resources they need to grow: finance, technology, skills, and knowledge of markets. In many areas, cultural barriers pose additional obstacles to starting or expanding a business.

Entrepreneurship as practiced by women differs in key respects from male entrepreneurial activity. For example, according to the Global Entrepreneurship Monitor, which reports on levels of entrepreneurial activity...
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activity in 34 participating countries, women are more likely than men to start consumer-oriented businesses rather than service-oriented enterprises, where start-up costs tend to be higher. Their businesses tend to have slower early growth trajectories and expect to create fewer jobs than their male counterparts.

But women's entrepreneurial activities also mean better livelihoods for children and families, because women invest more of their business income into their families than do male entrepreneurs. Although that tendency has positive effects on children's schooling, nutrition, and health, and thus ultimately on the society's potential for growth, it also constrains the growth and health of their businesses (Chen, Jhabvala, and Nanavaty 2004). Hence the need for targeted interventions that recognise and reward the social benefit of women's entrepreneurship while addressing its self-limiting aspects.

Partnerships for inclusive development
To succeed, the global campaign to reduce poverty outlined in the Millennium Development Goals requires co-operative action from all quarters – from aid agencies and NGOs in rich countries; from the private firms that provide more than 90 per cent of the world's jobs; from technical experts; from policymakers and officials in developing countries; and, most of all, from millions of entrepreneurially minded people who know that a job – whether working for oneself or another – is the surest path out of poverty (Narayan et al, 2000). The international community has dubbed 2005 'the year of development' because of the urgency expressed by the UN, the UK and others about the Millennium Development Goals, Africa's development needs, climate change, and other issues. The Bank's donor countries recently agreed on a substantial replenishment of funds to the International Development Association (IDA), the World Bank affiliate that provides assistance to the world's 81 poorest countries where the vast majority of people live on less than US$2 a day. At least US$34 billion in resources will be made available during the next three years for development assistance, of which about US$18 billion will come from new contributions from 40 donor countries.

But breaking the vicious cycle of ignorance, poor health, poverty, economic stagnation and poor governance will require measures extraordinary in number and in scope. They must be designed to attack on several fronts at once. Partnerships linking government, firms, and civil society are the natural vehicle for such measures. To be effective, they must adopt a long-term perspective on, and commitment to, inclusive growth, a dynamic view of development that conceives improvements in governance, infrastructure, education, and health services as steps toward the ultimate goal of unleashing the natural entrepreneurial power of the world's people.

The capacity to create and innovate lies dormant in millions, waiting for the right climate. The World Bank (2004) has determined that the manufacturing value-added of investment climate improvements in even a single country has the potential to exceed the value of all official development assistance now provided worldwide. Developed countries can help developing countries realise that potential by removing trade protection and other policy distortions that skew or hobble the investment climate in developing countries. They can join the World Bank and other international institutions in better co-ordinating and targeting their aid efforts – and by raising the absolute levels of development assistance. Finally, they can help the World Bank Institute in raising the IQ – the innovation quotient – of the developing world through capacity development at the individual, social, and institutional levels.

Since 2001, when WBI became the locus of capacity development efforts at the World Bank, the Institute and its many partners in government, business, and civil society have been creating microclimates for innovation around the world. Building on systemic improvements (rule of law, secure property rights, inclusive legal systems), WBI partnerships selectively remove binding constraints to enterprise formation and expansion by for-profit entities and their lesser-known cousins, 'social entrepreneurs.' Technology helps WBI target binding constraints in ways that are not just cost-effective but also pedagogically sound. E-conferences and associated local consultative processes facilitate South-South learning among and between networks of peers who have direct experience with successful and not-so-successful development efforts. Case studies on microfinance and enterprise development prepared for the May 2004 Shanghai conference on reducing poverty and sustaining growth provide the basis for e-events that offer invaluable 'how to' guidance in a peer-to-peer setting. One such conference, undertaken in partnership with the United Nations Capital Development Fund, resulted in the compilation of the Blue Book on Building Inclusive Financial Sectors (forthcoming from UNCDF, autumn 2005).

WBI is also linking business schools together in global classrooms. Students at the University of Pennsylvania’s Wharton School, for example, analyse cases with business students in Bosnia, Brazil, Mexico,
Women’s entrepreneurial activities mean better livelihoods for children and families

Notes
2. In middle-income countries, where the basic elements of the investment climate are in place, the focus is on strengthening the institutional factors that directly affect entrepreneurship, such as facilitating (or at least not impeding) business entry and exit. As middle-income countries move from being technology-adopting countries to technology-creating countries, entrepreneurs will play an increasingly important role in the economy. For that reason, a strong commitment to entrepreneurial education is important to consolidate an “entrepreneurial culture.”

For high-income countries the focus should be on developing a highly innovative entrepreneurial sector and on supporting high value-added new companies that have the potential to grow and to develop internationally. Entrepreneurial economies need to strengthen technology transfer; make early stage funding available; and support entrepreneurial activity at the state, corporate and university level.

3. In micro- and small enterprises worldwide, women make up one-quarter to one-third of the total business population; in manufacturing, they constitute one-third of the global labour force (UNIDO 2003).
4. In low- and middle-income countries, only 1 per cent of women’s new businesses qualify as having high employment potential. The percentage increases to only 1.6 in high income countries (Minniti, Arenius, and Langowitz 2004). Women entrepreneurs tend to start businesses with known technology and in established markets.
5. A social entrepreneur is “an individual who uses earned income strategies to pursue social objectives, simultaneously seeking both a financial and social return on investment.” See Institute for Social Entrepreneurship, http://www.socialent.org/definitions.htm

References