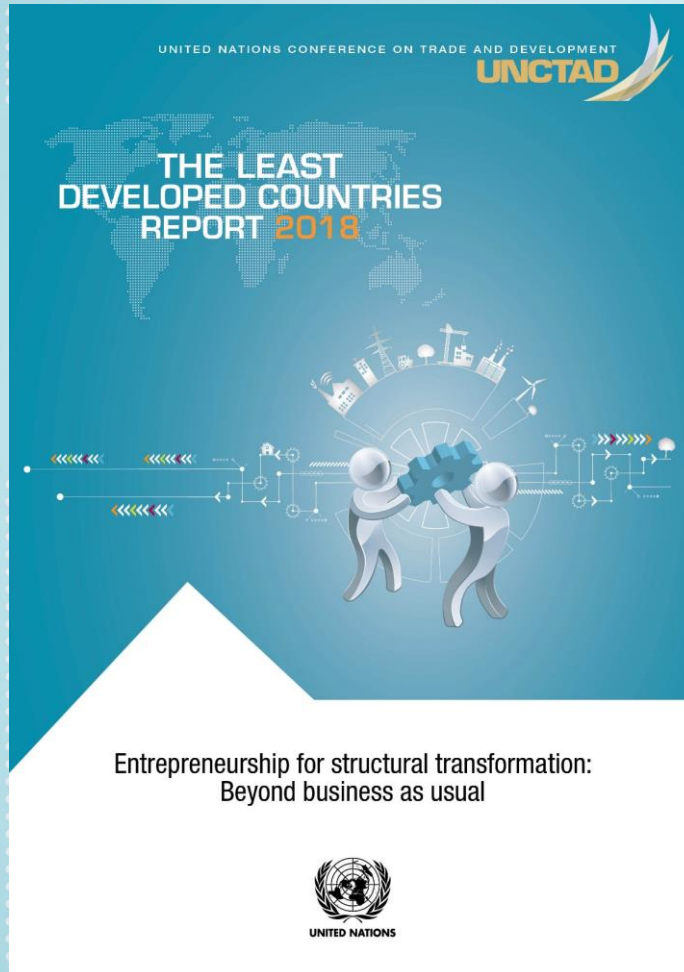




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# THE LEAST DEVELOPED COUNTRIES REPORT 2018

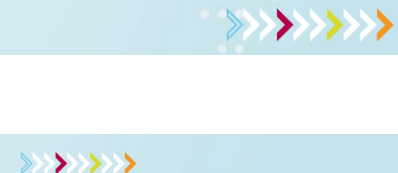
**Rolf Traeger**  
**Chief, LDC Section**  
Trade and Development Board,  
67<sup>th</sup> Executive Session  
Geneva, 4 February 2019

# STRUCTURE OF THE PRESENTATION

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- **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

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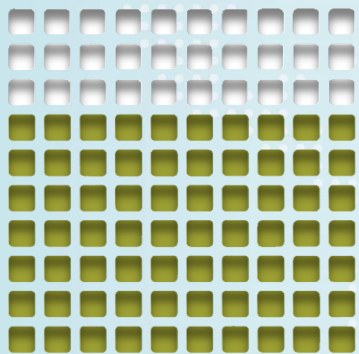
# LDC ENTREPRENEURIAL LANDSCAPE

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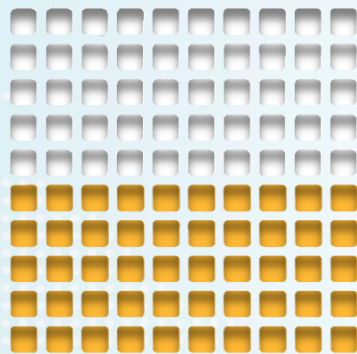
SELF-EMPLOYMENT IS

THE MAIN FORM OF “ENTREPRENEURSHIP” IN LDCs



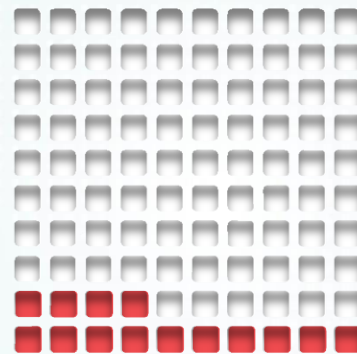
70%\*

LDCs



50%\*

Other developing countries



14%\*

Developed countries

## Weak productive capacities

⇒ widespread self-employment

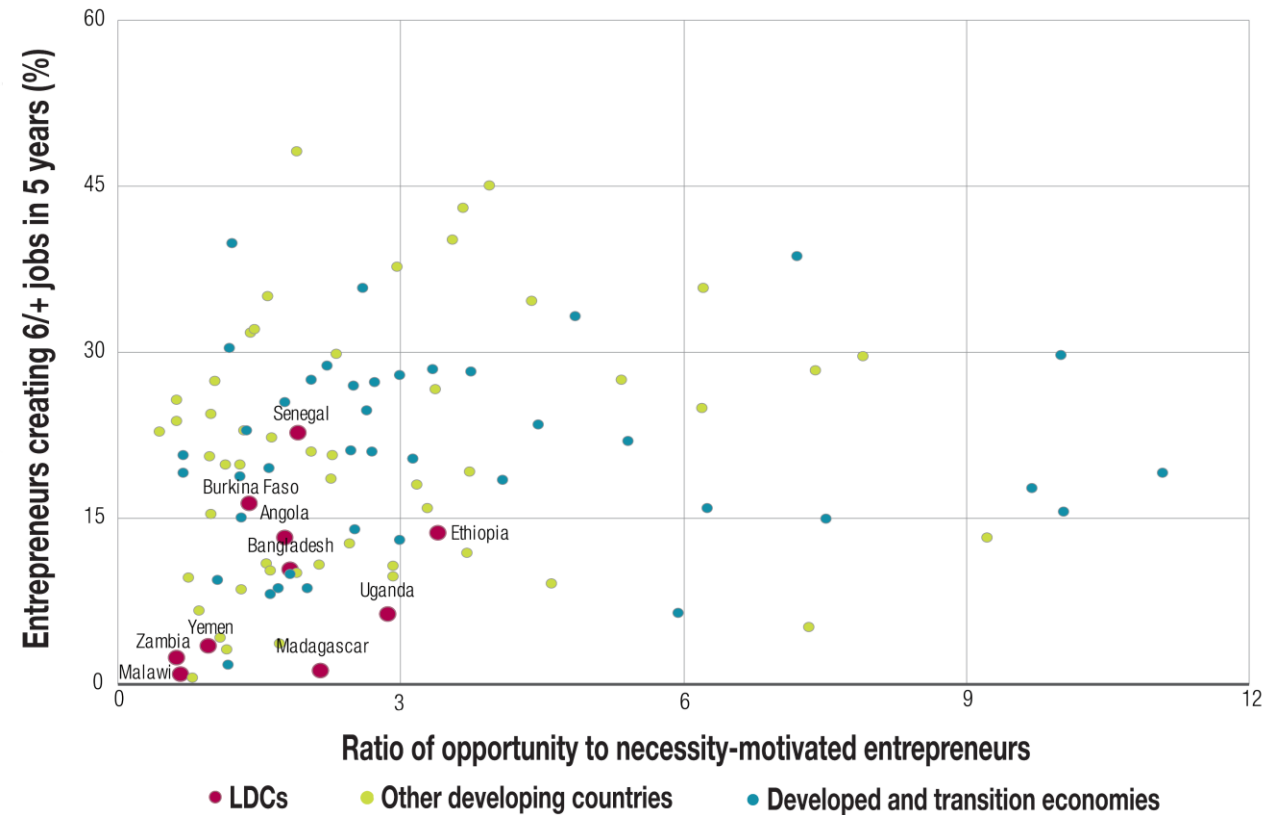
- Low wages
- Informality
- Little innovation



# LDC ENTREPRENEURIAL LANDSCAPE

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**Most involved in business activity imitating other firms**

- Low value added
- Low growth
- Short life cycle

⇒ Limited potential to transform economy

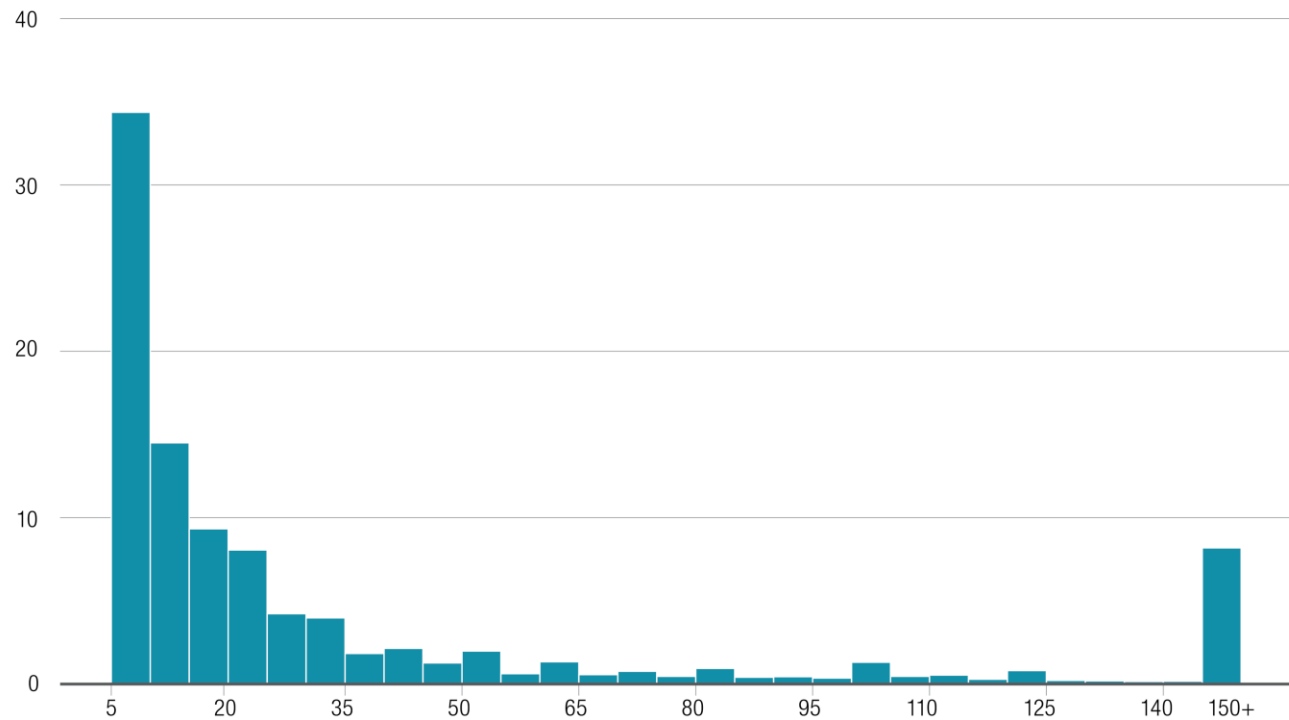


# LDC ENTREPRENEURIAL LANDSCAPE

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% of firms by number of permanent full-time employees



**Formal sector  
businesses heavily  
skewed towards  
small/micro firms**

- Missing middle
- High discontinuation rates





# GVCs AND ENTREPRENEURSHIP IN LDCs

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## GVCs have tightened the conditions for LDC local entrepreneurship

- Harder competition
- Shorter time-horizons for innovation

The predominant mode of LDC entry into global value chain is



foreign direct investment

IDEAL

REALITY

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



# GVCs AND ENTREPRENEURSHIP IN LDCs

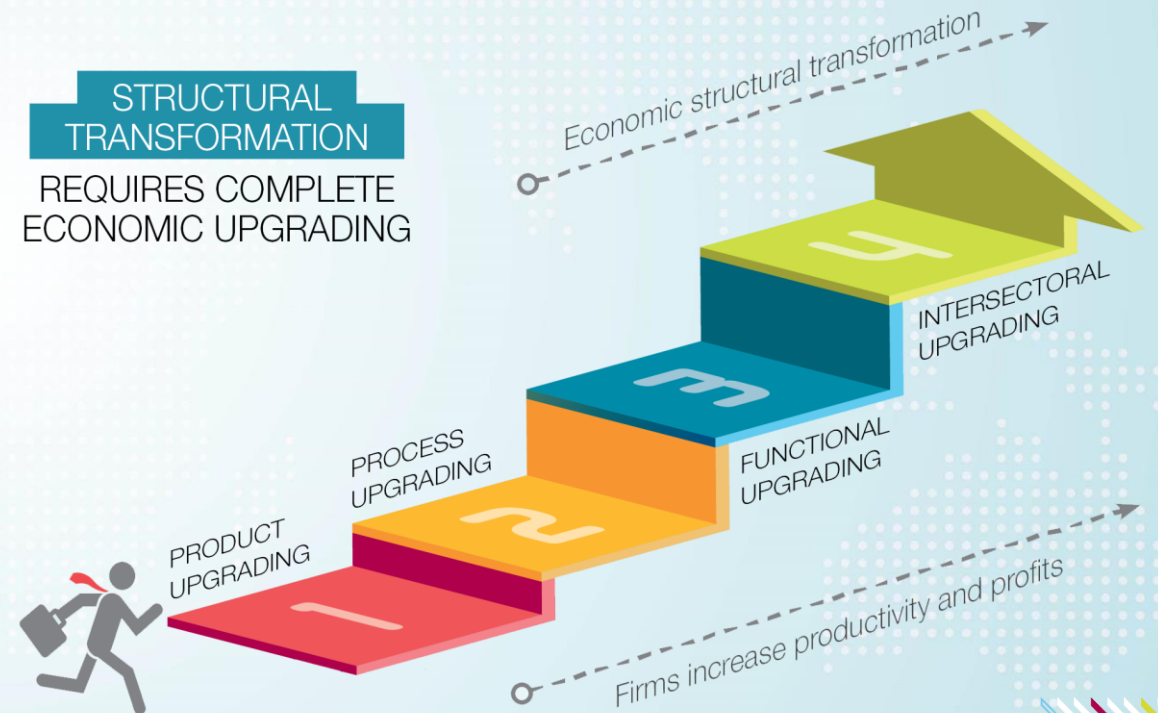
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## Local entrepreneurs face severe constraints in completing process of upgrading within GVCs

**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

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LDCs need to strategically  
reframe policy



to unlock GVC  
potential opportunities

**GVCs at present are not  
conducive to structural  
transformation of LDCs**

**Regional GVC investors favour  
local entrepreneurs and skill-  
upgrading**





# CONSTRAINTS 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



# CONSTRAINTS ON LDC ENTREPRENEURSHIP

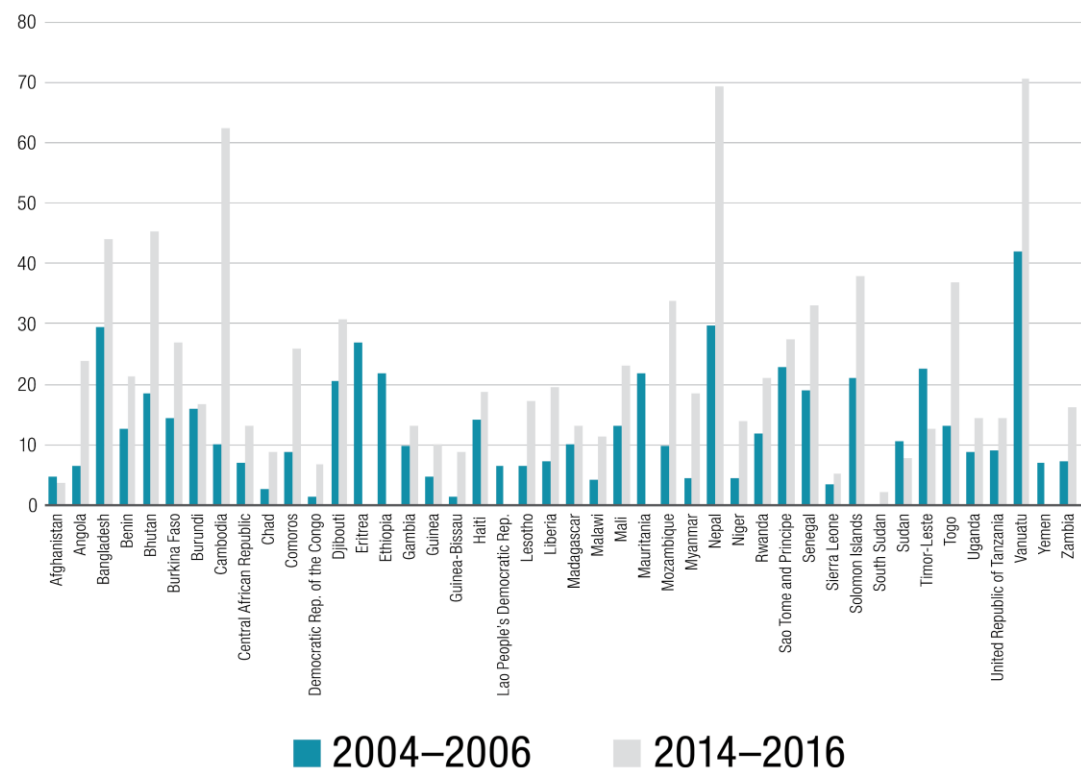
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## Access to **finance** remains extremely low

- ... although it has improved slightly
- Domestic credit  $\approx$  18 % of GDP
- Informal firms and SMEs  $\rightarrow$  internal funds are predominant source of funding

Domestic credit to the private sector as % of GDP





# CONSTRAINTS ON LDC ENTREPRENEURSHIP

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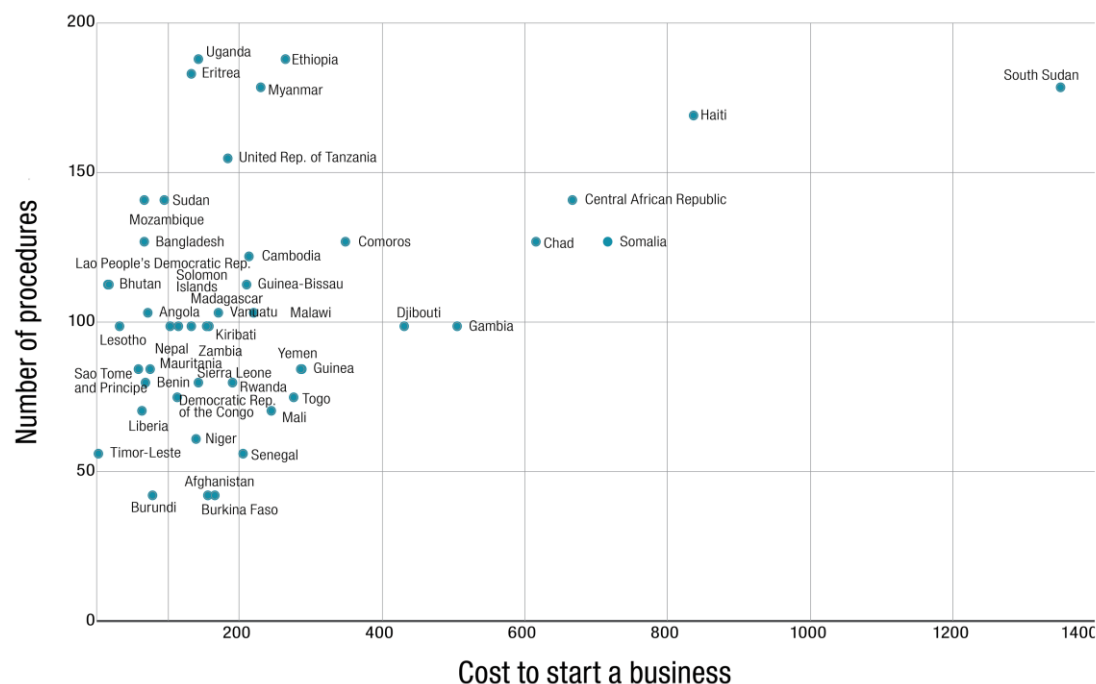
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## Registration costs are disproportionately high...

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

→ Many firms test the waters by starting off informal

Costs and procedures to start a business as % of world average, 2015–2017



# POLICIES FOR TRANSFORMATIONAL ENTREPRENEURSHIP

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**Only entrepreneurship policies that explicitly target structural transformation ensure long-term sustainability and inclusiveness, and help reaching SDGs**



**STRATEGY**  
FOR LDC  
ENTREPRENEURSHIP  
POLICY





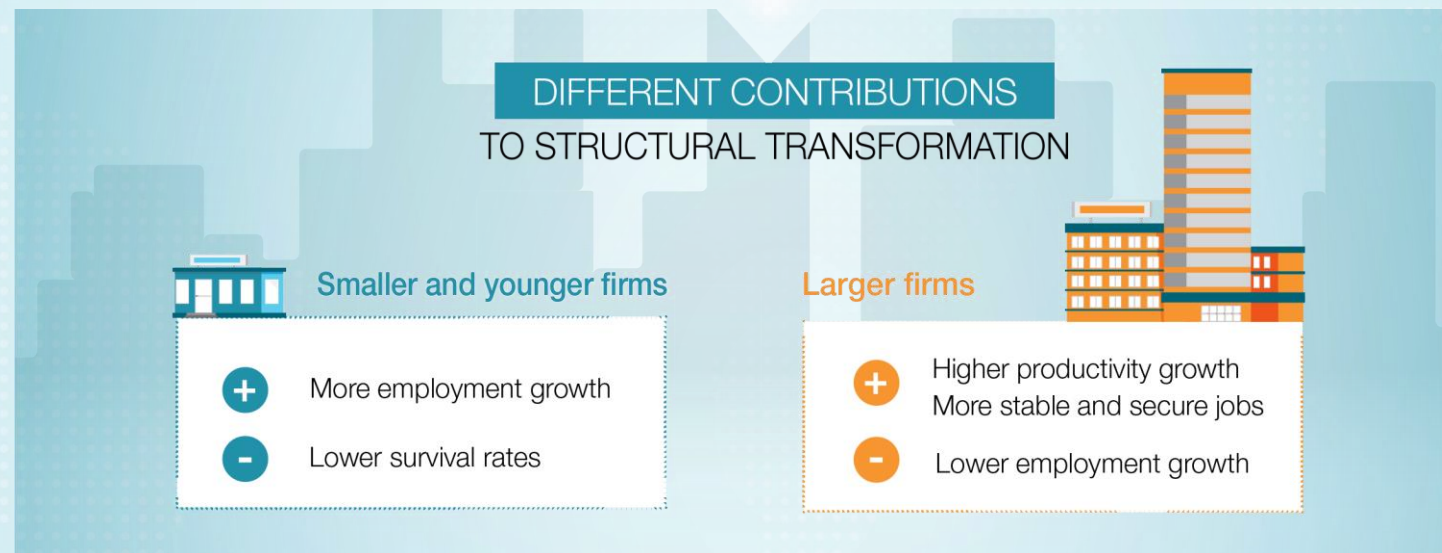
# POLICIES FOR TRANSFORMATIONAL ENTREPRENEURSHIP

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## 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

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- **Entrepreneurship support** should go beyond improvements to the business environment
- It needs to be tailored to the firm life cycle:

THE ENTREPRENEURIAL  
STATE TAILORS SUPPORT

ACCORDING TO STAGES OF FIRMS' LIFE CYCLE

start-up → scale-up → maturity





# POLICIES FOR TRANSFORMATIONAL ENTREPRENEURSHIP

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- **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  
UPGRADING IN LDCs

They have superior internal  
and external resources



# POLICIES FOR TRANSFORMATIONAL ENTREPRENEURSHIP

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



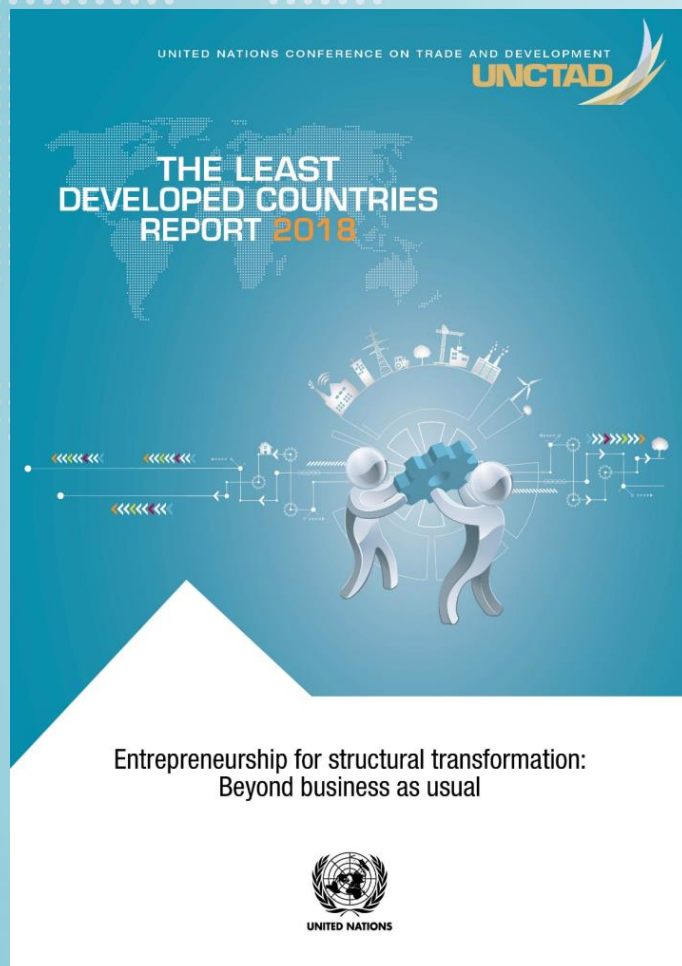




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# Thank you

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