THE LEAST DEVELOPED COUNTRIES REPORT 2018

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STRUCTURE OF THE PRESENTATION

- Entrepreneurship – SDGs link
- LDC entrepreneurial landscape
- Global value chains and entrepreneurship in LDCs
- Constraints on LDC entrepreneurship
- Policies for transformational entrepreneurship
Entrepreneurship

= the creation, recognition, and utilization of positive opportunities through the creation of new firms (or within existing firms) that involves innovation
ENTREPRENEURSHIP – SDG LINK

Productive capacities

Innovation & growth

Entrepreneurship contributes to economic growth by:
- improving skills
- encouraging technological innovations
- stimulating job creation

Shifting resources to higher-productivity activities

Sustainable development
LDC ENTREPRENEURIAL LANDSCAPE

SELF-EMPLOYMENT IS THE MAIN FORM OF "ENTREPRENEURSHIP" IN LDCs

70%* LDCs
50%* Other developing countries
14%* Developed countries

Weak productive capacities

⇒ widespread self-employment

• Low wages
• Informality
• Little innovation
Most involved in business activity imitating other firms

- Low value added
- Low growth
- Short life cycle

⇒ Limited potential to transform economy
LDC ENTREPRENEURIAL LANDSCAPE

Formal sector businesses heavily skewed towards small/micro firms

- Missing middle
- High discontinuation rates
**GVCs AND ENTREPRENEURSHIP IN LDCs**

GVCs have tightened the conditions for LDC local entrepreneurship

- Harder competition
- Shorter time-horizons for innovation

**FOR LDCs, COMPETITION IN GVCs MEANS ECONOMIC UPGRADING CAN BE AN ELUSIVE GOAL**
GVCs AND ENTREPRENEURSHIP IN LDCs

Local entrepreneurs face severe constraints in completing process of upgrading within GVCs

**Agricultural** VCs: short, limited processing, mostly domestic

**Clothing** GVCs: Mostly low value-added segments with limited prospects for local entrepreneurs
GVCs and Entrepreneurship in LDCs

GVCs at present are not conducive to structural transformation of LDCs

Regional GVC investors favour local entrepreneurs and skill-upgrading

LDCs need to strategically reframe policy to unlock GVC potential opportunities
CONFLICTS ON LDC ENTREPRENEURSHIP

Firms face many barriers in start-up and scale-up stages. They can be addressed through:

- horizontal policies (e.g. financial system, formalization)
- more targeted vertical policies (e.g. extension services)

Barriers to firm growth

**INTERNAL BARRIERS**
- Management capability
- Networking ability
- Funding
- Product and/or service offered

**EXTERNAL BARRIERS**
- Government policy
- Market structure & competition
- Level & stage of economic development
- Global & regional economic environment
Access to finance remains extremely low

- ... although it has improved slightly
- Domestic credit ≈ 18% of GDP
- Informal firms and SMEs → internal funds are predominant source of funding
Registration costs are disproportionately high...

... but registration is a strategic choice about costs & benefits

→ Many firms test the waters by starting off informal
POLICIES FOR TRANSFORMATIONAL ENTREPRENEURSHIP

Only entrepreneurship policies that explicitly target structural transformation ensure long-term sustainability and inclusiveness, and help reaching SDGs.
POLICIES FOR TRANSFORMATIONAL ENTREPRENEURSHIP

Structural transformation requires a well-balanced ecosystem

- Many types and sizes of firms, especially medium and large
- Firms connected by a dense network of production linkages
POLICIES FOR TRANSFORMATIONAL ENTREPRENEURSHIP

- **Entrepreneurship support** should go beyond improvements to the business environment.

- It needs to be tailored to the firm life cycle:
  
  start-up → scale-up → maturity
POLICIES FOR TRANSFORMATIONAL ENTREPRENEURSHIP

- Firms do not contribute equally to structural transformation
- Prioritize opportunity-driven, innovative, high-growth and high-impact
- Support: time-bound and conditional on performance
- Promote women’s economic empowerment

LARGER FIRMS
ARE BETTER AT ECONOMIC UPGRADE IN LDCs
They have superior internal and external resources

SKILLED WORKERS
CASHFLOW
NETWORKS
FUNDRAISING POWER
TECHNOLOGY
POLICIES FOR TRANSFORMATIONAL ENTREPRENEURSHIP

- Entrepreneurship policies integrated with industrial, rural and STI policies
- Developmental state performing entrepreneurial functions is central to structural transformation
Thank you

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