



THE LEAST DEVELOPED COUNTRIES REPORT 2018



CHAPTER

4



Entrepreneurship in the
least developed countries:
Major constraints and
current policy framework

PROACTIVE ROLE FOR THE STATE



ENTREPRENEURSHIP POLICIES

should go beyond market failure correction and creation of an enabling business environment



OPPORTUNITIES

New areas of entrepreneurship

Productivity gains at firm level



CHALLENGES

E-commerce readiness for vendors and customers



DIGITALIZATION FOR ENTREPRENEURSHIP

CHAPTER 4

Entrepreneurship in the least developed countries: Major constraints and current policy frameworks

A. Introduction	81
B. Constraints to the emergence and growth of firms	81
1. Internal and external barriers	81
2. Insights from small and medium-sized enterprise competitiveness surveys	85
C. Key obstacles to enterprise	86
1. Entry regulations, formalization procedures and costs	86
2. Access to finance	89
3. Access to energy	90
4. Digital connectivity	91
5. Gender-based constraints	92
D. Current policy frameworks for entrepreneurship and structural transformation	98
1. National development plans	98
2. Industrial policies	99
3. Entrepreneurship and development policies for microenterprises and small and medium-sized enterprises	99
4. Institutional frameworks for enterprise policies	102
5. Recommended policy principles	102
Notes	105

A. Introduction

An important starting point for policies to promote structural transformation through entrepreneurship is to understand the major barriers to entrepreneurship growth. Such barriers may be viewed from two perspectives, namely at the firm level and at the national level.

It is also important to understand the direction of current and future policies in relation to entrepreneurship and structural transformation. An assessment of the effectiveness of development policies in LDCs for microenterprises and SMEs should be encouraged. The establishment of performance measurement systems for microenterprises and SMEs could also provide a means for Governments in LDCs to monitor the evolution of enterprises, improve their understanding of the nature and complexity of the constraints faced by enterprises of different types and sizes, and evaluate the impact of entrepreneurship policies on structural transformation.

This chapter is structured as follows. Section B provides an overview of barriers to competitiveness and performance in LDCs from the firm-level perspective, focusing primarily on external barriers. Section C addresses key constraints in LDCs at the national level, namely entry regulations, formalization procedures and costs; access to finance; access to energy; digital connectivity; and gender-based constraints. Section D provides an overview of existing policy frameworks for entrepreneurship in LDCs, concluding with a discussion of recommended areas for improvement.

Firms face both internal and external barriers to growth

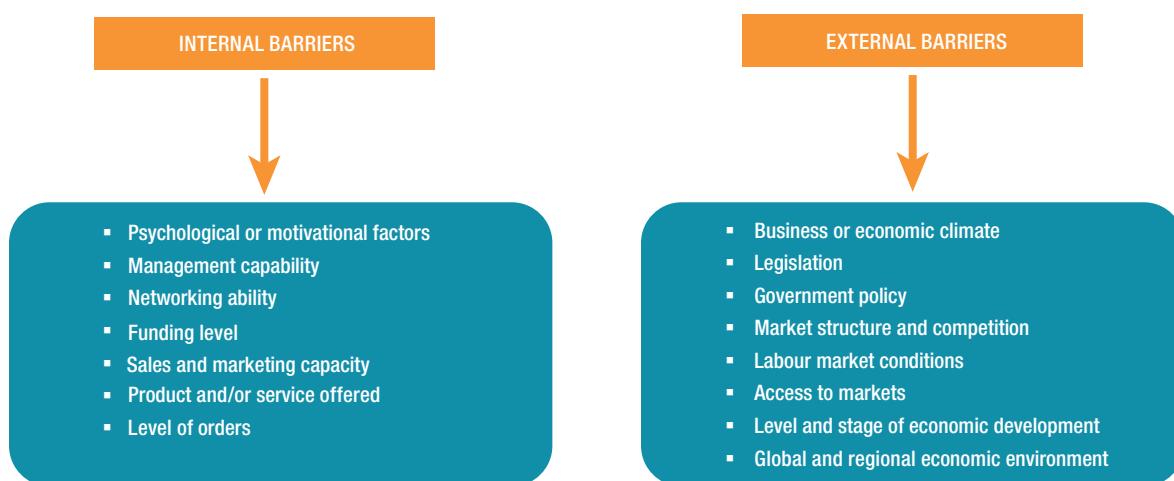
B. Constraints to the emergence and growth of firms

1. Internal and external barriers

Firms face both internal and external barriers to growth (figure 4.1). High-growth firms are not exempt; a small proportion of such firms can create the majority of jobs and it is important to understand the obstacles to the success of both such firms and those firms with the potential to achieve high growth (Lee, 2012). For example, there is evidence that high-growth firms view internal barriers, which they can influence, as more binding than external barriers, although this may be more applicable in developed countries rather than in developing countries (Cooney, 2012; Lee, 2012). Further research is warranted in the context of LDCs.

Internal factors influencing firm growth may be divided into those related to the entrepreneur, to the firm and to strategy, as shown in table 4.1 (Storey, 1994). There is growing recognition in the literature that the most significant internal barriers to firm growth are psychological or motivational factors, such as the commitment of an entrepreneur to growth. Other widely cited factors include management capability, networking ability, funding level, sales and marketing

Figure 4.1
Barriers to firm growth



Source: UNCTAD secretariat, based on Cooney, 2012.

capacity, product and/or service offered and the level of orders. Recruiting suitable staff and skills shortages can also pose significant internal constraints (Lee, 2012). There is growing recognition of the importance of entrepreneurship education and training in overcoming internal barriers, including experiential learning to address motivational factors and learning from success and failure (Cooney, 2012).

It is often claimed in policy discourse that one important external barrier is the business climate, which can give rise to direct, indirect and hidden production costs; inhibit the adoption of new technologies; deter investment; weaken competitiveness and reduce market size (World Economic Forum et al., 2009). The relevance of the business climate has long been recognized in policy debates, notably through the work of institutions such as GEM, through its measurement of entrepreneurial framework conditions; the World Bank, through its Doing Business database; and the World Economic Forum, through its global competitiveness index and the associated report series. Disagreements on the scope of the concept and on related methodologies have been noted (Romer, 2018; *The Economist*, 2018b). UNCTAD has affirmed the need to optimize the regulatory environment and benchmark the national business climate, to create an institutional framework more supportive to start-ups (UNCTAD, 2012a), provided it is coherent with industrial policies and structural transformation strategies.

The business climate is conventionally encapsulated in the ease of doing business index of the World Bank, which ranks countries on the basis of the following

10 indicators: starting a business; dealing with construction permits; accessing electricity; registering property; securing credit; protecting minority investors; paying taxes; trading across borders; enforcing contracts; and resolving insolvency. Most LDCs rank low, with 32 of the 47 LDCs in the lowest quartile in 2018, out of 191 countries.

The business climate is largely shaped by government policies and legislation. Legislation affects the actual and perceived costs and benefits of entrepreneurial activity and the returns to investment for domestic firms. Legislation can also address existing barriers or create barriers for disadvantaged groups, including women (see section C.5), for example in accessing the inputs and resources needed to start and grow a business.

Competition policy and consumer protection laws are also of particular importance, as market structure and the intensity of competition in product markets affect industry and firm size, as well as the number of firms a product market segment can support, consistent with profitability. The absence or lack of enforcement of such laws can give rise to concentrated market structures that erode profitable entrepreneurial opportunities in certain economic activities and sectors, limiting new business formation and firm viability. Current entrepreneurs may also engage in unproductive or destructive entrepreneurship (Baumol, 1990) such as rent-seeking activities, for example the formation of cartels and other abusive behaviour by dominant firms, to prevent the entry of new entrepreneurs or limit their profitability. Competition policy therefore “has a bearing on the climate for entrepreneurship, as it is a

Table 4.1**Internal factors influencing growth in small firms**

Entrepreneur level	Firm level	Strategy-related
Age	Age	Workforce training
Gender	Sector	Management training
Family history	Legal form	External equity
Social marginality	Location	Technology
Functional skills	Size	Market positioning
Education	Ownership	Market adjustments
Training		Planning
Management experience		New products
Motivation		Management recruitment
Prior unemployment		State support
Prior self-employment		Customer concentration
Prior sector experience		Competition
Prior firm size experience		Information and advice
Prior business failure		Exporting
Number of founders		

Source: UNCTAD secretariat, based on Cooney, 2012; Storey, 1994.

tool for challenging abusive and restrictive practices that stifle entrepreneurship" (Makhaya, 2012). This has led, for example, developing countries such as Singapore and South Africa to include provisions in competition laws to allow microenterprises and SMEs to participate equitably in the economy.

In addition, intellectual property provisions are needed to ensure an institutional environment that promotes and rewards innovation among entrepreneurs. There are important interactions between competition policy, intellectual property rights and entrepreneurship. For example, there is evidence that strengthened intellectual property rights protection adversely affects the entry of entrepreneurs adopting new technologies, but that this relationship can be weakened by the increased enforcement of competition policy, and that intellectual property rights and competition policy can have complementary effects on the rate of entrepreneurial innovation (Fu and Liu, 2013; Gans and Persson, 2013). In most LDCs, there is significant scope to build capacities in formulating, enforcing and revising competition laws and policies, to ensure a business environment that is conducive to entrepreneurship. UNCTAD has supported the establishment and strengthening of competition policy frameworks and institutions in the following LDCs: Ethiopia, Madagascar, Sierra Leone, the United Republic of Tanzania and Zambia.¹

Beyond changes to legislation, improving the business climate requires, *inter alia*, investment in hard and soft infrastructure, including with regard to transport, energy, ICT and trade facilitation; the development of an efficient and high-quality services sector; and improved developmental governance, including regulatory and anti-corruption reforms.

Labour market conditions can also present an obstacle to firm growth. The absence of social safety nets or alternative income sources drives many of those unable to secure wage employment, in particular women and youth, to informal entrepreneurship in the form of own-account activities (see chapter 2). Unemployment rates in LDCs range from 0.2 per cent in Cambodia (men and women) to 23.1 per cent among men and 27.6 per cent among women in Lesotho (figure 4.2). This heterogeneity reflects a range of factors, which include the varied effectiveness of government policies, different rates of job creation associated with economic performance and different degrees of manufacturing development and rates of labour productivity growth (UNCTAD, 2013a). The rate of women's unemployment exceeds that of men's unemployment in 34 LDCs. Potential explanatory factors include gender-based inequality in accessing formal labour markets and productive

Lack of alternative income opportunities can give rise to survivalist entrepreneurs

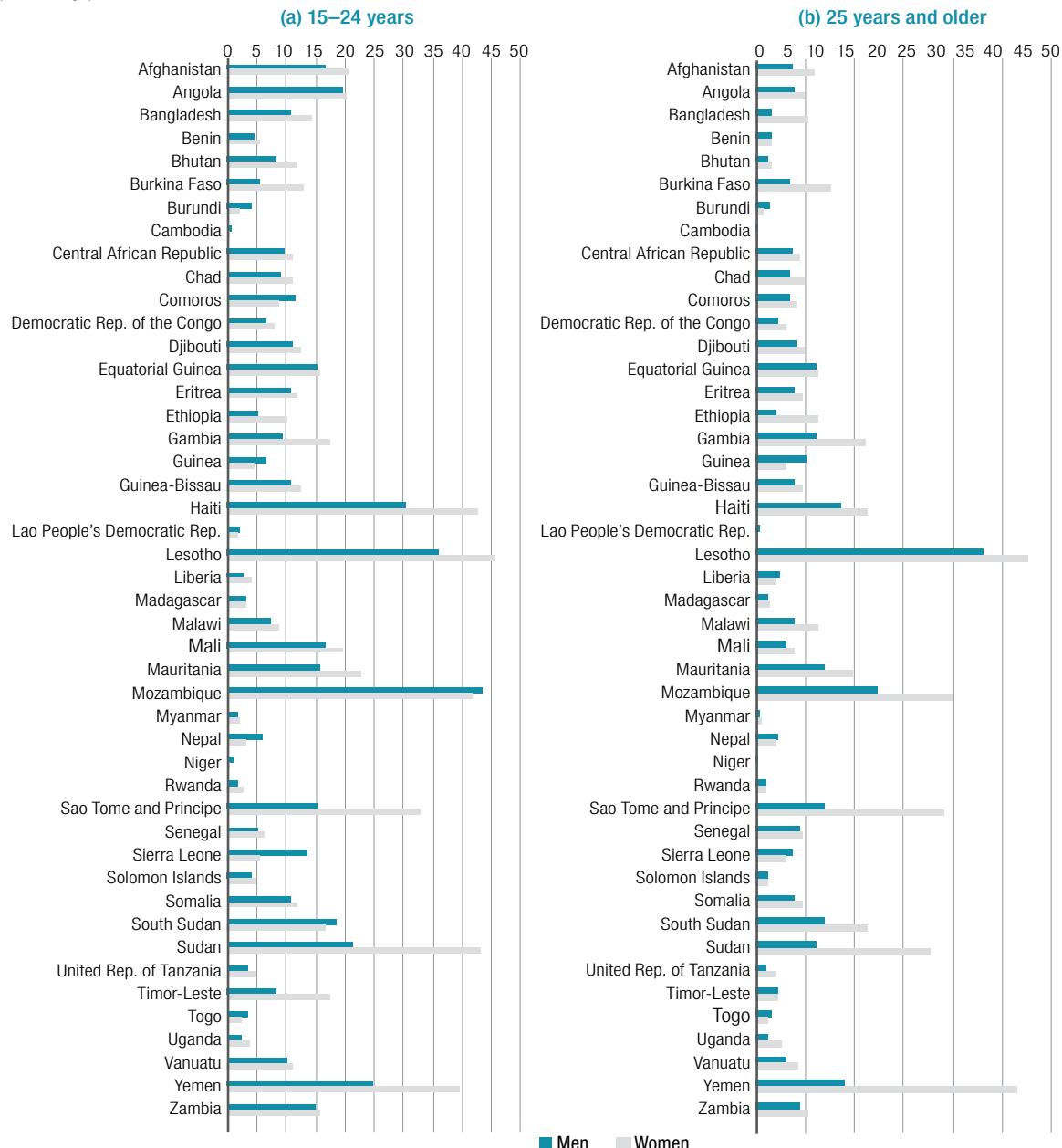
inputs; a lack of State support for women with regard to childcare; and a greater concentration of women's labour in the rural agricultural sector (UNCTAD, 2015a). Unemployment among youth (15–24 years of age) is a particular challenge, especially in Haiti, Lesotho, Mozambique, the Sudan and Yemen, with rates exceeding 20 per cent among both men and women.

A lack of alternative formal income opportunities can give rise to survivalist entrepreneurs, who end up concentrated in sectors with low entry barriers. Because of the low value of alternative options, they are more likely to opt for entrepreneurship. This can result in sectors with low entry barriers becoming crowded with low-ability entrepreneurs, who cohabit with high-ability entrepreneurs, leading to depressed prices and profits, potentially endangering the viability of more dynamic enterprises. Unlike high-ability entrepreneurs, who are motivated by relatively high potential benefits from entrepreneurship, low-ability entrepreneurs are motivated primarily by low opportunity costs, reflecting their lack of alternative opportunities (Poschke, 2013). However, despite low productivity, such entrepreneurs are often persistent over time, lacking the potential for growth, but with a probability of exit no higher than that for larger enterprises in the medium term.² Such conditions can lead to a situation in which entrepreneurs of intermediate ability (with higher potential returns than low-ability entrepreneurs, but also greater opportunity costs) are crowded out, resulting in a polarization of entrepreneurship between those of high and low ability, which constrains the growth of the former. Selection into entrepreneurship from the high and low extremes of ability distribution explains the common empirical finding of greater variation in returns to entrepreneurship than in wages. This highlights the importance of absorbing necessity-driven and survivalist entrepreneurs into wage employment, and of targeting entrepreneurship support to entrepreneurs with greater ability and who are more dynamic (see chapter 5).

Another external barrier affecting firm growth is the level of access to markets, including export markets. Such access or a lack thereof has a direct effect on firm productivity, profitability, growth and survival. There is empirical evidence in LDCs and elsewhere that, controlling for other relevant factors, exporting firms have higher productivity levels, through learning

Figure 4.2**Unemployment rates in the least developed countries by age, 2018**

(Percentage)



Source: UNCTAD secretariat calculations, based on ILO, 2018.

Note: Data not available for Kiribati.

by exporting, than non-exporters within the same industry (Fatou and Choi, 2015; Kamuganga, 2012; Siba and Gebreeyesus, 2014). Improvements in legal and institutional frameworks benefiting exporting firms can also have positive spillover effects on non-exporting firms (Chhair and Ung, 2014). Trade policies matter for entrepreneurship growth. There is a growing body of research that suggests that exporting leads to gains not only for larger firms but also smaller firms, allowing them to learn new skills, explore larger markets and raise the incomes of owners and their families (Atkin and Jinhange, 2017). This research

supports the case for designing policies that lower the costs for SMEs of finding foreign customers; increase their access to information on foreign markets, such as regulations on imported goods and services; and create a role for export promotion agencies that link local SMEs to foreign customers (Atkin and Jinhange, 2017).

Other important external factors affecting a firm's growth include the national level of economic development, which affects the range and depth of market opportunities available to firms; national

economic performance, which affects both the composition and growth of demand and the availability and cost of capital; and the regional and global economic environment, which influences government policy and affects export opportunities. Macroeconomic variables such as exchange rates are also an important factor, affecting both the profitability of exports and import substitutes and the cost of imported inputs.

2. Insights from small and medium-sized enterprise competitiveness surveys

A more detailed picture of the constraints faced by firms in some LDCs is provided by the SME competitiveness surveys of the International Trade Centre. The ability of microenterprises and SMEs to compete in local and global markets is a key determinant of the probability of survival and the future growth trajectory. Understanding the determinants of competitiveness among SMEs in LDCs can inform policymakers in shaping entrepreneurship policies. The surveys assess the competitiveness of SMEs on the basis of the following three capacity pillars (International Trade Centre, 2017):

- Compete: static; centred on firm operations and efficiency in cost, time, quality and quantity.
- Change: dynamic; centred on firm response to or anticipation of market forces and innovation through investments in human and financial capital.
- Connect: links static and dynamic features of competitiveness; centred on the collection, processing and communication by firms of information and knowledge crucial for the digital economy and services.

Assessments are made at the following three levels of the economy: firm (including capabilities such as whether firms are managed according to best practices, need resources and have competencies to manage such resources); business ecosystem (whether business support institutions provide the resources and competences that enterprises need to be competitive); and national environment (macroeconomic and regulatory). The indicators characterizing the range of constraints that can affect the competitiveness of SMEs across the three capacity pillars and three economic levels are shown in table 4.2.

To date, surveys have been conducted in 11 LDCs, namely Bangladesh, Bhutan, Burkina Faso, Cambodia, Guinea, Madagascar, Malawi, Nepal, Rwanda, Senegal and the United Republic of

LDC firms' capabilities are weakest in their capacity to connect

Tanzania. The results provide insights on binding external constraints to a firm's performance and survival (figure 4.3).

A firm's capabilities tend to be weakest in the capacity to connect, except in Malawi and Rwanda, highlighting the need for greater investment by firms in ICT for production, management and marketing strategies. There is a particular need for improvement in the capacity to change in Burkina Faso and the United Republic of Tanzania within the business ecosystem, and in the capacity to connect in Guinea, and the capacity to change in Bangladesh within the national environment. In the 11 countries, large enterprises perform better than small enterprises in all three pillars. This is consistent with the findings showing faster productivity growth in large firms (see chapter 2) and is in line with one of the main messages of this report that support should be provided to firms not only at the initial stages of their life cycle but at all stages. In some LDCs in Africa, namely Guinea, Madagascar, Rwanda, Senegal and the United Republic of Tanzania, the gap between small and large firms is widest in the use of email and/or the operation of a business website. Elsewhere, there are considerable variations between small and large enterprises. For example, in Bangladesh and Burkina Faso, the widest gap is in the ownership of foreign technology licences; in Bhutan and Malawi, in the attainment of international quality certificates; in Cambodia, in having audited financial statements; and in Nepal, in having a bank account (International Trade Centre, 2017). In these 11 LDCs, some small firms underperform with regard to the following indicators:

- Having international quality certificates (for example in Bangladesh, Bhutan, Guinea and Malawi).
- Having bank accounts (Bangladesh, Cambodia, Rwanda and the United Republic of Tanzania).
- Investments financed by a bank (Cambodia, Madagascar and Senegal).
- Using email (Bangladesh, Burkina Faso, Nepal and the United Republic of Tanzania).
- Operating a website (Bangladesh, Bhutan, Burkina Faso, Guinea, Madagascar, Rwanda and the United Republic of Tanzania).
- Having audited financial statements (Bangladesh, Bhutan and Cambodia).

Table 4.2**Indicators for small and medium-sized enterprise competitiveness surveys**

Firm capabilities	Business ecosystem	National environment
Compete		
International quality certification	Power reliability	Access to electricity
Bank account	Domestic shopping reliability	Ease of trading across borders
Capacity utilization	Dealing with regulations	Applied tariff, trade-weighted average
Managerial experience	Customs clearance efficiency	Prevalence of technical regulations
		Faced tariff, trade-weighted average
		Logistics performance index
		International Organization for Standardization 9001 on quality certificates
		International Organization for Standardization 14001 on environmental certificates
		Governance index
Connect		
Email	State of cluster development	ICT access
Website	Extent of marketing	ICT use
	Local supplier quality	Online government services
	University and industry collaboration in research and development	
Change		
Audited financial statement	Access to finance	Ease of getting credit
Investment financed by bank	Access to educated workforce	Interest rate spread
Formal training programme	Business licencing and permits	School life expectancy
Foreign technology licence		Ease of starting a business
		Patent applications
		Trademark registrations

Source: UNCTAD secretariat, based on International Trade Centre, 2017.

- Owning foreign technology licences (Bangladesh, Guinea and Nepal).
- Offering formal training programmes to employees (Bangladesh, Madagascar and Senegal).

At the national environment level, three of the four LDCs in Asia, namely Bangladesh, Cambodia and Nepal, score high under the trade policy indicator, along with two LDCs in Africa, namely Guinea and Malawi. Nepal and four LDCs in Africa, namely Burkina Faso, Madagascar, Senegal and the United Republic of Tanzania, score high under the prevalence of technical regulations indicator. In addition, Bangladesh scores high under the online government services and interest rate spread indicators; Bhutan, under the access to electricity and ease of trading across borders indicators; Burkina Faso, under the logistics performance index and ease of starting a business indicator; and Cambodia and Rwanda, under the ease of getting credit indicator. Such heterogeneity with regard to constraints highlights the need to tailor entrepreneurship strategies to each national context. Analysis based on the competitiveness surveys indicates the need for entrepreneurship policies

to rely on a range of interventions at various levels, including the firm, business ecosystem and national environment levels; and target the building of static and dynamic competitiveness between firms.

C. Key obstacles to enterprise

This section discusses a range of constraints to the emergence and growth of enterprises that are of particular relevance in LDCs, namely entry regulations, formalization procedures and costs; access to finance; access to energy; digital connectivity; and gender-based constraints.

1. Entry regulations, formalization procedures and costs

Entry regulations represent a key element in the incentive structure that affects the creation and formalization of new enterprises and the emergence of start-ups capable of competing with incumbent firms and challenging their business models (UNCTAD, 2012a). Some provisions and regulations are justified by economic, administrative, social or environmental

Figure 4.3

Small and medium-sized enterprise competitiveness by capacity pillar, selected least developed countries
(Percentage)



Source: UNCTAD secretariat calculations, based on International Trade Centre, 2017.

objectives, yet others unnecessarily tax potential entrepreneurs, involving costs that discourage start-ups and formalization. Disproportionate entry costs have long been identified as a potential hindrance to the establishment of firms in many developing countries (Djankov et al., 2002). Despite some signs of improvement, this remains the situation in many LDCs.

In 2015–2017, median start-up costs in LDCs were 40 per cent of per capita income, compared with a world average of 26 per cent, and 33 of the 46 LDCs for which data are available had start-up costs above the world average; the highest costs are in Chad, the Central African Republic, Somalia, Haiti and South Sudan (figure 4.4). The number of procedures required to start a business exceeded the world average in 21 LDCs, suggesting that time costs were also higher. In some LDCs (namely, Afghanistan, Benin, Guinea-Bissau, the Sudan and Yemen), women are subject to additional procedures with regard to starting a business, confirming the presence of additional constraints on women in engaging in entrepreneurship compared with men. For example, in some countries, women may have to seek permission from their husbands to apply for a loan or to sign business papers.

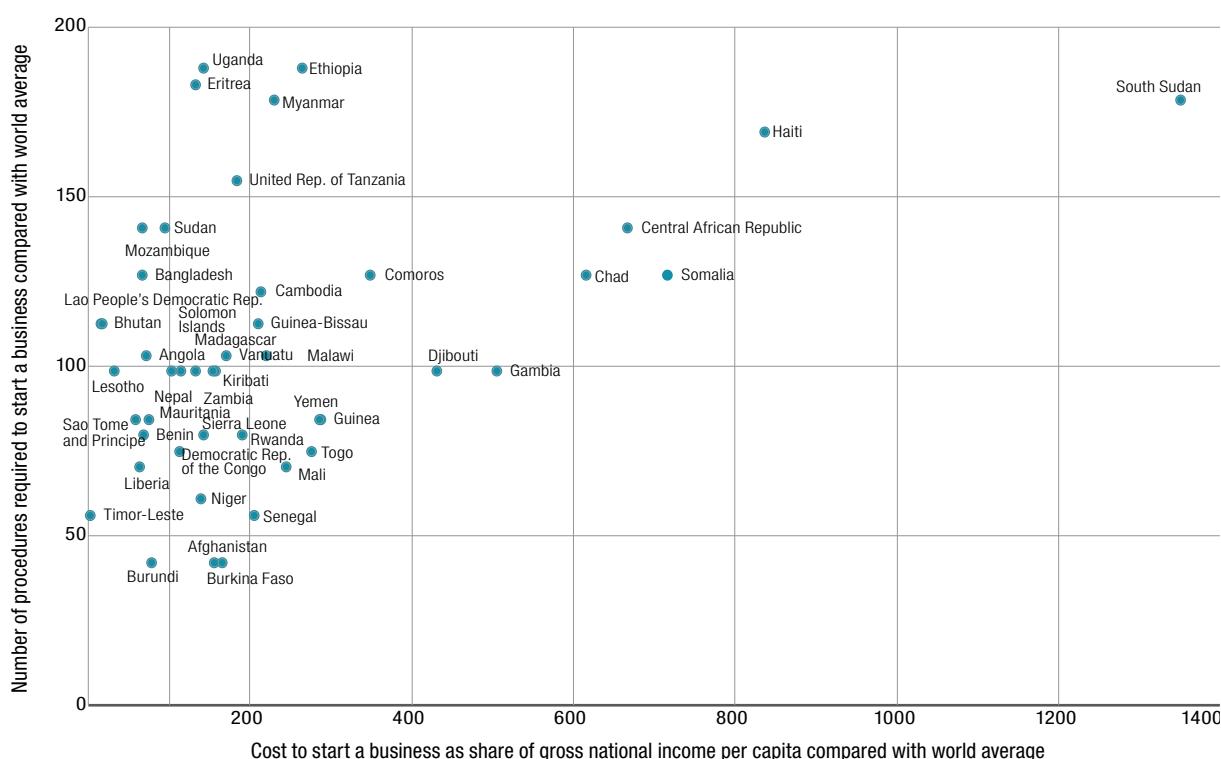
The high costs with regard to entry regulations can discourage the formalization of enterprises in LDCs, yet part of the decision on whether to formalize may be based on the need for time and resources for firms to explore and discover the range of profitable and sustainable entrepreneurial activities (see chapter 2). Such considerations highlight the limitations of conventional policy approaches focused on reducing administrative costs and strengthening penalties for non-registration and non-compliance with regulations. Greater administrative efficiency is important, yet there is also a need to enhance the benefits of registration, not least by promoting productivity increases among formal firms and improving access to finance (see chapter 5 for a discussion of policies on promoting the benefits of registration and formalization to firms).

In addition, the regulatory burden faced by firms can lower the impact of other interventions related to firm entry, performance and growth. Such a burden can affect the positive impact of trade on economic growth and, thereby, the rate of firm entry and survival prospects (Freund and Bolaky, 2008). The extent of regulation can also have considerable indirect effects that might influence firm entry. The positive effect associated with skills, such as educational attainment, diminishes considerably in countries

Figure 4.4

Costs and procedures to start a business in the least developed countries, compared with the world average, 2015–2017

(Percentage)



Source: UNCTAD secretariat calculations, based on data from World Bank Doing Business database.

with greater regulation, in particular for opportunity-based entrepreneurship (Ardagna and Lusardi, 2010). Some regulatory conditions, such as property rights protection or conditions related to human capital, can have idiosyncratic impacts on different types of entrepreneurship (Chowdhury et al., 2015).

2. Access to finance

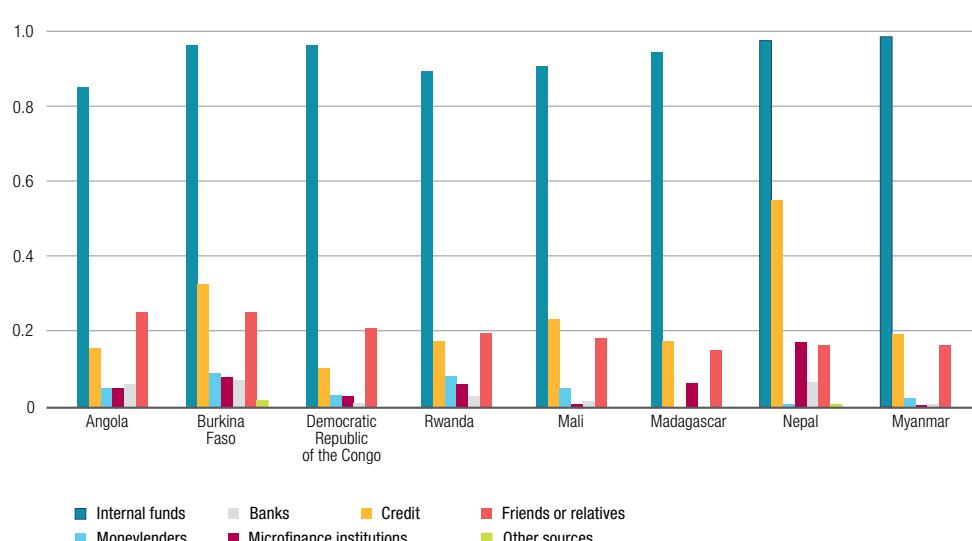
Access to finance is a key pillar of entrepreneurship policies and a major constraint to enterprise (UNCTAD, 2012a). Informal firms, in particular, have limited access to finance from formal lenders, as shown in an analysis of the World Bank Enterprise Surveys of the informal sector (figure 4.5). In all of the LDCs for which data are available, internal funds are the predominant source of financing for day-to-day operations, typically followed by supplier credit and loans from friends or relatives. Financial actors, whether formal (such as banks and microfinance institutions) or informal (such as moneylenders), consistently play a limited role. Microfinance institutions, which might be expected to meet the needs of customers unable to access finance from banks, appear to be significant only in Nepal and to a limited extent in Burkina Faso, Madagascar and Rwanda. Allowing for some improvement in financial inclusion since the conduct of the surveys, the findings highlight the scale of credit rationing and the associated challenges for informal enterprises.



In LDCs, **internal funds** are by far the predominant **source of financing** in most firms

Limited access to finance may also present a binding constraint to productivity and enterprise survival, especially in rural areas, in which the availability of and access to credit is crucial to the success of both farm and non-farm enterprises (Alemu and Adesina, 2017; Gajigo, 2014; Osondu, 2014). In Uganda, for example, based on the living standards measurement study of the World Bank, the most important reasons that rural households report for enterprise exit involve economic factors, such as a lack of profitability and a lack of finance (Nagler and Naudé, 2017).

Figure 4.5
Sources of finance for day-to-day operations of informal firms, selected least developed countries
(Percentage)



Source: UNCTAD secretariat calculations, based on data from World Bank Enterprise Surveys.

In principle, greater access to finance, in particular from the formal financial sector, is an important motivation to formalize. However, despite some signs of progressive financial deepening, such access remains limited in LDCs. The SME competitiveness surveys of the International Trade Centre highlight the limited access of firms in some LDCs to bank accounts and investment financing from banks. Domestic credit to the private sector relative to GDP increased in 36 of the 47 LDCs from 2004–2006 to 2014–2016 (figure 4.6), yet remained at 18 per cent of GDP in the median LDC, which is low by international standards and below the threshold beyond which the beneficial effects of financial depth on output growth begin to disappear.³ Bolstering financial deepening, notably by fostering the emergence of a banking sector capable of adequately serving formal SMEs, therefore remains a crucial priority for LDCs, and this could also reinforce incentives for formalization.

3. Access to energy

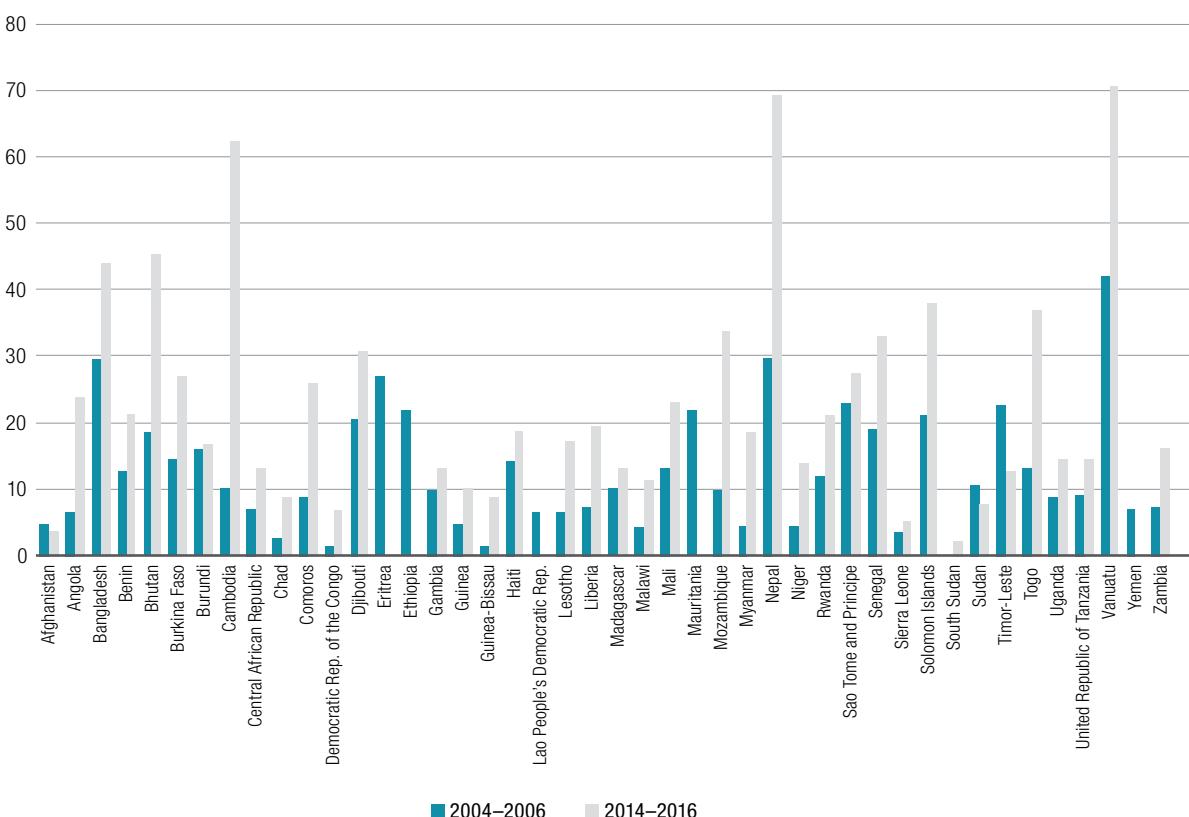
Energy development is an important agenda item in many LDCs. For example, the national sustainable development plan of Myanmar recognizes the role of access to energy in facilitating the emergence of new and innovative SMEs and the development strategy of Senegal recognizes energy access as one of the most pressing issues.

In 2016, LDCs accounted for only 13 per cent of the world population, but 56 per cent of people without access to electricity globally. Lack of access to energy affects productive sectors as well as households; energy facilitates the entrepreneurship, innovation, technical change and productivity growth that drive the building of productive capacities and structural transformation, and unreliable power supplies can disrupt production, impair productivity and impose additional costs with regard to on-site generators,

Figure 4.6

Domestic credit to the private sector in the least developed countries as share of gross domestic product, 2004–2006 and 2014–2016

(Percentage)



Source: UNCTAD secretariat calculations, based on data from World Development Indicators database.

especially for microenterprises and small enterprises. Three quarters of firms in LDCs are affected by electrical outages. The reverse relationship is also critical, as access to energy helps to generate demand and create the markets that can help to lower electricity costs and lead to wider access. The nexus between energy access and structural transformation is critical to development in LDCs, but requires transformational energy access, meeting the needs of productive sectors as well as households (UNCTAD, 2017a).

Without access to modern, affordable, reliable and efficient energy, enterprises in LDCs can neither compete in global markets nor survive and expand in national markets, due to impaired productivity. For example, in sub-Saharan Africa, electrical supply interruptions equate to about three months of lost production time per year, resulting in the loss of about 6 per cent of turnover, and about half of all businesses use generators, leading to additional costs (Karekezi et al., 2012; World Bank, 2017). As shown in the World Bank Enterprise Surveys, for example, in 2013, power outages in the United Republic of Tanzania cost businesses around 15 per cent of annual sales (CDC Group, 2016).

In the median LDC, 42.2 per cent of the urban population lacks access to electricity and 89.3 per cent of the rural population lacks such access, rising to 94.9 per cent in LDCs in Africa and in Haiti (UNCTAD, 2017a). Rural entrepreneurship, whether in agricultural activities or involving non-farm activities, is severely constrained by unequal urban and rural access to energy in LDCs. The development of agribusiness and agro-value chains can unleash entrepreneurial opportunities in rural areas but requires improved access to energy and water. Limited access to energy also accentuates the lack of gender equality through effects on limits to the participation of women in entrepreneurial activities and structural transformation.

4. Digital connectivity

ICT, coupled with wider access to energy, has considerable transformative potential in LDCs. Increased access to and the effective utilization of ICT-based technologies can support both entrepreneurship and structural transformation in LDCs, for example through the use of mobile telephones to increase agricultural productivity and address specific challenges faced by farmers, such as lack of information and limited market access. For example, the Kisan Call Centres launched by the Ministry of Agriculture of Bangladesh in 2004 provide information via mobile telephone messages

The gender gap in Internet use in LDCs potentially



**limits female
digital entrepreneurship**

and real-time advice to farmers in local languages on livestock, prices and agricultural production via a toll-free number; the pink telephones project in Cambodia helps women using mobile technologies to exchange ideas and expertise and access agricultural resources; a women's cooperative for shea butter production in Mali, Coprokazan, uses ICT, including solar-powered computers, accounting software and digital videos and photographs, to deliver training, improve quality and increase sales; and a virtual agricultural platform in Senegal, Mlouma, provides real-time information on the price, location and availability of farm products via a website and mobile telephone messages. In addition, mobile telephone technology, such as M-Pesa, launched in 2007 in Kenya, can facilitate financial inclusion among those without access to banks and facilitate access to finance for entrepreneurs. M-Pesa is now available in the Democratic Republic of the Congo, Lesotho, Mozambique and the United Republic of Tanzania (International Telecommunication Union, 2008).

Despite recent advances in mobile telephone penetration, LDCs remain behind other developing countries in the provision of ICT infrastructure such as Internet access (International Telecommunication Union, 2008). In 2017, 17.5 per cent of the population in LDCs used the Internet, compared with 41.3 per cent in developing countries and 81.0 per cent in developed countries (figure 4.7 (a)). This gap is narrowing; in 2010–2016, the Internet penetration rate, that is, the proportion of the population with access to the Internet rose by a factor of 3 in LDCs, compared with 1.6 in the developed world, with the strongest increases in Cambodia, Ethiopia, Myanmar and Sierra Leone. However, this momentum needs to be consolidated. The gender gap in Internet use

is wider in LDCs than in developing and developed countries, with 14.1 per cent of women using the Internet, compared with 21.0 per cent of men, representing a gender gap of 32.9 per cent (figure 4.7 (b)). This gap widened in LDCs from 2013 to 2017 (figure 4.7 (c)). Conversely, the digital gap between LDCs and developing countries is significantly narrower among youth (15–24 years); a significantly greater proportion of Internet users are in this age group in LDCs, at 35.1 per cent, than in developing countries, at 27.6 per cent, and developed countries, at 13.0 per cent (figure 4.7 (d)). Such patterns of Internet use have potentially important implications on the use of ICT to boost entrepreneurship and e-commerce among women and youth.

There is potential for e-commerce to provide growing entrepreneurial and development opportunities in LDCs, if greater numbers of producers and consumers can link to related platforms (UNCTAD, 2015d) and effective policies for building entrepreneurial and productive capacities are put in place. However, the related barriers need to be addressed. Common barriers to e-commerce development in LDCs include the insufficient development of telecommunications services, due to the lack of an independent regulator or licencing framework; the lack of a level playing field for operators or insufficient private sector participation; high costs for broadband and/or mobile Internet; deficits in energy and transport infrastructure; the lack of effective trade logistics and cross-border facilitation measures; insufficiently developed providers of local delivery services, including weak postal delivery services; an underdeveloped financial technology industry; weak legal and regulatory frameworks for online consumer protection; prevalent digital illiteracy and the lack of e-commerce skills development; financial constraints on e-commerce ventures and technology start-ups; and the lack of an overall national e-commerce strategy. To date, seven LDCs have undergone rapid eTrade readiness assessments supported by UNCTAD to identify such barriers: Bhutan, Cambodia, the Lao People's Democratic Republic, Liberia, Myanmar, Nepal and Senegal.⁵

The UNCTAD business-to-consumer e-commerce readiness index is a proxy for current levels of e-commerce development, reflecting the processes involved in an online shopping transaction. In 2017, the unweighted average score of LDCs, on a scale of 0 to 100, was 22.4, compared with 49.9 in other developing countries and 82.6 in developed countries. LDCs in Asia typically perform better than LDCs in Africa; the highest ranked are Uganda, the Lao People's Democratic Republic, Rwanda, Bhutan, Bangladesh and Nepal (figure 4.8).

5. Gender-based constraints

Women's entrepreneurship is widely recognized as contributing to poverty reduction and women's empowerment, and supporting women entrepreneurs is recognized as a strategy for promoting poverty alleviation and economic growth, as well as gender equality (Steel, 2017). However, some studies have questioned whether women's entrepreneurship necessarily reduces poverty or empowers women (Cornwall, 2007). Women's entrepreneurship may instead be viewed as a situational phenomenon, differing markedly between contexts, sectors and types of economic activity (Steel, 2017). Some women are positively motivated to start a business, while others are entrepreneurs by necessity or inheritors of a family business (Das, 2000). Some perform highly visible activities, such as selling in markets, while others are less evident, such as those operating as subcontractors for manufacturing companies (Steel, 2017).

In LDCs, gender-based constraints to women's participation in economic activities arise in large part from gender-related discrimination in laws, customs and practices (UNCTAD, 2015a). Such constraints inhibit women's access to inputs and resources, which can reduce both their disposition to engage in entrepreneurial activities and their chances of entrepreneurial success. There is evidence, for example, of differences between men and women entrepreneurs in the amount and composition of start-up capital; women face greater constraints than men (Brixiava and Kangoye, 2016; Malapit, 2012; Rouse and Jayawarna, 2006). In order to unleash the potential of women-owned enterprises, it is important to examine not only where gender-based constraints exist, but also to understand how such constraints interact with one another. For example, the lack of access to finance may be linked to weak property rights, since property is an important form of collateral. In some countries, women need their husbands' consent to start a business, which substantially reduces the proportion of women-owned microenterprises and SMEs in comparison with countries in which such a requirement does not exist (ILO, 2016b). In addition, many laws still prevent women from working in or running a business; 104 countries, including 32 LDCs, have laws that prevent women from working in specific jobs (box 4.1). Reforming such laws and regulations could improve the performance of women-owned firms (World Bank, 2018). LDCs without restrictions on women's employment are Burundi, Cambodia, the Comoros, Eritrea, the Gambia, Haiti, Kiribati, the Lao People's Democratic Republic, Liberia, Malawi, Rwanda,

Figure 4.7

Internet use by country group, age and gender

(Percentage)



Source: UNCTAD secretariat, based on data from International Telecommunication Union.

Togo, Uganda, the United Republic of Tanzania and Zambia.

Case studies of women's entrepreneurship further highlight several common trends in gender-based constraints in LDCs, as follows (box 4.2):

- Access to finance is generally perceived as the most important constraint to the growth of women-owned enterprises.
- Family responsibilities and unpaid care work generally impose a major burden on women entrepreneurs, limiting the time they can devote to economic activities, compared with men entrepreneurs.
- The use of ICT by women entrepreneurs is limited by inadequate financial resources and training.
- Women have limited opportunities for formal and informal education and training.
- Women entrepreneurs are unable to take full advantage of their rights, business support or policy dialogue in some countries.

The e-commerce readiness index is low in LDCs



LDCs

22.4

Other developing countries

49.9

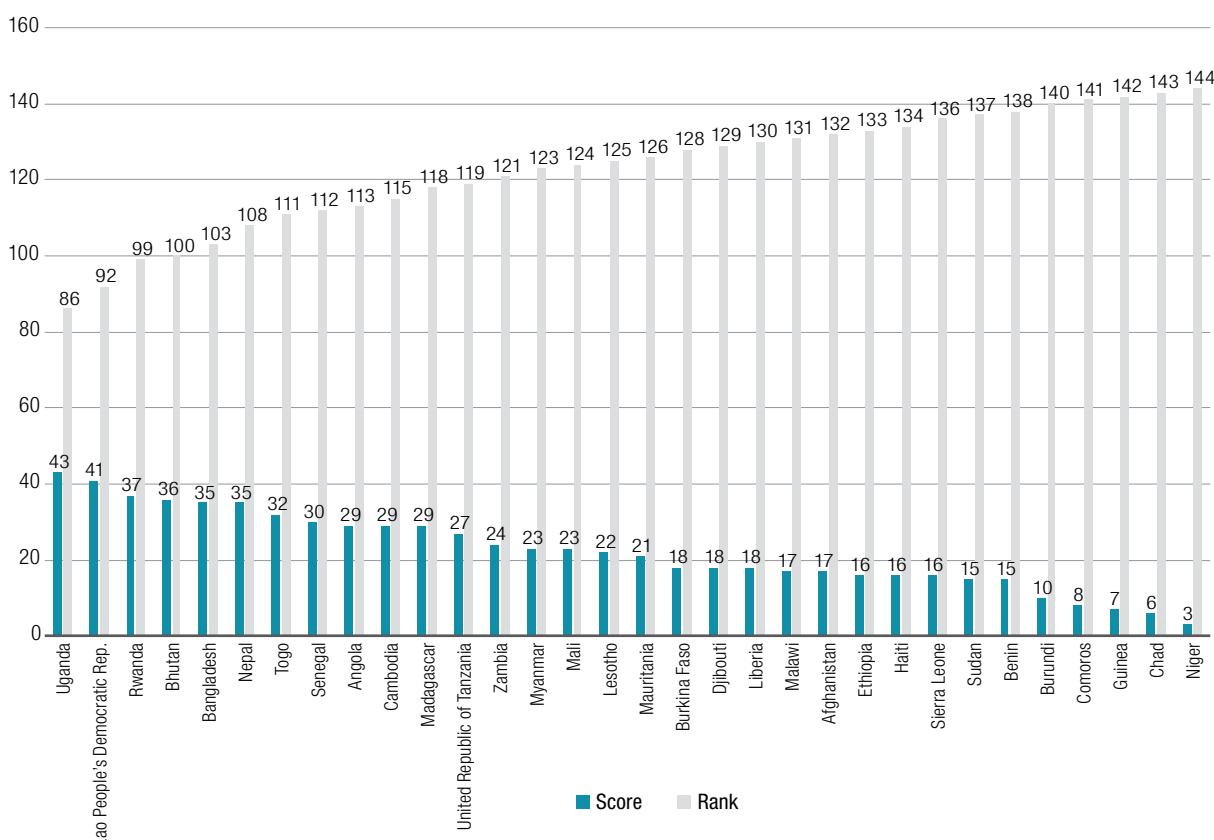
Developed countries

82.6

Figure 4.8

UNCTAD business-to-consumer electronic commerce readiness index score and rank, selected least developed countries, 2017

(Percentage)



Source: UNCTAD business-to-consumer electronic commerce readiness index.

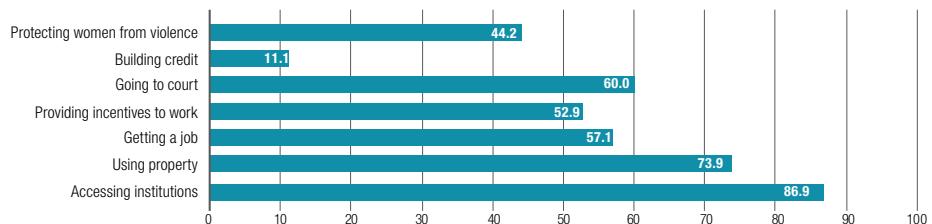
Notes: The index is composed of four indicators (percentage of population using the Internet, secure Internet servers per million inhabitants, share of population with a bank account and Universal Postal Union postal reliability score) and is normalized to range from 0 to 100 based on the lowest and highest value for each indicator in the country sample; data are available for 32 LDCs.

Box 4.1 Women, business and the law

The Women, Business and the Law project of the World Bank collects data on the legal obstacles to women's engagement in economic activity, using the following seven indicators based on 50 questions: protecting women from violence; building credit; going to court; providing incentives to work; getting a job; using property; and accessing institutions. On average in all 47 LDCs, protecting women from violence, building credit and providing incentives to work are the three areas in need of greater attention with regard to legal and regulatory reforms (box figure 4.1).

Box figure 4.1

Women, business and the law indicators: Average scores in the least developed countries



The least developed countries with scores of less than 50 on a scale of 0 to 100 are shown in box table 4.1.

Box table 4.1

Women, business and the law indicators: Least developed countries with scores of less than 50 on a scale of 0 to 100

Protecting women from violence	Angola, Burkina Faso, Democratic Republic of the Congo, Djibouti, Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, Lesotho, Liberia, Mali, Mauritania, Myanmar, Niger, Sierra Leone, Solomon Islands, South Sudan, Sudan, Timor-Leste, Vanuatu, Yemen
Building credit	All least developed countries except Cambodia, Djibouti, Guinea, Lesotho and Zambia
Going to court	Angola, Benin, Bhutan, Central African Republic, Eritrea, Lao People's Democratic Republic, Mauritania, Sao Tome and Principe, South Sudan and Yemen
Providing incentives to work	Bangladesh, Burundi, Democratic Republic of the Congo, Ethiopia, Guinea, Guinea-Bissau, Lao People's Democratic Republic, Lesotho, Madagascar, Myanmar, Nepal, Sao Tome and Principe, Solomon Islands, South Sudan, Togo, Vanuatu, Yemen
Getting a job	Afghanistan, Bangladesh, Central African Republic, Ethiopia, Guinea-Bissau, Mali, Nepal, Sierra Leone, Solomon Islands, South Sudan, Sudan and Yemen
Using property	Afghanistan, Bangladesh, Comoros, Djibouti, Mauritania, Senegal, Sudan, Uganda, Yemen
Accessing institutions	Sudan, Yemen

Source: UNCTAD secretariat, based on World Bank, 2018.

The women's entrepreneurship development assessment of ILO provides additional evidence on gender-based constraints in LDCs. The framework and methodology developed by ILO serves to assess national environments; identify country-specific policies and critical forms of support for women entrepreneurs; and assess the favourability of the policy environment to women's entrepreneurship on the basis of the following six conditions (Bushell, 2008; UNCTAD, 2014c):

- Gender-sensitivity of the legal and regulatory environment and its conduciveness to the economic empowerment of women.
- Effectiveness of policy leadership and coordination for the promotion of women's entrepreneurship development.

- Access to gender-sensitive financial services;
- Access to gender-sensitive business development support services.
- Access to markets and access, ownership and use of technology.
- Representation of women entrepreneurs and participation in policy dialogue.

A number of subconditions are identified under each of these as particularly relevant to women's entrepreneurship (figure 4.9). Among LDCs, women's entrepreneurship development assessments have been conducted in Lesotho, Malawi, Mali, Mozambique, Rwanda, Senegal, the United Republic of Tanzania and Uganda, and shown the existence of significant gender-based constraints on women's entrepreneurship.

Box 4.2 Case studies of women's entrepreneurship in the least developed countries

In the Gambia, a study on low-income women's home-based enterprises found that they were active in two sectors, namely food and domestic activities, suggesting that there is a form of segregation in place in line with women's perceived traditional roles. Gender-inequitable time burdens impose a range of direct and indirect constraints on women's ability to participate in economic activities. Their productive roles and family responsibilities are also impacted by deficiencies in public services, notably with regard to electricity and water supply.

In Nepal, family responsibilities are an important constraint on women's businesses. Women-owned enterprises are typically small and active in traditional manufacturing, small shops or informal vending with low turnovers, a low number of employees and no professional assistance. Access to capital and credit is a prominent issue; one study identified this as a major obstacle to enterprise growth. Women also have more limited education and training opportunities than men, with a gap of 20 percentage points in 2007 between literacy rates among men (80.6 per cent) and women (60.1 per cent). Limited education reduces women's ability to negotiate government and finance bureaucracies, and limits their voice. Most women-owned enterprises operate mainly among close connections and family members, with limited access to wider markets.

In Uganda, women-owned enterprises are concentrated in trading and are mostly informal. Women entrepreneurs are discouraged from formalization by the cost of social security charges and the geographical inaccessibility and cost of business registration procedures. Women-owned businesses are generally unable to engage in GVCs and their products are sold mainly in local markets, as their reputation for quality is insufficient for access to international and regional markets. Access to finance is an important obstacle, complicated by the requirement by banking institutions of a husband's consent and recommendations for loans, resulting in women often borrowing from family members or informal sources. ICT use is limited due to poor Internet access, especially in rural areas, lack of awareness of the potential benefits and inadequate training. Relatively few women entrepreneurs use mobile telephones and still fewer have access to computers for business activities. However, the presence of many women's organizations, which advocate for gender equality and economic empowerment, give women a strong advocacy voice.

In the United Republic of Tanzania, the time that businesswomen can dedicate to their ventures is limited by the need to fulfil traditional family and community obligations. The most important obstacle to their activities is access to credit, partly because women's limited property rights under customary law impair their ability to provide collateral. Limited access to ICT training is also an issue, as is the limited number of business associations dedicated to women, which means that their needs are not adequately represented.

Sources: Bushell, 2008; Chant, 2014; Cornwall, 2007; Das, 2000; Mori, 2014; Mugabi, 2014; Steel, 2017.

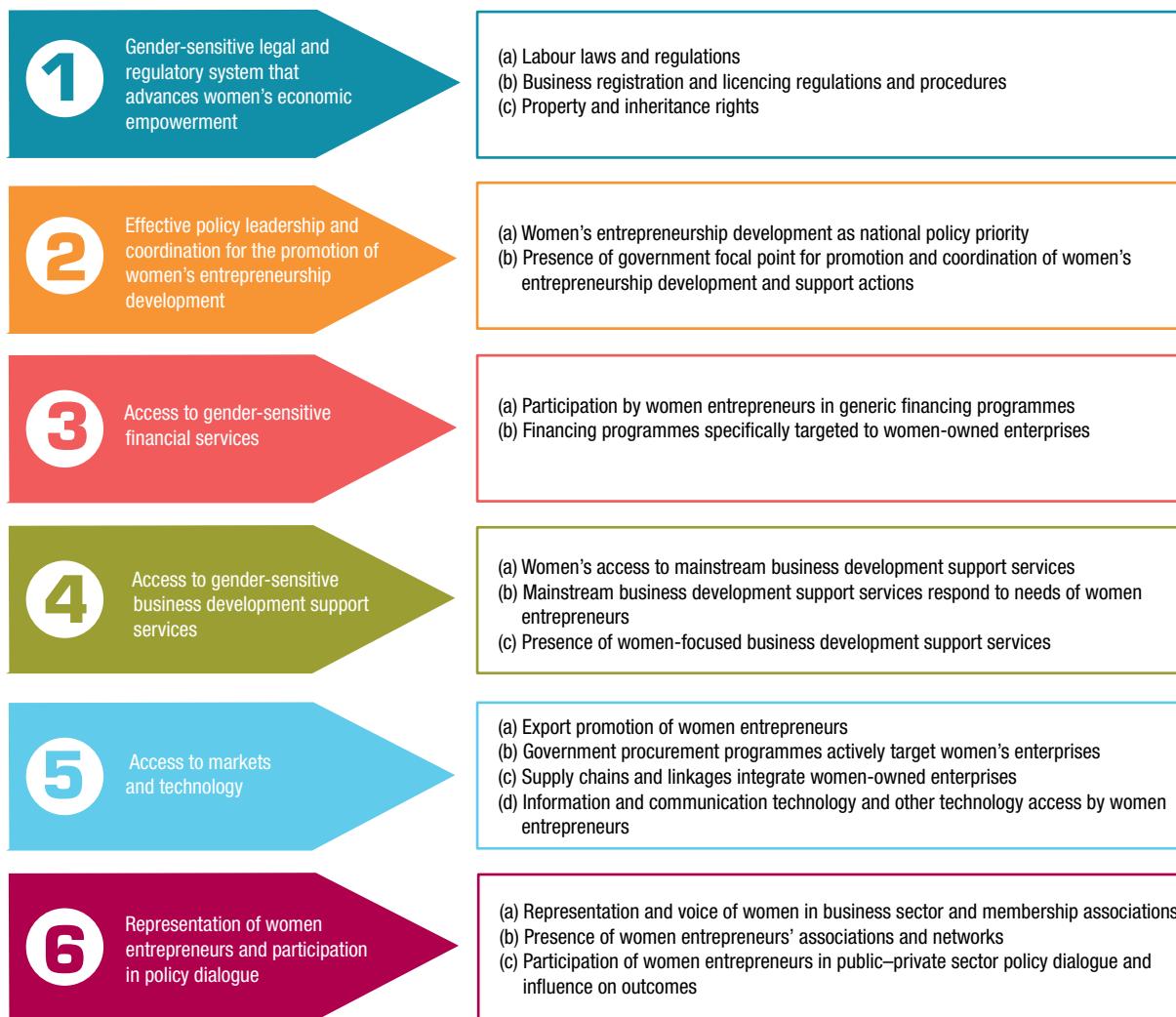
For example, in Senegal, the assessment showed that women entrepreneurs face almost identical constraints in the formal and informal sectors and in rural and urban environments, namely a lack of know-how, capital, technology and information; and discriminatory cultural and social values (ILO, 2011). In Burkina Faso, the national strategy for the promotion of women's entrepreneurship notes the range of factors inhibiting the participation of women entrepreneurs in economic activities, including the lack of guarantees for access to credit, lack of ownership of land, poor access to means of production, low incomes, illiteracy, limited educational attainment and qualifications, and sociocultural constraints, as well as, above all, the lack of coordination of interventions in the field of women's entrepreneurship. The removal of gender-based constraints to women's participation in entrepreneurial activities and structural transformation necessitates targeted public policy actions, as recommended, for example, in the national strategy of Burkina Faso (table 4.3). It is too early to evaluate the effectiveness of these policy actions.

Research by ILO under the women's entrepreneurship development programme sheds light on the types of

interventions that have proven effective in strengthening women's entrepreneurship in beneficiary countries. There is little rigorous evidence that either access to finance or business training alone lead to sustained business growth among microenterprises headed by women. Rather, interventions that combine finance, especially grants, and business training appear to be more effective. There is also evidence that business training combined with follow-up technical assistance and business grants together with business training may be effective (ILO, 2018). In addition, interventions need to be part of a package of multiple measures that address several constraints at the same time by bundling services or combining interventions (ILO, 2018). Other important factors include addressing systemic barriers such as the lack of electricity or land rights, combining access and incentives to incite behavioural change and designing interventions that take into account women's mobility constraints. For example, evidence suggests that programmes that hold business training sessions in locations that are close to the homes or places of work of participants and that offer subsidized or free-of-charge transport and/or childcare are more effective in retaining participants (ILO, 2018).

Figure 4.9

Women's entrepreneurship development assessment framework conditions and subconditions



Source: UNCTAD, 2014c.

Table 4.3

Burkina Faso: Main pillars and objectives of national strategy for promotion of women's entrepreneurship

Pillar	Objectives
1. Improve legal and institutional framework supporting women's entrepreneurship	(a) Improve texts and laws in favour of women's entrepreneurship (b) Strengthen institutional framework for promoting women's entrepreneurship (c) Strengthen steering and monitoring and evaluation of national strategy
2. Promote access of women and girls to means of production	(a) Improve access of women and girls to land and technologies for production, processing and conservation (b) Facilitate access of women and girls to finance
3. Develop opportunities to create employment and self-employment for women and girls	(a) Strengthen technical and vocational training of women (b) Encourage business creation by women and girls
4. Promote commercialization of women's and girls' products and viability of their businesses	(a) Increase turnover of women's and girls' businesses (b) Increase viability of enterprises headed by women and girls

Source: Burkina Faso, 2015.

D. Current policy frameworks for entrepreneurship and structural transformation

This section summarizes the major goals of development strategies and policies in LDCs and the role they ascribe to entrepreneurship. The analysis is based on a comprehensive mapping of current national development plans, industrial policies and development policies for microenterprises and SMEs (that is, either for SMEs or for microenterprises and SMEs) in the 44 LDCs which have such plans (Eritrea, Somalia and South Sudan are not included in the analysis). The strategies and plans described represent the stated intentions of the Governments rather than policy outcomes. An assessment of the effectiveness and implementation of development policies for microenterprises and SMEs in LDCs is beyond the scope of this report, but should be a priority for future research. Policies may not be fully supported by all stakeholders and may be subject to significant revisions, for example due to changes in the Government or modifications by incumbent government officials. The analysis serves to indicate the state of government policy on entrepreneurship and on structural transformation in LDCs.

1. National development plans

All LDCs have either a national development framework or plan or a poverty reduction strategic framework that is generally intended to operationalize a strategic long-term vision. In most instances, the national development plan or poverty reduction strategic framework states the broad development objective and/or vision of the country, along with a description of what should be the main pillars (that is, strategic or development priorities) in achieving the objective or vision. Sustained and inclusive economic growth, poverty reduction, economic diversification and improved competitiveness are often cited as priorities, together with strengthening governance, improving access to basic social services, developing infrastructure, developing the private sector, ensuring peace and security, developing human capital and protecting the environment and addressing climate change.

Structural transformation is explicitly identified as a pillar in the plans of relatively few LDCs (namely, Benin, Burundi, Ethiopia, the Gambia, Guinea, Liberia, Mozambique and Senegal), yet the development plans of many LDCs encompass policies aimed at achieving aspects of such transformation, namely raising productivity, moving up value chains

and transforming economic sectors such as manufacturing and agriculture in pursuit of strong and sustained economic growth.

The development plans of all LDCs contain multiple references to the need to support entrepreneurship and many include clearly defined policies for this purpose, generally under the objectives of economic growth and private sector development. Areas of intervention relate mainly to improving the business climate and access to finance and facilitating training and business advisory services.

In at least one third of LDCs (namely Afghanistan, Bhutan, Burundi, Cambodia, the Comoros, the Democratic Republic of the Congo, Djibouti, Haiti, Kiribati, Lesotho, Liberia, Mali, Mauritania and Zambia), microenterprises and SMEs are viewed as potential engines of economic growth and sources of employment and income to reduce poverty. Fewer LDCs (including Angola, Ethiopia, Cambodia, Guinea, the Lao People's Democratic Republic and Myanmar) envisage support measures for large enterprises, generally as part of large-scale interventions for structural transformation, strategies to foster national champions or value chain programmes aimed at building linkages between smaller and larger enterprises.

Most references to enterprises occur under the economic pillar, yet reference to entrepreneurship is also made under the social pillar, which relates to education, human resource development and social protection. This is indicative of a potential disconnect within existing plans between addressing entrepreneurship and addressing broader enterprise development for economic objectives.

The term entrepreneurship appears in 36 of the 44 national development plans and poverty reduction strategic frameworks reviewed, yet specific policy actions to promote entrepreneurship or enhance an entrepreneurial culture are generally limited and sometimes vague. Such actions mainly take the form of integrating entrepreneurship into curricula in schools and universities and into technical and vocational education and training (such as in Angola, Burundi, Lesotho, Malawi, Sao Tome and Principe, Sierra Leone, Solomon Islands and Timor-Leste); establishing business incubators (such as in Angola and Benin); and/or promoting entrepreneurship among women and youth (such as in Burundi, the Central African Republic, the Comoros, Djibouti, the Gambia, Guinea, Haiti and Uganda). In a few LDCs (such as Bangladesh), plans mention the potential of harnessing ICT to promote entrepreneurship within e-commerce strategies or harnessing the diaspora to promote entrepreneurship.

Several LDCs include cluster and spatial development zones in national development plans, industrial policies and development policies for microenterprises and SMEs (such as Burundi, Cambodia, Ethiopia, the Lao People's Democratic Republic, Mali, Mauritania, Myanmar, Senegal and Uganda) and several have plans for business incubators (such as Liberia, Mozambique and Senegal).

Notable gaps in plans include the elaboration of policies on the clustering of enterprises (except in Angola and Cambodia) and discussions on the interface between policies on industry, trade, investment, regional integration and entrepreneurship. For example, only the plans of Afghanistan, Angola, Cambodia and the Lao People's Democratic Republic refer to either strategic trade or regional integration.

2. Industrial policies

The interface between entrepreneurship and structural transformation is generally articulated more clearly in national industrial policies than in development plans. However, while at least 20 LDCs have a national industrial policy, another 20 LDCs have yet to formulate such a policy. In addition, while all of the industrial policies reviewed contain explicit measures with regard to entrepreneurship, including microenterprises and SMEs, and 19 of the 20 explicitly refer to entrepreneurship, much less attention is devoted to the determinants of entrepreneurship. As well as increasing competitiveness through measures directed at improving the business climate and financing, industrial policies seek to place enterprises at the core of industrial development by, *inter alia*, the following:

- Developing and modernizing microenterprises and SMEs, including through explicit development policies and/or the creation of development agencies.
- Creating market linkages within and outside the country.
- Attracting FDI to create larger enterprises and value chains linking microenterprises and SMEs to larger companies.
- Establishing local content policies to stimulate linkages between the extractive sector and indigenous enterprises.
- Improving the governance of State-owned enterprises.
- Establishing protectionist trade measures to promote local industrial production through import substitution, along with competition policies to guard against monopolistic practices.

Most LDC industrial policies refer to entrepreneurship, but do not address its determinants

- Developing spatial development initiatives, including the establishment of special economic zones, economic poles and industrial clusters.
- Establishing science, technology and innovation policies encompassing technology transfer.
- Establishing measures to enhance cooperation between the private sector and academic institutions and research centres.
- Including special provisions for women and young entrepreneurs, as part of initiatives for rural industrialization, gender mainstreaming and formalization, among others.

Following Lall (1996) and Lall and Teubal (1998), UNCTAD work on industrial policy has emphasized the distinction between vertical, horizontal and functional industrial policies (UNCTAD, 2014d; UNCTAD and UNIDO, 2011). Horizontal policies aim to promote activities that benefit all sectors, such as capacity-building in science, technology and innovation; vertical policies target support to specific firms, industries or sectors; and functional policies aim to improve the operation of markets, in particular factor markets, without favouring specific activities, such as interventions to prevent collusion and facilitate market entry by entrepreneurs.

All of the countries reviewed embrace a mix of all three types of policies, yet in most LDCs, the distinction between the policies is often insufficiently clear, the discourse on the synergies between the policies is relatively weak and the different types of enterprises to be promoted are insufficiently articulated, for example, with regard to the role of the establishment and growth of enterprises of opportunity-driven entrepreneurs in achieving the goals of vertical policies and of other types of enterprises in the implementation of horizontal policies. A clearer distinction between horizontal, vertical and functional industrial policies could improve policy design and targeting.

3. Entrepreneurship and development policies for microenterprises and small and medium-sized enterprises

As with industrial policies, about half of all LDCs have adopted a development policy for microenterprises and SMEs or, for example in Benin, the Democratic

Republic of the Congo and Togo, a charter for SMEs; and the other half have yet to formulate an entrepreneurship development policy. As yet, only three LDCs have formulated a national entrepreneurship policy, namely Burkina Faso and, with technical assistance from UNCTAD, the Gambia and the United Republic of Tanzania. Burkina Faso also has a national entrepreneurship strategy for women, in place since 2015 (table 4.3).

Around half of the LDCs with national industrial policies also have a development policy for microenterprises and SMEs, including Bangladesh, Cambodia, Ethiopia, Lesotho, Liberia, Mozambique, Myanmar, Rwanda, Sierra Leone, Uganda and Zambia. However, the periods covered by the different strategies — that is, national development plans, poverty reduction strategic frameworks, industrial policies and development policies for microenterprises and SMEs — do not always coincide, indicating the need for better alignment of the respective cycles of preparation, revision and updating, to strengthen policy coherence and consistency.

The development policies for microenterprises and SMEs vary widely in their goals. In some countries, the overarching goal is employment creation and poverty reduction, in particular for vulnerable groups such as women, youth and rural populations, rather than structural transformation or economic diversification. Other objectives include export promotion and import substitution (for example in Afghanistan), industrial diversification and technology adoption (Cambodia), formalization (Democratic Republic of the Congo), reduced income inequality through increased economic opportunities for underserved groups (Liberia), empowered local populations (Malawi), more effective participation in regional integration (Myanmar), strong and sustained economic growth (Senegal) and increased value addition in the exploitation of local raw materials (Zambia).

In many LDCs, microenterprises and SMEs, rather than large enterprises, are seen as the key engines of economic growth and as the main source of employment creation, although definitions of microenterprises, SMEs and large enterprises vary between countries. This view is stated explicitly in the development policies for microenterprises and SMEs in, for example, Bangladesh, Bhutan, Myanmar, Solomon Islands and Uganda. However, some countries, such as Cambodia, Guinea, the Lao People's Democratic Republic, Malawi, Mozambique, Myanmar and Zambia, also explicitly recognize the importance of promoting linkages between SMEs and larger enterprises, including FDI-driven

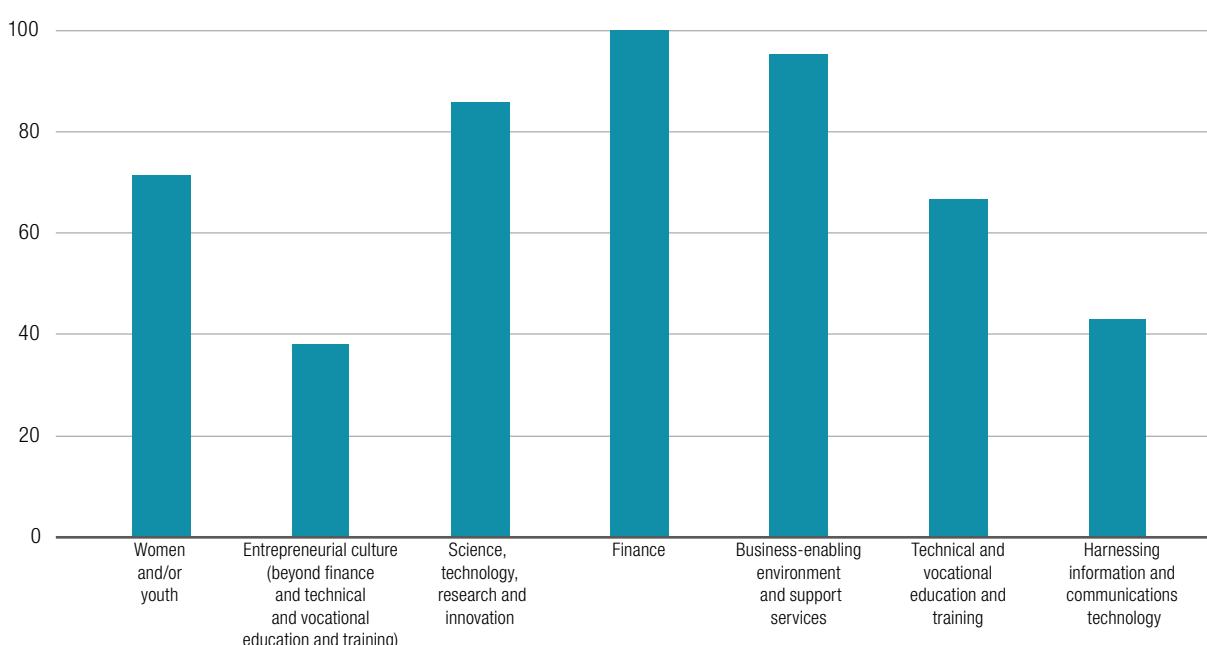
transnational companies, as a means of addressing the lack of medium-sized firms, that is, the missing-middle phenomenon.

The primary focus of policy interventions is on improving access to finance and providing a business-enabling environment by improving legal, regulatory, institutional and policy frameworks (figure 4.10). In some LDCs, for example Afghanistan, Lesotho and Rwanda, the role of the Government is limited to facilitation and ensuring an enabling environment, possibly reflecting a donor-driven agenda. Such an approach does not encompass a broader developmental role for the State and rules out the development or strengthening of State-owned enterprises in particular sectors as an instrument of vertical industrial policy and the use of public investment to catalyse private investment in certain stages of enterprise or sector development. It thereby limits the scope for exploiting synergies between public and private investment to address developmental failures (UNCTAD, 2014e). In other countries, a wide array of policy areas is identified for action, including fiscal and other incentives; the provision of supportive infrastructure, including business advisory services and training; acceleration of the formalization of informal enterprises; and special measures targeted at women, youth and/or other vulnerable and disadvantaged groups. Science, technology and innovation and skills development through technical and vocational education and training also receive attention in the majority of LDCs.

Fewer LDCs (for example Bangladesh, Rwanda and Togo) have policy frameworks that explicitly mention the necessity of harnessing ICT to improve competitiveness or identify new niche sectors. Specific references to developing an entrepreneurship culture also seldom appear prominently in policy documents on microenterprises and SMEs. There is thus scope for more LDCs to explore the potential of digitalization in supporting the start-up and growth of microenterprises and SMEs, especially given the rise of e-commerce and the digital economy, as well as to define policy elements to nurture an entrepreneurship culture. For example, Rwanda has identified ICT as a sector that can enable entrepreneurship development and knowledge-based structural transformation, and the Government has committed to developing a superior Internet and mobile telecommunications infrastructure and prepared five-year national policy plans on ICT infrastructure aimed at establishing the country as an ICT hub in the East African Community. The Smart Rwanda Master Plan 2015–2020 aims to power the socioeconomic transformation of Rwanda towards a knowledge economy.

Figure 4.10

Thematic coverage in development policies for microenterprises and small and medium-sized enterprises: Share of least developed countries with thematic element in policy
(Percentage)



Source: UNCTAD secretariat calculations, based on publicly available information.

Note: Policies are publicly available for 21 LDCs, namely Bangladesh, Benin, Bhutan, Cambodia, the Democratic Republic of the Congo, Ethiopia, the Gambia, the Lao People's Democratic Republic, Lesotho, Liberia, Malawi, Mozambique, Myanmar, Rwanda, Senegal, Solomon Islands, Togo, Uganda, the United Republic of Tanzania, Yemen and Zambia.

Aside from measures aimed at vulnerable or disadvantaged groups, most LDCs have a blanket approach to supporting entrepreneurship. None of the national industrial policies or development policies for microenterprises and SMEs distinguish, for policy purposes, between different types of enterprises, that is enterprises of necessity- or opportunity-driven entrepreneurs, transformational enterprises, social enterprises or cooperatives, among others. Only a few policies (such as in Myanmar, Rwanda, Senegal and the United Republic of Tanzania) include measures targeted at rural non-farm enterprises or aimed at building linkages between rural and urban enterprises. Similarly, with the exception of those in Ethiopia (box 4.3) and Senegal, few policies recognize the importance of tailoring support to enterprises according to their stage of development, that is, start-up, growth, expansion and maturity. Neither eligibility criteria for enterprises to qualify for policy measures and incentives nor sunset clauses for enterprise termination are generally clearly defined or even discussed.

Development policies for microenterprises and SMEs do not generally recognize the need for supportive

policies in other areas or for coherence across policy areas and effective intersectoral coordination. There are some exceptions, such as in Rwanda, the United Republic of Tanzania and Zambia.

As with national development plans and industrial policies, there are few LDCs in which development policies for microenterprises and SMEs include an integrated monitoring and evaluation framework, reflecting in part the absence of a monitoring and evaluation culture in most LDCs. Exceptions include Rwanda and Uganda. The policy in Rwanda enumerates a set of factors for success, based on lessons from other countries, including time-bound support and incentives for new activities, clear benchmarks to measure success over time and active monitoring and evaluation, as well as sustained dialogue with the private sector, high-level political oversight and ownership of policy implementation. The policy in Uganda includes specific, measurable, attainable, realistic and time-bound objectives, with a five-year timeline for review.

In over 70 per cent of LDCs, development policies for microenterprises and SMEs include specific measures

Box 4.3: Ethiopia microenterprise and small enterprise development policy and strategy: Stages of enterprise development

The microenterprise and small enterprise development policy and strategy distinguishes between the transition of enterprises between size categories, from microenterprises to small enterprises and from small to medium-sized enterprises, and the process of maintaining and strengthening competitiveness within each category, recognizing the need for government support to take into account these distinct processes. The strategy cites the example of Malaysia, which identifies four stages of enterprise growth and the related objectives of support:

- Start-up, when the objectives are to enhance access to skilled labour, facilitate the supply of raw materials and access to infrastructure and build marketing skills.
- Growth, when the objectives are to obtain certificates of competence, achieve product and service standards, benefit from tax relief and obtain technical support.
- Expansion, when the objectives are to build technological capacity; increase managerial competence; develop trademarks, marketing networks and information and communications services; and access venture capital and outsourcing opportunities.
- Maturity, when the objectives are to develop product design capacity, promote trademarks and access external financing.

The strategy also cites the example of Japan, which distinguishes the following three stages of growth and the related objectives of support:

- Launch, when the aim is to enable enterprises to withstand start-up challenges.
- Strengthening, when the focus is on professional support to build management competence.
- Maturity, when the aim is primarily preventive and involves enabling enterprises to withstand current and future risks.

Source: Ethiopia, 2016.

to promote entrepreneurship among women and/or youth (figure 4.10). However, such policies are often oriented towards improving livelihoods, lifting women and youth out of poverty, empowering women and other social goals, rather than towards promoting structural transformation, innovation and productivity growth through the emergence of women and youth as high-impact, high-growth and innovative entrepreneurs. For example, the main objective of the national strategy for the promotion of women's entrepreneurship in Burkina Faso is to contribute to women's empowerment. In the Gambia, the national entrepreneurship policy is aimed at improving conditions for enterprise creation and growth, with an emphasis on "women and youth, including groups prone to migration, who represent the main drivers of new enterprise development" and a youth empowerment project aims to address the "the root causes of the high levels of irregular migration from the Gambia, particularly by young people leaving the country" (Mulligan, 2017; UNCTAD, 2017g).

4. Institutional frameworks for enterprise policies

Institutional arrangements for microenterprise and SME policies vary widely across LDCs (table 4.4). In eight LDCs, the title of the ministry responsible for the enterprise sector includes the words SMEs, small businesses or entrepreneurship, a possible indicator of the significance attached to SMEs and enterprise development; in 14 LDCs, there is a directorate or

department within a particular ministry specifically oriented towards SMEs or entrepreneurship; and eight LDCs have a dedicated State-led institution not within a ministry dedicated to microenterprises and SMEs. The remaining 14 LDCs (excluding Eritrea, Somalia and South Sudan) do not have a ministry or other institution specifically focused on microenterprises and SMEs or enterprise or entrepreneurship development issues, although a few have a development policy for microenterprises and SMEs or a national entrepreneurship policy, such as Burkina Faso and the Gambia. In these 14 countries, such policies are typically the responsibility of a directorate for industry within the ministry of trade and industry. The creation of a dedicated agency focused on supporting the development of enterprises, working in close coordination with ministries and relevant agencies, could help facilitate intersectoral coordination and improve the effectiveness of entrepreneurship policies.

5. Recommended policy principles

The mapping of policy frameworks in LDCs in this section highlights the need for the greater prioritization of structural transformation in the strategic development plans and visions of LDCs and stronger alignment between development plans, industrial policies and entrepreneurship development policies towards this goal. The mapping also underlines the importance of policies that extend beyond providing a business-enabling environment; harnessing

Table 4.4**Mapping of government institutions in the least developed countries in charge of enterprise development**

Countries in which SMEs, small businesses and/or entrepreneurship are specified in the title of the ministry	Countries in which the ministry has a directorate for SMEs and/or entrepreneurship	Countries that do not fall under the previous two categories, in which the Government has established a State institution dedicated to SMEs, entrepreneurship and/or enterprises	All other countries
Benin	Afghanistan	Angola (Instituto de Fomento Empresarial)	Burkina Faso
Central African Republic	Bhutan	Bangladesh (SME Foundation)	Burundi
Democratic Republic of the Congo	Cambodia	Ethiopia (Federal Small and Medium Manufacturing Industries Development Agency)	Chad
Djibouti	Haiti	Mozambique (Institute for the Promotion of SMEs)	Comoros
Guinea	Lao People's Democratic Republic	Sierra Leone (SMEs Development Agency)	Gambia
Lesotho	Madagascar	Timor Leste (Instituto de Apoio ao Desenvolvimento Empresarial)	Guinea-Bissau
Niger	Malawi	Togo (National Agency for Promoting and Guaranteeing SME and Small and Medium-sized Industry Financing)	Kiribati
Senegal	Myanmar	Zambia (Small Industries Development Organization)	Liberia
	Nepal		Mali
	Rwanda		Mauritania
	Uganda		Sao Tome and Principe
	United Republic of Tanzania		Solomon Islands
	Vanuatu		Sudan
	Yemen		Tuvalu

Source: UNCTAD secretariat, based on publicly available information.

Note: Data not available for Eritrea, Somalia and South Sudan.

entrepreneurship for structural transformation requires entrepreneurship policies and vertical, horizontal and functional industrial policies, as well as a range of supportive complementary policies.

A clearer distinction is needed between entrepreneurship policies and general enterprise development policies, along with a more effective articulation of each type. More LDCs could benefit from formulating a national entrepreneurship strategy centred on structural transformation, to foster entrepreneurial talent and sustain enterprise development across the life cycles of enterprises. Similarly, vertical, horizontal and functional industrial policies should be more clearly distinguished, to allow for improved design and targeting towards enterprises with the potential to drive structural transformation.

The design of a national entrepreneurship strategy needs to be tailored to the particular historical, institutional, political and cultural context in the country. Policy priorities will vary over the course of structural transformation, with some forms of support declining in importance as the private sector gains strength and others becoming more important as the needs of enterprises evolve.

An important priority is to nurture an entrepreneurial culture with an appropriate understanding of the

microlevel determinants of entrepreneurial talent and capabilities. Experiences in other developing countries demonstrate that entrepreneurship skills, but not necessarily entrepreneurial mindsets, are teachable and can be fostered by appropriate policies at the microlevel, mesolevel and macrolevel. However, the policies needed to promote a transformational entrepreneurial culture depend, *inter alia*, on initial conditions in the private sector, the historical context, the quality of institutions, State-private sector relations, public sector capabilities, cultural attitudes towards risk and failure, the openness of the economy and the extent of regional integration.

There is a need for clear differentiation between types of enterprises by size, nature and motivation, with policy incentives tailored to their respective roles in structural transformation. This implies placing a greater emphasis on large enterprises; distinguishing between necessity-driven entrepreneurs and high-potential and low-potential opportunity-driven entrepreneurs; recognizing the catalytic role of State-owned enterprises in key sectors in which the private sector is absent or weak; and making efforts to build linkages between SMEs and large enterprises, to promote the development of national and regional value chains.



As in other areas, entrepreneurship development policies in LDCs should include a monitoring and evaluation framework that assesses results against performance indicators and allows lessons to be learned from successes and failures and integrated into policies. The time frames of different policies should be harmonized, to allow for more effective monitoring and evaluation.

Public support should also be steady throughout the life cycles of enterprises, recognizing that sustaining and scaling up businesses are as important as starting them. Public support should be sustained for long enough to allow enterprises to grow and withstand market cycle fluctuations, while reflecting variations in business needs throughout the life cycle. The fiscal burden of support can be mitigated by the establishment of cost-sharing mechanisms between the public and private sectors.

Entrepreneurship depends on many interdependent factors and therefore requires supportive policies in many different sectors under different government entities, as well as direct policy support. A coordinated approach is needed to ensure coherence within a wider strategic framework, with mandates, competencies and responsibilities clearly defined and agreed between all institutional partners and responsibility for implementing entrepreneurship strategies vested in a single entity (UNCTAD, 2012a). Such a coordination mechanism could be initiated by establishing a public–private working group or advisory council and later take the form of a fully institutionalized agency.

Notes

- 1 See [http://unctad.org/en/Pages/DITC/Competition Law/Competition-Law-and-Policy.aspx](http://unctad.org/en/Pages/DITC/CompetitionLaw/Competition-Law-and-Policy.aspx).
- 2 Persistence may be explained by models of occupational choice between wage employment and entrepreneurship in which agents face uncertainty about productivity and are heterogeneous in their abilities and start-ups differ with regard to productivity.
- 3 In 2014–2016, domestic credit to the private sector was 130 per cent of GDP globally, although this figure may be inflated by hyperfinancialization (UNCTAD, 2017b). The effect of financial depth on output growth at the national level becomes negative when this ratio reaches 100 per cent (Arcand et al., 2015).
- 4 See <http://unctad.org/en/Pages/Publications/E-Trade-Readiness-Assessment.aspx>.