

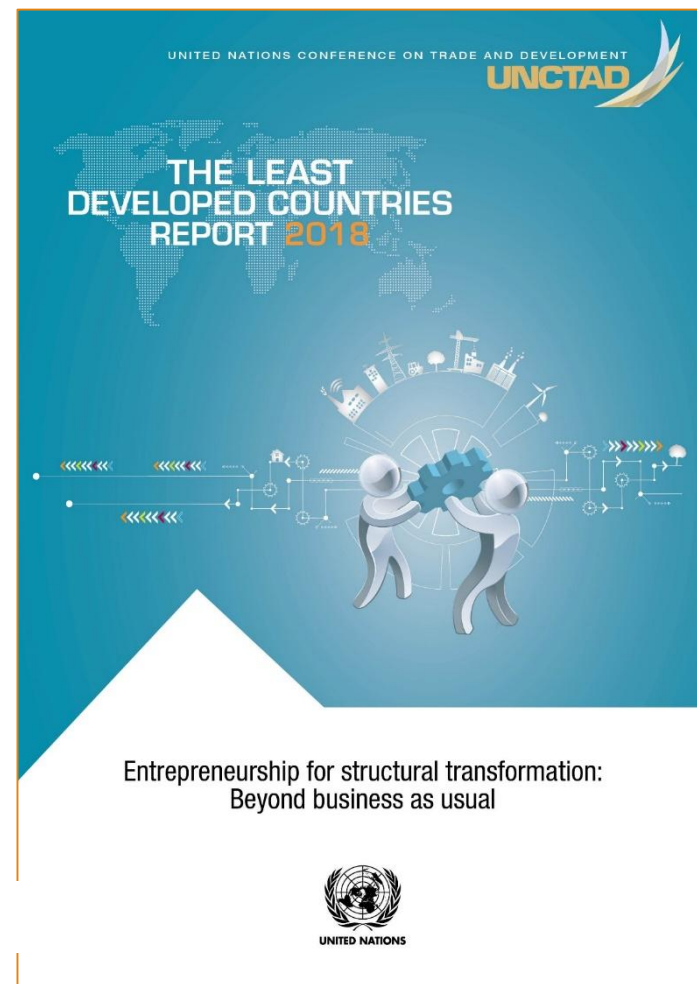
CPD Press Briefing

Release of

**“The Least Developed Countries
Report 2018”**

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- Special thanks to Mr. Mohammad Ali, Intern, CPD for his able research support.

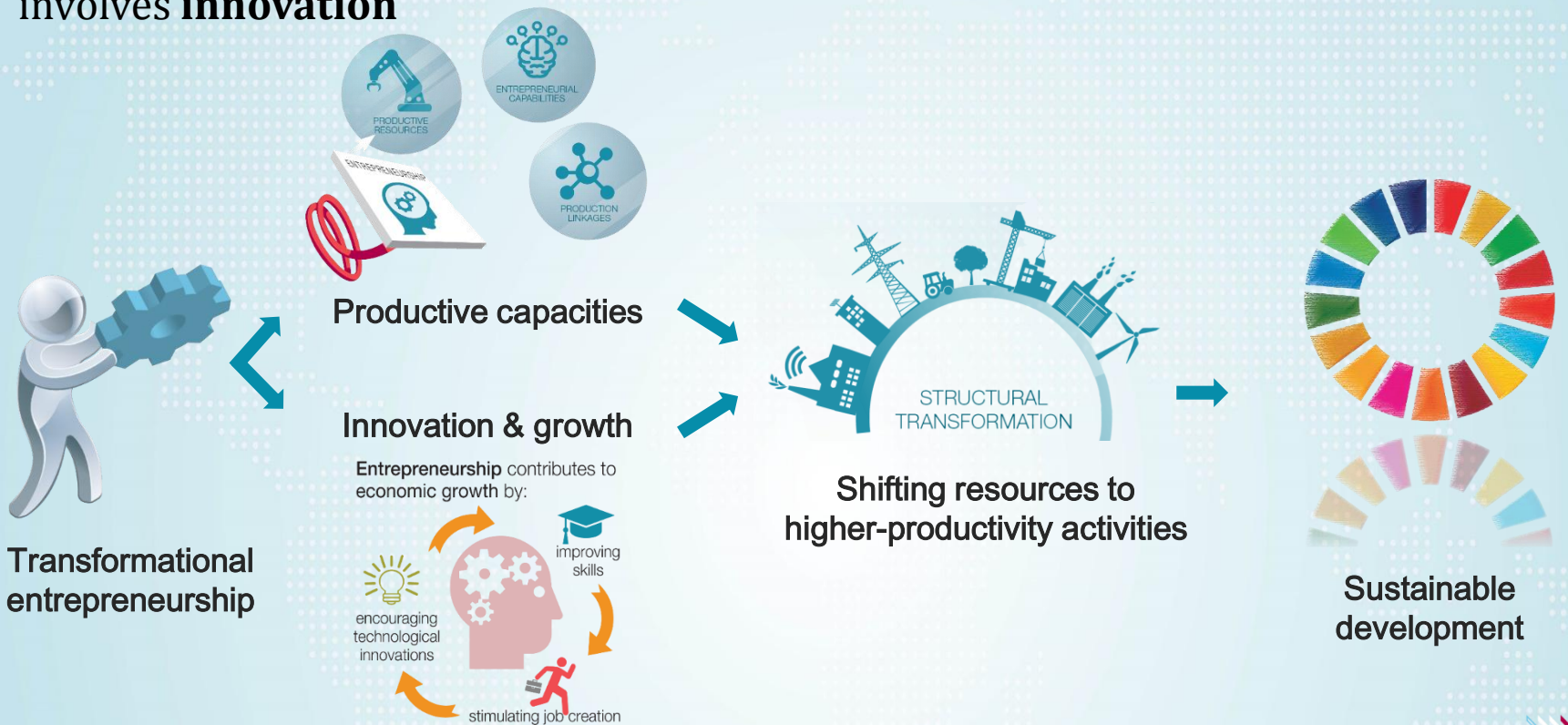
PART A
Main Findings of
‘The Least Development Countries Report 2018’

I. Entrepreneurship – SDGs Link

- Sustainable development is enshrined as a global goal in the 2030 Agenda.
 - It is transformative: it requires a radical change in economic processes, a transformation of the socioeconomic relationship within different societies, as well as with the natural ecosystem.
- The expansion of productive capacities plays a pivotal role in sustainable development.
 - Three main components of productive capacity: productive resources, entrepreneurial capabilities and production linkages.
 - The development of productive capacities is influenced by the nature of the interaction between entrepreneurs, the state and markets.
- Structural transformation involves four main features
 - a. A declining share of agriculture in economic output and employment
 - b. A rising share of industry and modern services
 - c. Migration from rural to urban areas
 - d. A demographic transition

I. Entrepreneurship – SDGs link

Entrepreneurship = the creation, recognition, and utilization of positive **opportunities** through the creation of new firms (or within existing firms) that involves **innovation**

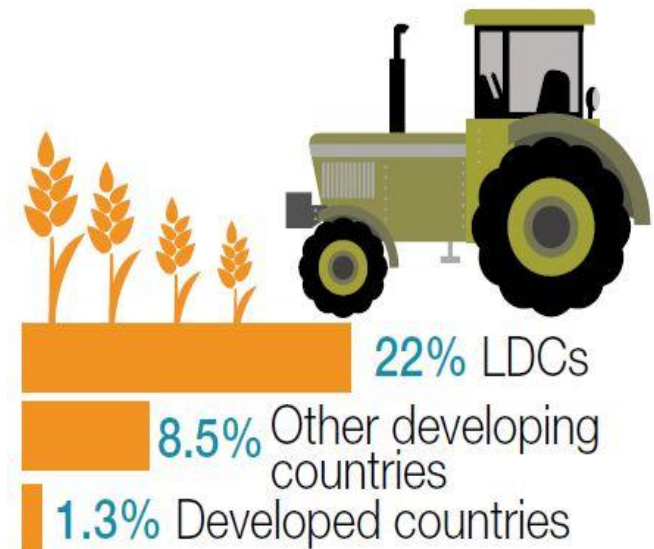


I. Entrepreneurship – SDGs link

Transforming least developed country rural economies

- Transforming rural economy in most LDCs remains at an initial stage.
- Agriculture sector of LDCs absorbing two thirds of labour force and generating 22% of economic output on average compare with 8.5% other developing countries.
- Rural transformation occurs in part by stimulating changes in demand associated with economic growth and urbanization.
- Increasing rural wage can play a crucial role for the transformation of rural economies.
- Diversification from agriculture into non-farm entrepreneurship can contribute in this process
 - It increases yearly overall rural labour productivity of 4.1%, between 2001 and 2012, across a number of LDCs.

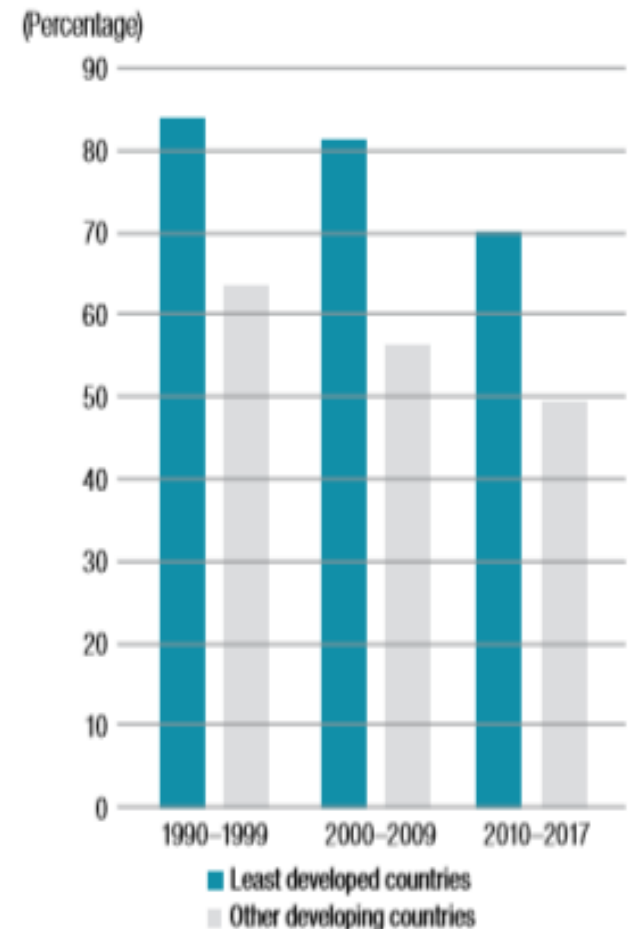
Agriculture continues to play a disproportionate role in LDCs' economic output



II. LDC entrepreneurial landscape

- Various forms of self-employment are defined as ‘entrepreneurial activities’: employers, own-account workers and family workers
- The prevalence of self-employment has declined somewhat over time in almost all LDCs (268 mil. in 2017) but relatively slowly
- Between ½ and 2/3rd of the labour force in LDCs is engaged in notionally entrepreneurial activities but their contribution to structural transformation is limited.
 - The proportion of necessity-driven early entrepreneurs in LDCs ranges from 22% in Ethiopia to 47% in Malawi and Vanuatu.
- There are 1.7 times as many early entrepreneurs in LDCs that describe themselves as opportunity-driven rather than necessity-driven
 - Compared with 2.8 times as many in other developing countries and 3.6 times as many in developed and transition economies.

Self-employment as share of total employment in the least developed countries and other developing countries, period averages, 1990–2017

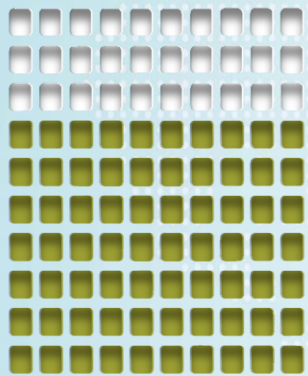


Source: UNCTAD secretariat calculations, based on data from ILOstat database.

II. LDC entrepreneurial landscape

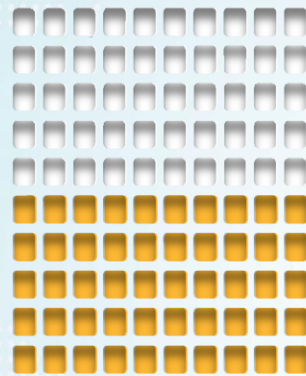
SELF-EMPLOYMENT IS

THE MAIN FORM OF “ENTREPRENEURSHIP” IN LDCs



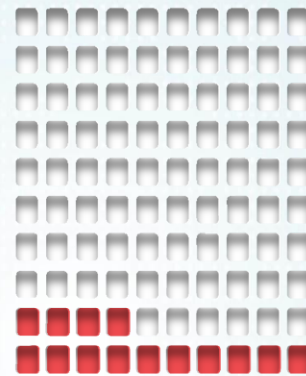
70%*

LDCs



50%*

Other developing countries



14%*

Developed countries

Weak productive capacities

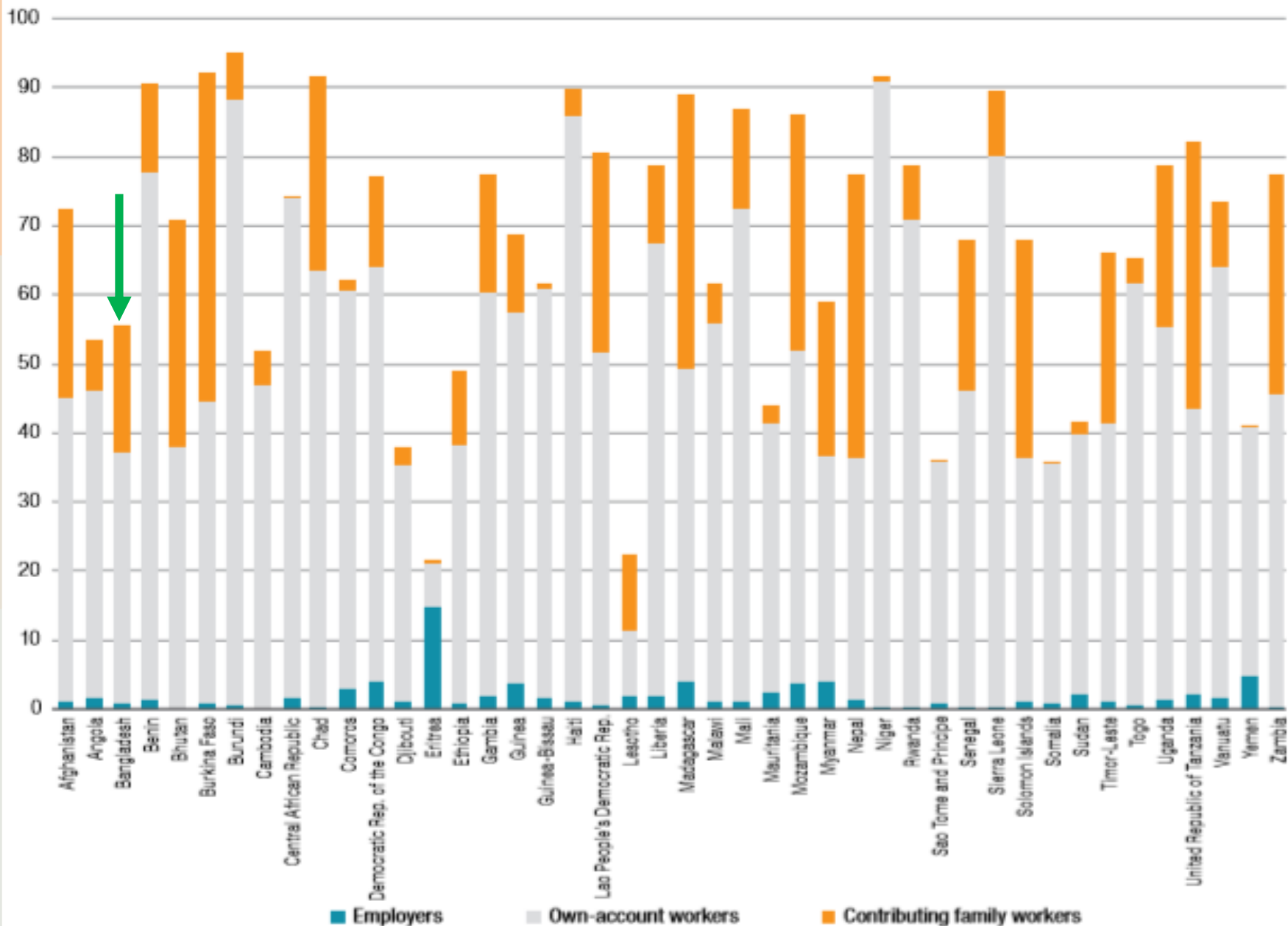
⇒ widespread self-employment

- Low wages
- Informality
- Little innovation



Self-employment by employment status, as share of total employment in the least developed countries, 2017

(Percentage)



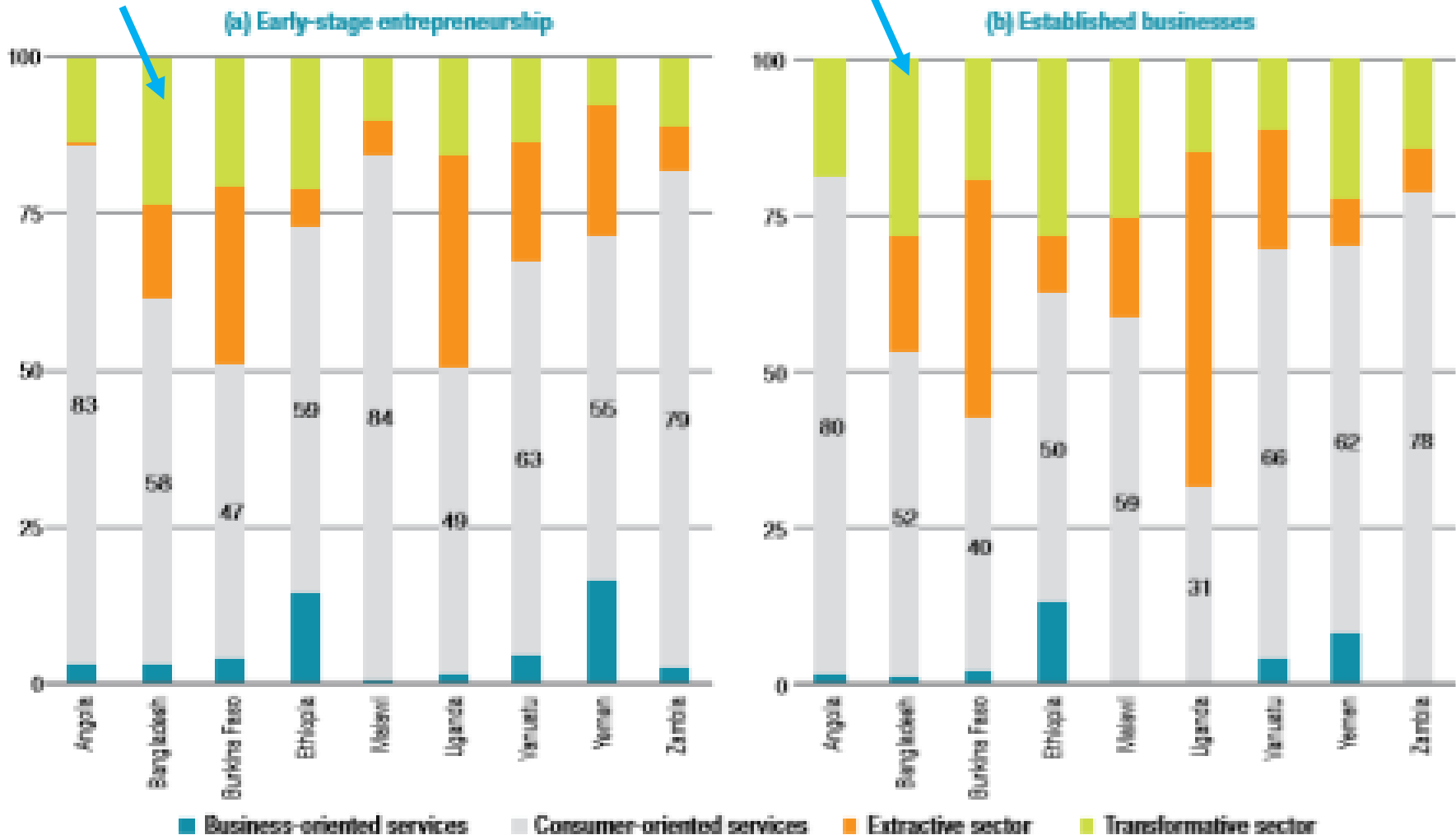
II. LDC entrepreneurial landscape

- The majority of activities in the LDCs are consumer-oriented services.
 - Personal services, social and recreational services and services in retail, motor vehicles, lodging, restaurants, health and education.
 - These account for 63% of early entrepreneurs and 7% of established businesses.
 - Only 15% of early entrepreneurs and 20% of established businesses operate in the transformative sector and only 6 and 3%, respectively, in business-oriented services (see slide 11).
 - Transformative sector includes construction, manufacturing, transportation, communications, utilities and wholesale.
 - Business-oriented services include finance, insurance and real estate.
- Me-too-businesses constitute the most common route for survivalist entrepreneurs in sectors with low entry barriers and low margins.
- **Life cycle:** On average, 14% of the adult population in LDCs report having exited a business in the past year, compared with 6% in other developing countries and 3% in developed and transition economies.
 - In most cases of exit, the business itself was discontinued suggesting that limited sustainability is a major driver (see slide 12).

II. LDC entrepreneurial landscape

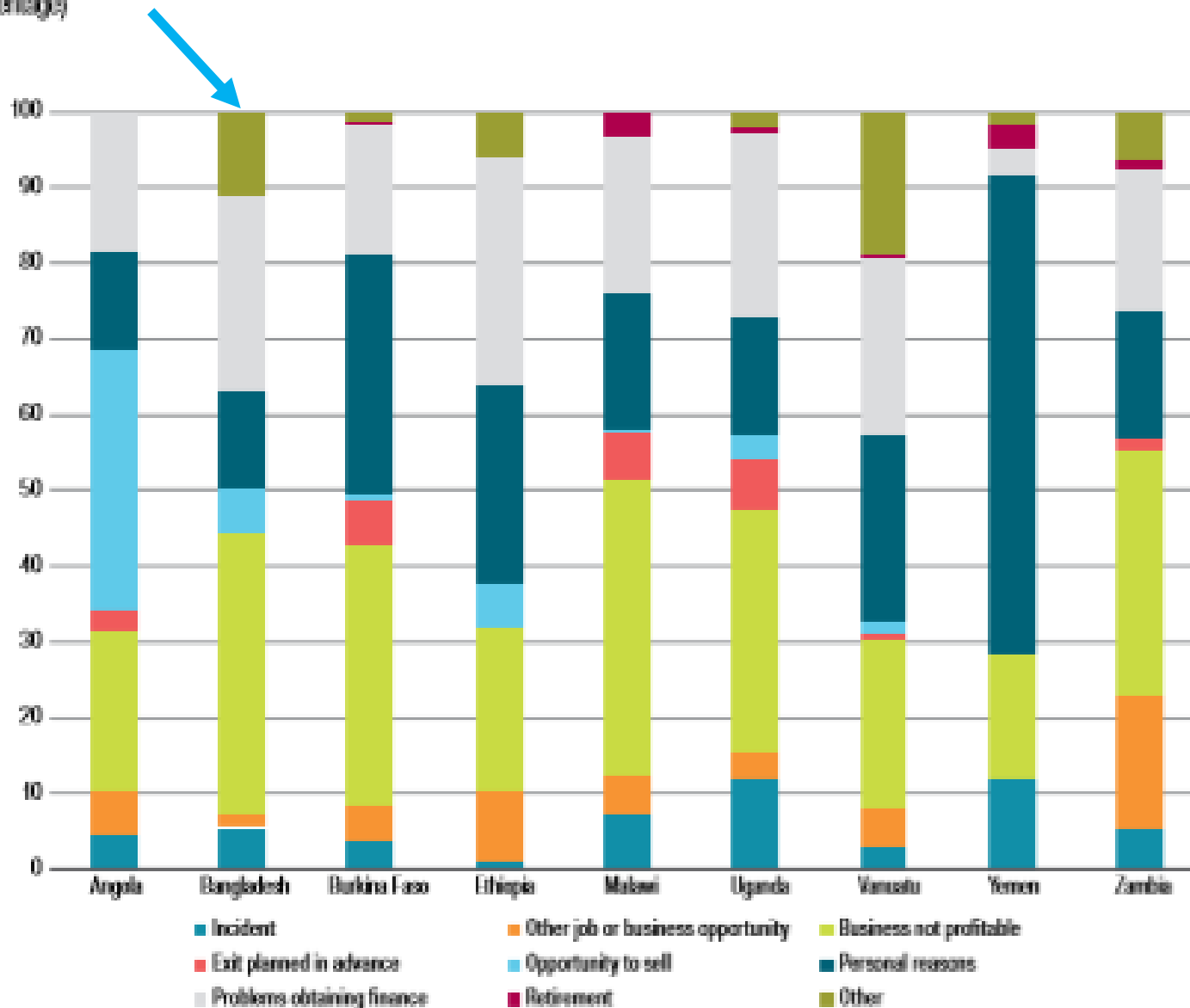
Sectoral composition of early-stage entrepreneurship and established businesses, selected least developed countries, latest available year

(Percentage)



Reasons for business exit, selected least developed countries, latest available year

(Percentage)



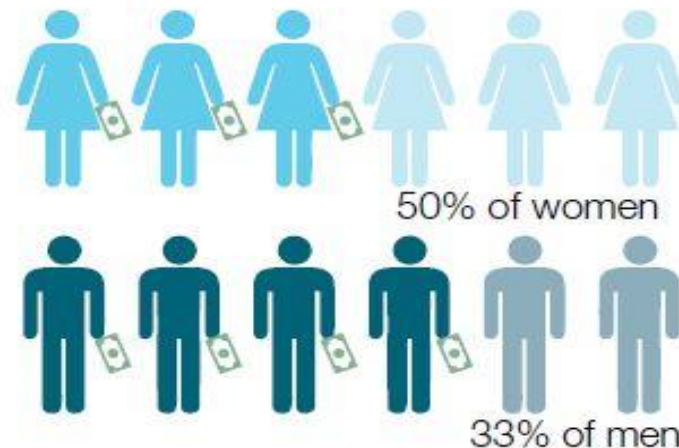
II. LDC entrepreneurial landscape

- **Age:** In the nine LDCs for which data are available, young adults (18–24 years) account for an average of 28% of early entrepreneurs.
 - This share is around double the shares in other developing countries and developed and transition economies, at 17% and 13%, respectively.
- **Education:** Low levels of educational attainment among early entrepreneurs; only 12% have a post-secondary education compared with 36% in other developing countries.
- **Gender distribution:** In LDCs average women-to-men ratio of 0.94, compared with 0.77 in other developing countries and 0.61 in developed countries and countries with economies in transition.
 - Women are relatively underrepresented among opportunity-driven early entrepreneurs in LDCs.
- **Informal sector:** The informal sector in LDCs is dominated by microenterprises and, to a lesser extent, small enterprises.
 - The World Bank Enterprise Surveys of the informal sector find that, 74% of informal enterprises are microenterprises with fewer than five employees; 20% are small firms with five to nine employees; 6% are small–medium, medium-sized and medium–large firms together; and there are no large firms.

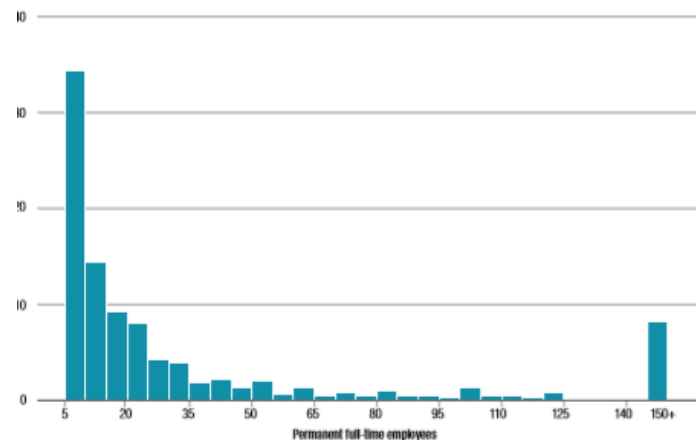
II. LDC entrepreneurial landscape

- **Informal sector:** Informal enterprises make heavy use of unpaid family members.
 - An overall average of 38% of the employees; the proportion ranges from 11% in Angola to 75% in Madagascar.
 - Most necessity-driven entrepreneurs are likely to be in the informal sector.
- About 50–90% of informal entrepreneurs in LDCs would like to register their businesses
 - Business registration is discouraged by administrative costs, higher tax rates, corruption and fear of inspections.
- **Number of employee:** The balance of firms in LDCs is heavily skewed towards smaller establishments and displays a “missing middle”.
 - Firms with 5–10 employees account for some 35% of the total, but the weight declines steeply as the number of employees increases.

Unpaid work in the informal sector – is more common among women than among men



Share of firms in sample by number of permanent full-time employees (Percentage)



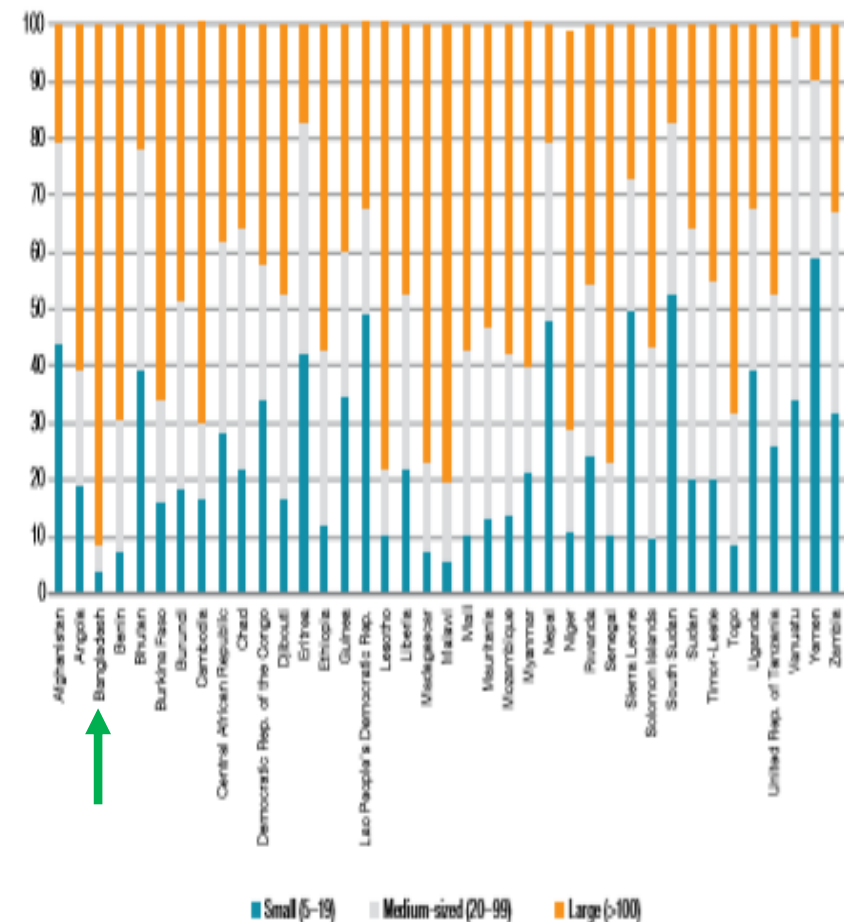
Source: UNCTAD secretariat calculations, based on data from World Bank Enterprise Surveys.
Notes: Data set comprises pooled firm-level data from World Bank Enterprise Surveys for 39 LDCs, covering the non-agricultural private economy, with only surveys conducted according to the standard global methodology of the World Bank included and only the most recent survey used for countries surveyed more than once; bin width is set at the permanent full-time employees.

II. LDC entrepreneurial landscape

- **Number of employee:** Average number of the employment share in all LDCs is 20% for small, 30% for medium & 47% for large enterprises.
- Firm productivity is positive and significant in the services sector, but negative, though non-significant, in the manufacturing sector.
 - Older firms are found to experience significantly faster productivity growth in the manufacturing sector.
- Access to finance consistently represents a significant boost to employment creation
- Women are underrepresented in top management, as only 15% of firms have a woman as the top manager.

Employment share by type of establishment

(Percentage)



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

Notes: The employment share takes into account both permanent full-time employees and seasonal employees; the latter are considered pro rata, depending on the average duration of seasonal employment; sampling weights are considered in the estimation.

II. LDC entrepreneurial landscape

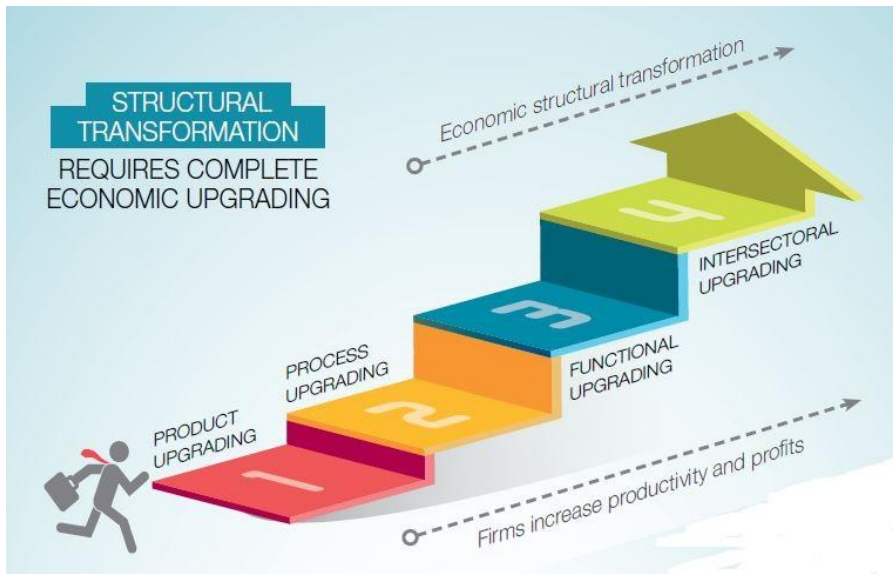
Conclusion

- Smaller and younger firms are critical for employment creation, yet larger firms appear to play a key role in capital deepening and productivity upgrading.
- The sustainability of structural transformation hinges on a well-balanced ecosystem encompassing multiple types of firms, related in a dense network of production linkages.
- Start-ups can play a key role in structural transformation, but in practice, only a limited proportion of start-ups can do so in a sustained way.

III. Global Value Chains and Entrepreneurship in LDCs

- There has been little research to validate the often-asserted advantages of GVCs in stimulating local entrepreneurship.
 - Firms' participation in GVCs offers the potential for production at scale, specialization and access to international markets.
 - Their participation in GVCs is also considered to be an important source of technology, skills and capital in the form of direct investment, supplier credits and trade finance.
 - All of these are typically limited in LDCs.
- The scope for firm-level economic upgrading within GVCs can be divided into four stages, linked to the segment of the chain in which a firm is active.
 - Process upgrading, product upgrading, functional upgrading and intersectoral/chain upgrading.
- Governance patterns and power relations within GVCs are critical.
 - Lead firms that undertake the functional integration and coordination of internationally dispersed activities determine the allocation and flows of financial, material and human resources within a GVC.

III. Global Value Chains and Entrepreneurship in LDCs



LARGER FIRMS
ARE BETTER AT ECONOMIC UPGRADING IN LDCs

They have superior internal and external resources



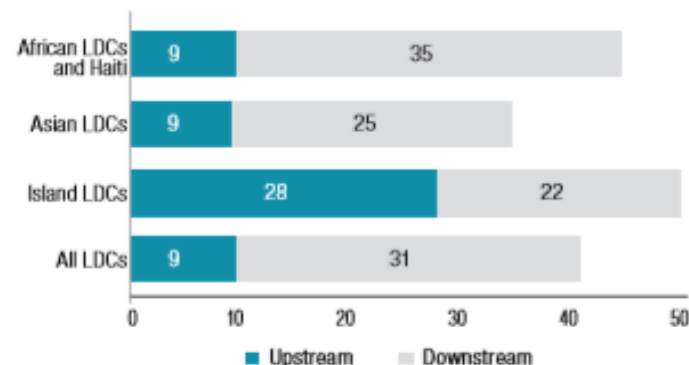
III. Global value chains and entrepreneurship in LDCs

Participation of LDCs in global value chains

- The share of LDCs in global trade is less than 1%, a relatively constant trend since 2008.
 - In contrast, their export-to-GDP ratios average about 25%, substantially below the developing country average of 35%.
 - There is increased concentration of both products and partners.
- While LDCs' export volumes increased by 276% between 2000 and 2016, LDC participation in GVCs remains limited, having grown by only 2% annually between 2010 and 2017.
 - Overall GVC participation for LDCs: 40% (9% upstream and 31% downstream).
- The participation of LDCs in GVCs is significantly affected by trade and investment agreements escalation.

Integration of least developed countries into global value chains, by country grouping, 2017

(Percentage of total exports)



Source: UNCTAD-EORA database.

Top five least developed country recipients of foreign direct investment by value, in billions of dollars, 2017



Sources: UNCTAD, 2018b; UNCTAD, 2018d.

III. Global value chains and entrepreneurship in LDCs

- LDCs benefit from preferential treatment under bilateral, unilateral or international trade agreements such as the Everything but Arms (EBA) initiative of the European Union, as do some under the African Growth and Opportunities Act (AGOA) of the United States of America.
 - Proliferation of multilateral, regional and bilateral trade agreements erodes preferential margins over time and limits the competitiveness.
 - Trade agreements and associated preferences are often favouring intraregional over interregional trade.
 - Regional trade agreements vary in their ability to promote trade, and by extension and entrepreneurship.
- Proximity of 'Factory Asia' can be expected to accelerate the integration on Asian LDCs.
 - There are no signs of a comparable "factory Africa" emerging, reflecting more limited GVC integration among African LDCs.

III. Global value chains and entrepreneurship in LDCs

Participation of the LDCs in Agricultural GVCs

- Agriculture sector in LDCs are typically dominated by smallholdings and family farms and local participation in value added is the highest.
- GVCs play a more limited role in agribusiness and agro-industries than in other sectors.
 - However, their importance is increasing.
- A more positive trend is the potential of some high-value crops to stimulate entrepreneurship in LDCs to exploit niche markets.
 - Many LDC entrepreneurs may find it challenging to meet the more stringent quality standards, including labour and environmental standards as well as to overcome high transaction costs, lack of skills and infrastructure.
- New forms of FDI in agriculture are increasingly directed towards production of basic foods or animal feed for export to the investing country (FAO, 2013b).
 - Limits the scope for looser forms of association with local producers, which are more conducive to local entrepreneurship.

III. Global value chains and entrepreneurship in LDCs

Participation of the LDCs in Textile and Clothing GVCs

- All LDCs are active in some way in different textiles and clothing segments.
 - At least 12 LDCs across all geographical groups export prepared cotton, woven cotton and natural or synthetic yarn or textiles.
 - In Ethiopia, the garment industry grew by 51% p.a. in 2010–16 and in Cambodia, garment and footwear exports, by 10.8% p.a. in 2014–16.
 - Employment in the garment sector in the Lao grew from 800 workers at its inception in the early 1990s to some 30,000 workers in 2012.
- At least 20 LDCs exported garments in 2016.
 - Garments are a leading export of Bangladesh, Cambodia, Haiti, Lesotho and Madagascar, and of increasing importance to several others, for example Afghanistan, the Comoros, Ethiopia and Sao Tome and Principe.
- The integration of LDCs into production networks is heavily dominated by foreign ownership & the record of fostering local entrepreneurship is poor.
 - Bangladesh, Ethiopia, Haiti and Madagascar are exceptions.
 - Regionally embedded investor strategies tend to favour small entrepreneurs and skills upgrading.
- LDCs' early stage of development causes constraints: weaknesses in infrastructure, limited access to credit and foreign exchange shortages

III. Global Value Chains and Entrepreneurship in LDCs

Global value chains and beyond

- Participation in GVCs largely reflects its structural characteristics.
 - LDCs attract mainly low-wage-seeking GVCs.
 - Participation in lower-end activities in GVCs has direct and visible short-term effects on the presence of FDI, employment and export growth.
 - Its longer-term impact on capacity-building, and the sustainability of the local industrial base is less apparent.
- Suppliers lack necessary resources and capabilities rarely achieve functional upgrading.
 - Occurrence of functional or other upgrading does not necessarily enhance such suppliers' ability to capture higher profits.
- Lead-firm strategies may exacerbate structural deficits in LDCs.
 - There is evidence of potential conflicts between policies towards entrepreneurship and upgrading and lead firm strategies.
 - These are far from serving as an engine for entrepreneurial growth, may exacerbate structural deficits in LDCs.

III. Global Value Chains and Entrepreneurship in LDCs

Global value chains and beyond

- This suggests a need for concerted action at the global level to address the more insidious aspects of the GVC trade model.
 - For example, digital and other technological innovations help lead firms to create and capture new value, entrench their market power and disproportionately assign risk to developing countries and firms at the lowest levels of the value chain.
- GVCs require government coordination at the micro level and have exposed the limitations of past development strategies that did not prioritize strong developmental States.
- GVCs have contributed to the global revival of industrial policy
 - It also highlights parallels between more recent strategies and the failures of past industrial policies — indiscriminate FDI incentives, mirroring unselective subsidies to local firms; the tendency to establish enclaves; a disproportionate focus on incumbents; oligopolistic market structures; and limited capacity to generate feedback between policy design and implementation.
 - While these problematic aspects of industrial policy remain, they can be moulded and rendered less binding through appropriate institutional design (Rodrik, 2008).

IV. Constraints on LDC entrepreneurship

- Firms face both internal and external barriers to growth.
- Internal factors influencing firm growth may be divided into those related to the entrepreneur, to the firm and to strategy.
 - Most significant internal barriers are psychological factors, such as the commitment of entrepreneurs to growth.
 - Other widely cited factors include management capability, networking ability, funding level, sales and marketing, firms capacity, product and/or service offered and the level of orders.
 - Recruiting suitable staff and skills shortages can pose internal constraints.
- Importance of entrepreneurship education and training in overcoming internal barriers include experiential learning to address motivational factors and learning from success and failure (Cooney, 2012).

INTERNAL BARRIERS

- Psychological or motivational factors
- Management capability
- Networking ability
- Funding level
- Sales and marketing capacity
- Product and/or service offered
- Level of orders

EXTERNAL BARRIERS

- Business or economic climate
- Legislation
- Government policy
- Market structure and competition
- Labour market conditions
- Access to markets
- Level and stage of economic development
- Global and regional economic environment

IV. Constraints on LDC entrepreneurship

- An important external barrier is the business climate.
 - This can give rise to direct, indirect and hidden production costs; inhibit the adoption of new technologies; deter investment; weaken competitiveness and reduce market size.
- The business climate is largely shaped by government policies and legislation.
 - Legislation affects the actual and perceived costs and benefits of entrepreneurial activity and returns to investment for domestic firms.
 - Legislation can also address existing barriers or create barriers for disadvantaged groups, including women.
- Competition policy and consumer protection laws are of particular importance
 - 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 such as rent-seeking activities, for example formation of cartels and other abusive behaviour by dominant firms, to prevent the entry of new entrepreneurs or limit their profitability.

IV. Constraints on LDC entrepreneurship

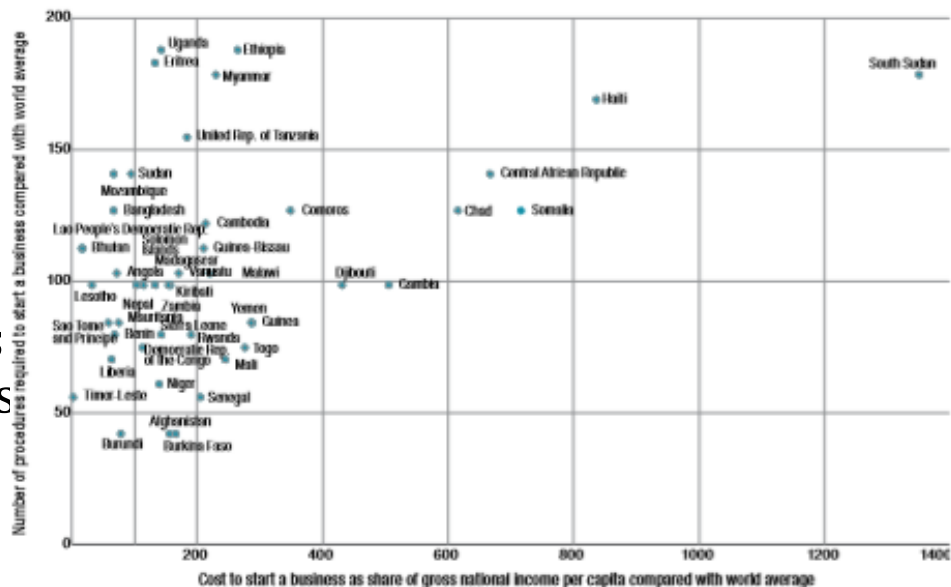
Entry regulations, formalizations procedures and cost

- In 2015–2017, median start-up costs in LDCs were 40% of per capita income, compared with a world average of 26%
- In LDCs women are required to undertake additional procedures with regard to starting a business compared with men.

Access to finance

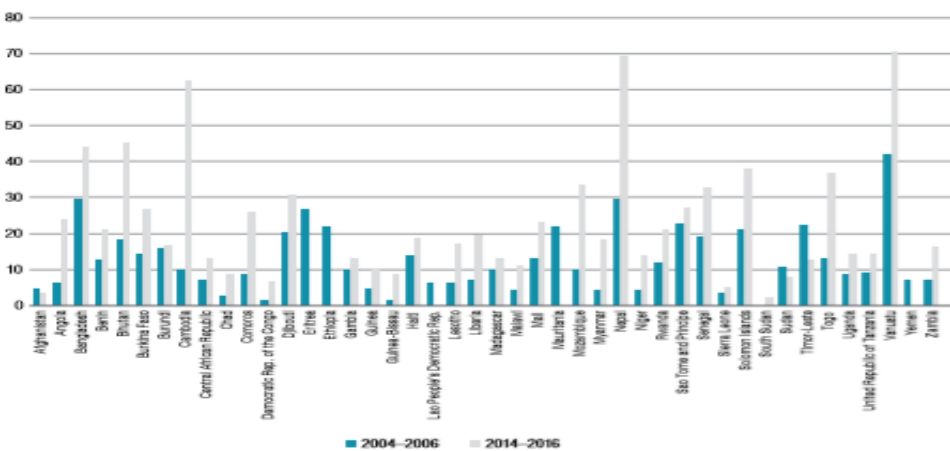
- Informal firms have limited access to finance from formal lenders.
- Financial institutions appear to be significant in only a handful of LDCs.
- Limited access to finance may be a binding constraint to productivity and enterprise survival, in particular in rural areas.

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.

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



IV. Constraints on LDC entrepreneurship

Access to energy

- In 2016, LDCs accounted for only 13% of the world population, but 56% of people without access to electricity globally.
- Three quarters of firms in LDCs are affected by electrical outages.

Digital connectivity

- LDCs remain behind other developing countries in the provision of ICT infrastructure such as Internet access.
- 17.5% of the population in LDCs accessed the internet in 2017, compared with 41.3% in developing countries and 81% in developed countries.
- In LDCs 14.1% of women using the Internet, compared with 21.0% of men, representing a gender gap of 32.9%.
- This gap is widened from 2013 to 2017.

The gender gap in Internet use in LDCs potentially



limits female digital entrepreneurship

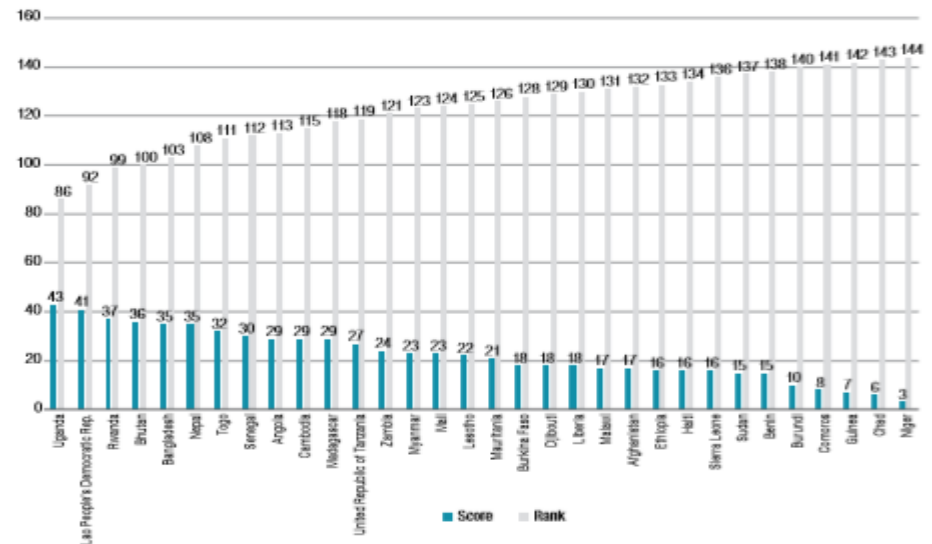
IV. Constraints on LDC entrepreneurship

- The gender gap in Internet use is wider in LDCs than in developing and developed countries and widened in 2013–2017.
 - This gap is significantly narrower among young people aged 15 to 24.
- 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.
- E-commerce can provide a growing entrepreneurial and development opportunity in LDCs.

The e-commerce readiness index is low in LDCs



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.

IV. Constraints on LDC entrepreneurship

Gender-based constraints

- There is evidence in the differences between men and women entrepreneurs with regard to amount and composition of start-up capital
 - Women face greater constraints than men.
 - 32 LDCs have laws preventing women from working in specific jobs and six LDCs require additional procedures for women to start a business.
- Several common trends in gender-based constraints in LDCs are:
 - Poor access to finance
 - Family responsibilities and unpaid care work
 - Use of ICT by women entrepreneurs is limited
 - Limited opportunities for formal and informal education and training
 - Unable to take full advantage of their rights.

IV. Constraints on LDC entrepreneurship

Current policy frameworks for entrepreneurship and structural transformation

- Few national development strategies in LDCs identify structural economic transformation.

National development plans

- In at least one third of LDCs microenterprises and SMEs are viewed as potential engines of economic growth and sources of employment and income to reduce poverty.
- 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.

Industrial policies

- At least 20 LDCs have a national industrial policy include a mix of vertical, horizontal and functional industrial policies.
 - Another 20 LDCs have yet to formulate such a policy and 19 of the 20 explicitly refer to the entrepreneurship.
- Most LDC industrial policies refer to entrepreneurship, but do not address its determinants.

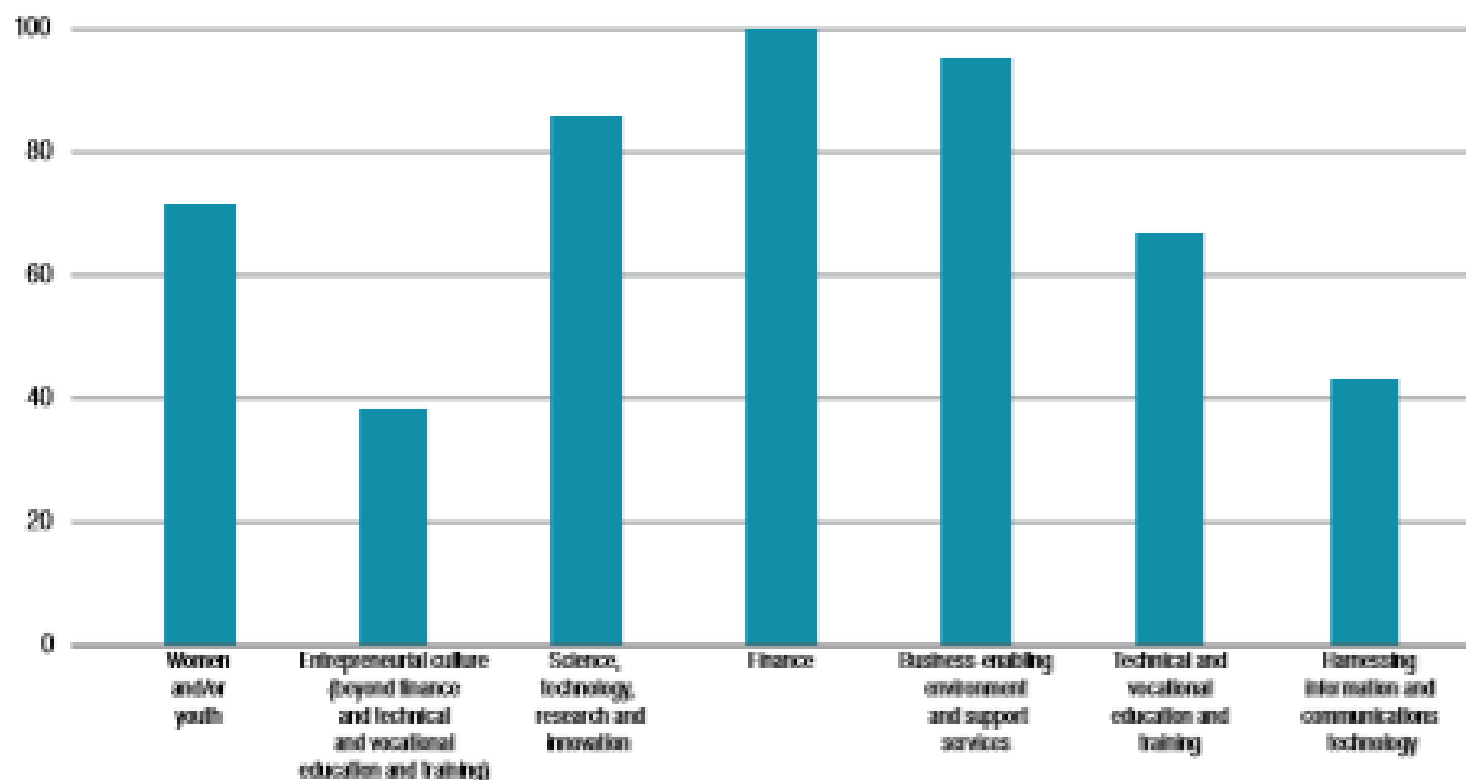
IV. Constraints on LDC entrepreneurship

Entrepreneurship and development policies for microenterprises and SMEs

- The goals of entrepreneurship and enterprise development policies vary widely and are both economic and social in orientation.
 - Around half of the LDCs with national industrial policies have a development policy for microenterprises and SMEs, including Bangladesh.
 - Only three LDCs have formulated a national entrepreneurship policy.
- Most LDCs have a blanket approach to support entrepreneurship.
 - The primary focus of policy interventions is to improve access to finance and provide a business-enabling environment by improving legal, regulatory, institutional and policy frameworks.
 - In over 70% of LDCs, development policies for microenterprises and SMEs include specific measures to promote entrepreneurship among women and/or youth.

IV. Constraints on LDC entrepreneurship

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.

IV. Constraints on LDC entrepreneurship

Institutional frameworks for enterprise policies

- In eight LDCs, the title of the ministry responsible for the enterprise sector includes the SMEs, small businesses or entrepreneurship.
- In 14 LDCs, there is a directorate or department within a particular ministry.
- In 14 countries, such policies are typically the responsibility of a directorate for industry within the ministry of trade and industry specifically oriented towards SMEs or entrepreneurship.

Recommended policy principles

- A clearer distinction is needed between entrepreneurship policies and general enterprise development policies.
 - Vertical, horizontal and functional industrial policies should be more clearly distinguished.
- 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.

IV. Constraints on LDC entrepreneurship

- 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.
- Public support should be steady throughout the life cycles of enterprises, recognizing that sustaining and scaling up businesses are as important as starting them.
- Policy priorities should vary over the course of structural transformation, with some forms of support declining in importance as the private sector gains strength while other forms become more important as the needs of enterprises evolve.



V. Policies for transformational entrepreneurship

- Harnessing entrepreneurship for structural transformation requires policies to support and sustain the dynamic and innovative enterprises.

Policy principles

1. Policy coherence: A whole-of government approach

- Entrepreneurship policy needs to be an integral part of a wider set of strategies and policies for structural transformation and sustainable development.
- LDCs are advised to focus their entrepreneurship policies on the objective of structural transformation of their economy.
- Coordination and coherence are essential to exploit the synergies between entrepreneurship policy and broader economic development policies and maximize their economic and social benefits.

2. Entrepreneurship policy principles and main features

- The four case studies demonstrate the potential role of government-led initiatives, and political sponsoring, backed by effective communication strategies, in shaping entrepreneurial culture, stimulating entrepreneurship and encouraging investment in innovative start-ups.

V. Policies for transformational entrepreneurship

- Government certified entrepreneurship programmes based on selectivity
 - These programmes establish milestones to be achieved at each stage of development and link rewards to performance can also help to build international credibility and branding, helping to attract FDI by building a reputation for quality investments.
- The experiences of Finland and the Korea highlight the benefits of broad-based, holistic and diverse entrepreneurship development programmes
 - These programmes bring together stakeholders from Government, the private sector, academia, civil society and the international community, to exploit synergies and complementarities among multiple actors.
- All four case studies underline the need for entrepreneurship development to be rooted in a systemic approach underpinned by public–private sector dialogue and collaboration.
- Korea gathered a wide range of opinions and suggestions from the private sector in preparing the creative economy action plan and established a creative economy joint task force.
 - This task force includes representatives of venture companies, SMEs and large companies, to institutionalize private sector participation.
- Public-sector governance reforms that emphasize transparency, information sharing and accountability, helps develop the private sector.

V. Policies for transformational entrepreneurship

- The Make in India initiative aims at developing market outlets for start-ups in India, complementing the role of the Start-up India initiative in nurturing innovation.
 - Rwanda operates a Made in Rwanda trade policy with the objective of promoting domestic market development and support national economic transformation.
- Venture capitalists are major actors in the entrepreneurship development framework.
- Research and development play an important role at all stages of a firm's life cycle.
 - In addition to the radical innovations that lead to new start-ups, incremental innovations are important to help existing firms to grow.
 - Clusters of learning, innovation and creativity involving universities, schools, research and vocational institutes and experimental laboratories can help to sustain a flow of new ideas into firms.
- All four countries considered have networks of stakeholders that support entrepreneurship development.
 - Clusters can usefully be nurtured for economic sectors identified as priorities in national development plans and industrial policies.

V. Policies for transformational entrepreneurship

3. Framework of national-level policy options

- Policies aimed at establishing, nurturing or strengthening entrepreneurship for structural transformation in LDCs need to be a combination of vertical and horizontal policies.
 - Vertical policies are targeted towards specific sectors, activities or (types of) enterprises that contribute significantly to structural transformation and form the core of entrepreneurship policies (as defined strictly).
 - Horizontal policies potentially affect all sectors, economic activities and firms.

Framework of policy options for transformational entrepreneurship in the least developed countries

| Entrepreneurship policy | Entrepreneurship dimension of general economic policies | Entrepreneurial State |
|--|---|---|
| • Absorbing survivalist entrepreneurs into wage employment | • Providing finance | • Providing public investment and infrastructure |
| • Supporting enterprise growth | • Building technological capabilities | • Establishing a role for State-owned enterprises |
| • Promoting formalization and formal–informal linkages | • Enhancing digitalization and e-commerce | • Ensuring public–private dialogue |
| • Supporting enterprises throughout their life cycles | • Enhancing education and skills development | |
| • Repositioning women's and youth entrepreneurship | | |

Source: UNCTAD secretariat.

Note: Policies can be at the macrolevel, mesolevel or microlevel and mesolevel policies can build on the UNCTAD Entrepreneurship Policy Framework (annex 3).

V. Policies for transformational entrepreneurship

Entrepreneurship policy

- Entrepreneurship policies should also incorporate the following elements:
 - Selection of firms to receive support made on the basis of independent, transparent and accountable criteria, to the degree possible, and free from vested interests and political interference;
 - Adoption of time-bound rewards, advantages and incentives, linked to performance and clearly communicated to stakeholders.

1. Microenterprises and small enterprises

- Creation of decent jobs is an important objective of entrepreneurship policies.
- Differentiation among opportunity-driven microenterprises and small enterprises is also important.
- Priority in the allocation of scarce public resources should be given to more dynamic and innovative enterprises that create spillover effects
 - While also offering quality employment as a viable option to unsuccessful microentrepreneurs.

V. Policies for transformational entrepreneurship

Entrepreneurship policy

2. Medium-sized and large enterprises

- Enterprise expansion and larger enterprises are also critical to structural transformation.
- Larger firms play a key role in fostering entrepreneurial skills and innovation capabilities through “intrapreneurship” – the ability of managers to act entrepreneurially within the firm.
 - Policies should therefore aim at establishing a balanced enterprise ecosystem that includes firms of all sizes and types.
- Entrepreneurship policies need to be consistent with other components of government development strategies and policies (e.g. industrial policy, science, technology and innovation policy, macroeconomic policy, etc.).

V. Policies for transformational entrepreneurship

Linkages

- Linkages between microenterprises and SMEs and larger enterprises should also be promoted.

Clustering

- The establishment of special economic zones and industrial parks offers a means for Governments to relieve limitations on firms' productivity, by addressing multiple soft and hard infrastructure resource constraints holistically.
- Networks under South–South cooperation can boost LDC firms' growth.

3. Promoting formalization

- An element of entrepreneurship policy is promoting formalization of informal enterprises. In many LDCs, there are linkages between the formal and informal sectors, for example in urban West Africa.
 - Such linkages can benefit the formal sector by reducing the cost of certain inputs. The informal sector can also be a seed-bed for creativity, promoting innovation and new ventures.
 - The informal sector can provide a testing ground for new business models.

V. Policies for transformational entrepreneurship

4. Support across the enterprise life cycle

- Entrepreneurship policies need to foster linkages between firms of different sizes, stages of maturity and sectors, inter alia, by means of business clusters, networking and alliances.

5. Repositioning female and youth entrepreneurship

- Constraints to women's entrepreneurship hamper rural transformation
- Special barriers faced by women and youth entrepreneurs need to be addressed through targeted measures, rather than entrepreneurship policies.

By targeting structural transformation, **entrepreneurship policies** address the challenges of



women's and youth
empowerment
more sustainably

V. Policies for transformational entrepreneurship

Entrepreneurship dimensions of general economic policies

1. *Provision of finance*

- The State together with the private sector can provide venture capital.
- Deficiencies in financing of firms can best be addressed through national development banks, innovation funds, sovereign wealth funds, official development assistance and South–South cooperation.

2. *Building technological capabilities*

- Technological capability-building must be accompanied by support to translate technologies into business ideas and support for their commercialization.
- The UNCTAD Entrepreneurship Policy Framework recommends approaches such as public innovation awards to promote the commercialization of high technology ideas by early-stage enterprises.

LDCs can strengthen domestic and regional value chains to foster entrepreneurship



V. Policies for transformational entrepreneurship

3. Entrepreneurship dimensions of general economic policies

- Many developing countries seek to kick-start high-growth entrepreneurship through accelerator programmes, business incubators, science parks and technology research hubs
 - To provide a range of core support services and infrastructure, targeted business development programmes, mentoring and advice on access to finance and intellectual property, in order to promote survival among technologically intensive firms.
- Promoting technological progress also requires coherence and coordination between industrial policy and science, technology and innovation policies.
- Intellectual property rights policy should ensure that patent rights reward risk-bearing inventors and innovators, while clearly defining the conditions for such patents, to be transferred to encourage further innovative activity.
- Greater allocation of official development assistance to productive sectors could benefit entrepreneurship.

V. Policies for transformational entrepreneurship

3. *Digitalization and e-commerce readiness*

- The growing digital economy offers opportunities for entrepreneurship development which should be harnessed by policy, including ICTs as an economic sector.
- Entrepreneurship education and skills development should be introduced in both mainstream and specialized education programmes.
- E-readiness policy actions include developing a national e-commerce strategy aligned with other strategies; conducting a market assessment for the national ICT industry; strengthening the capacity of national customs authorities and postal services to clear and deliver parcels more efficiently;
 - Developing secure online payments services, e-commerce and consumer protection laws, as well as regulations for the ICT sector and e-commerce awareness programmes for firms; designing training programmes for firms on e-commerce and use of ICT tools, including e-commerce in trade-promotion activities.
 - Reducing Internet tariffs for firms; supporting education and training of ICT professionals at universities; and promoting and facilitating access to finance for e-commerce start-ups.

V. Policies for transformational entrepreneurship

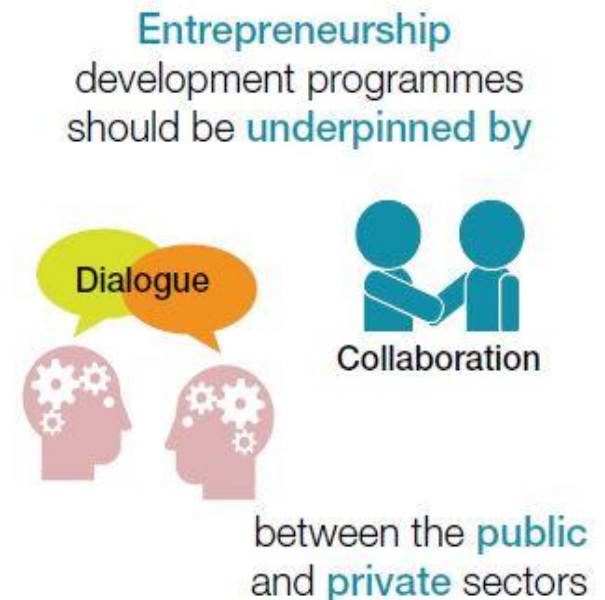
4. Entrepreneurship education and skills development

- Entrepreneurial skill development could benefit from a shift in emphasis on memorization and rote learning towards experiential learning, problem solving, team-building, risk-taking, critical thinking and student involvement in community activities.
- Such reforms are already taking place in a few LDCs.
 - Since 2016, Rwanda has made a major shift towards more interactive, student-centred learning.
 - All secondary school students are required to take an entrepreneurship course encompassing: active, hands-on “scripted learning activities”, emphasizing entrepreneurship skills; a “skills lab pedagogy”, with class time structured in a laboratory format; and “student business clubs” that start and run school based.

V. Policies for transformational entrepreneurship

Entrepreneurial State

- Public investment in infrastructure plays a key role in addressing bottlenecks to entrepreneurship development. It can be boosted through the strategic and judicious use of public–private partnerships.
- Governments can foster technological learning through policy directives and regulation.
- LDCs should participate in global e-commerce as producers.
- Structural transformation rests on building a developmental State with entrepreneurial approach.
- The LDC entrepreneurial state undertakes public investment for structural transformation.
- Entrepreneurship development programmes can best be underpinned by dialogue and collaboration between the public and private sectors.



PART B: Perspective of Bangladesh

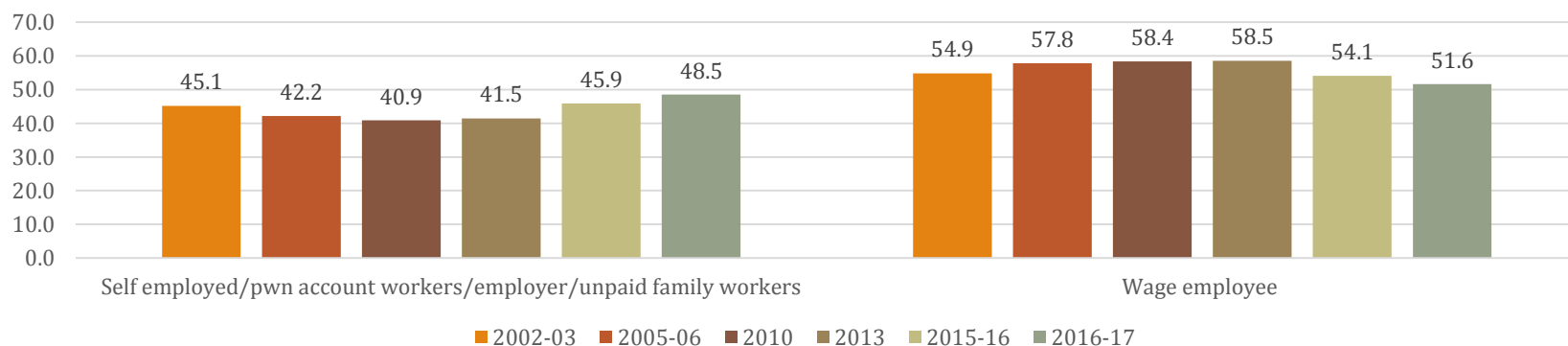
VI. Discussion on Bangladesh

- The total number of entrepreneurs has increased over time (4.1% per year over the last decade).
 - Total entrepreneurs (self-employed and employer) in Bangladesh is around 29.5 million in FY2017 which was 20.0 million in FY2006.
 - The share of entrepreneurs has increased from 42.2% in FY2006 to 48.5% in FY2017

Employment status (Million)

| Year | 2002-03 | 2005-06 | 2010 | 2013 | 2015-16 | 2016-17 |
|-----------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Self-employed/own account workers | 19.8 | 19.9 | 22.0 | 23.6 | 25.7 | 26.8 |
| Employer | 0.2 | 0.1 | 0.1 | 0.5 | 1.6 | 2.7 |
| Employee (including day labourer) | 15.0 | 15.2 | 18.4 | 22.5 | 23.3 | 23.8 |
| Unpaid family helpers | 8.1 | 10.3 | 11.8 | 10.6 | 8.6 | 7.2 |
| Others | 1.2 | 1.9 | 1.4 | 0.9 | 0.3 | 0.4 |
| Total | 44.3 | 47.4 | 54.1 | 58.1 | 59.5 | 60.8 |

Employment Status



VI. Discussion on Bangladesh

- Share of total informal employment has decreased over time though not in satisfactory level.
- Share of informal employment has decreased in all dimensions between 2015-16 and 2016-17.
- According to a study (Moazzem and Bashak, 2014) there is a slow rise of opportunity-driven entrepreneurship with the decline of necessity driven entrepreneurship (from 94% in 2005 to 86% in 2012)

Share of informal employment (% of respective labour force)

| Year | 2010 | 2013 | 2015-16 | 2016-17 |
|--------|------|------|---------|---------|
| Male | 89.4 | 86.3 | 82.3 | 82.1 |
| Female | 95.6 | 90.3 | 95.4 | 91.8 |
| Urban | 75.0 | 75.1 | 78.1 | 77.5 |
| Rural | 87.5 | 92.2 | 89.3 | 87.9 |
| Total | 91.3 | 87.4 | 86.2 | 85.1 |

Source: Different LFS

Self-employment distribution

| Self-Employment (%) | 2005 | 2012 |
|---------------------|-------|-------|
| Necessity driven | 94.02 | 85.80 |
| Opportunity driven | 5.98 | 14.20 |

Source: KG Moazzem and KK Bashak, 2014

VI. Discussion on Bangladesh

- According to the LFS, 2012, almost 27% necessity driven entrepreneurs have no education at all where the case is found for only 14% for opportunist entrepreneurs.
 - 20% of opportunity driven entrepreneurs have education qualification more than S.S.C. but only 12% of necessity driven entrepreneurs have that level of education.
- About 7% of the necessity driven entrepreneurs have had some kind of formal training before the start of the business whereas 9% of opportunity driven entrepreneurs have had that kind of training.

Academic qualification of Self employed

| Year | | No class passed | Class 1 - Class 5 | Class 6 - Class 10 | HSC and more |
|------|--------------------|-----------------|-------------------|--------------------|--------------|
| 2005 | Necessity driven | 24.04 | 19.51 | 42.51 | 13.93 |
| | Opportunity driven | 4.35 | 39.13 | 39.13 | 17.39 |
| 2012 | Necessity driven | 26.77 | 26.77 | 34.21 | 12.27 |
| | Opportunity driven | 14.17 | 23.62 | 41.73 | 20.48 |

Training Training Obtained by Self employed

| | Before starting business | | | After starting business | |
|--------------------|--------------------------|---------------|-------|-------------------------|-------|
| | Yes, Formal | Yes, Informal | No | Yes | No |
| Subsistent | 7.07 | 27.21 | 65.72 | 9.57 | 90.43 |
| Opportunist | 8.7 | 13.04 | 78.26 | 17.02 | 82.98 |

VI. Discussion on Bangladesh

- Result for the entrepreneur's shows that opportunity driven entrepreneurs are more likely to take higher risk. 40% of the opportunity driven entrepreneurs opted for higher risk (level 4 to level 6) where the number is only about 33% for necessity driven entrepreneurs.

Risk taking behaviour (%)

| Nature of risk | Level 1 (low risk) | Level 2 | Level 3 | Level 4 | Level 5 | Level 6 (high risk) |
|--------------------|--------------------|---------|---------|---------|---------|---------------------|
| Necessity driven | 50.36 | 12.32 | 4.71 | 2.9 | 5.43 | 24.28 |
| Opportunity driven | 33.33 | 20 | 6.67 | 6.67 | 4.44 | 28.89 |

Source: KG Moazzem and KK Bashak, 2014

- The opportunity driven entrepreneurs tend to stay in the business for longer period with better revenue and profit margin. That is why they were able to make changes in their products, production processes, marketing and pricing.

Innovation (%)

| Types | Necessity driven | Opportunity driven |
|-----------------------|------------------|--------------------|
| Changes in product | 29.1 | 39.1 |
| Changes in production | 18.4 | 30.4 |
| Changes in marketing | 24.8 | 30.4 |
| Employee training | 4 | 21.4 |
| Changes in price | 28 | 41.3 |
| Changes in management | 75.6 | 71.7 |

Source: KG Moazzem and KK Bashak, 2014

VI. Discussion on Bangladesh

- About 42% of the necessity driven entrepreneurs and 28% of the opportunity driven entrepreneurs did not face any problem running their businesses in 2012.
 - 43% of necessity driven entrepreneurs and 40.4% of opportunity driven entrepreneurs have mentioned about insufficient capital as a major constraint.
 - Other problems have been considered as minor constraining factors.

Problem facing during last 12 months (%)

| | 2005 | | 2012 | |
|--------------------------------------|------------------|--------------------|------------------|--------------------|
| | Necessity driven | Opportunity driven | Necessity driven | Opportunity driven |
| No problem | 0.0 | 0.0 | 42.0 | 27.7 |
| Insufficient capital | 17.2 | 7.1 | 43.0 | 40.4 |
| Lack of technical knowledge | 3.5 | 0.0 | 0.7 | 2.1 |
| Lack of electricity | 22.4 | 21.4 | 4.9 | 4.3 |
| Lack of water supply | 1.7 | 21.4 | 0.0 | 4.3 |
| Lack of machineries/parts | 8.6 | 0.0 | 2.1 | 4.3 |
| Insufficient number of labour | 1.7 | 0.0 | 1.1 | 2.1 |
| Complex regulation | 5.2 | 0.0 | 0.4 | 2.1 |
| Lack of raw materials | 3.5 | 7.1 | 0.7 | 2.1 |
| Lack of buyers | 13.8 | 7.1 | 1.1 | 0.0 |
| Problem of transportation | 5.2 | 35.7 | 0.7 | 4.3 |
| High cost of business | 8.6 | 0.0 | 1.1 | 4.3 |
| Other | 8.6 | 0.0 | 2.5 | 2.1 |

Source: KG Moazzem and KK Bashak, 2014

VI. Discussion on Bangladesh

Bangladesh in the RMG value chain

- CPD-RMG study 2018 observed a number of changes in the RMG value chain:
- Slow progress in product upgrading; one fifth of enterprises depend on single product
- Process upgrading: gradual reduction in number of production lines and usages of workers per line
- Process upgrading: domestic value addition is still at modest level but is rising
- Process upgrading: growing effort to use state of art machineries by the enterprises
- Process upgrading: rise in use of advanced technologies and machineries but level of use varies in terms of size, location and contractual arrangement with brands/retailers
- Functional upgrading: most of the enterprises lag in functional upgrading

% of sample enterprises produced number of products

| Number of Major Product | Whether factories produced other products (Y/N)? |
|-------------------------|--|
| 1 | 12.1 |
| 2--3 | 36.4 |
| 3--4 | 24.2 |
| 5--6 | 12.1 |
| 7--max | 0.0 |
| No information | 15.2 |
| Total | 100.0 |

Source: CPD-RMG Study, 2018

% of sample enterprises have the capacity to develop new design

| | Large | Medium | Small | Total |
|-------------------------------|-------|--------|-------|-------|
| % of total respondents | 52.94 | 23 | 15.6 | 21.68 |

Source: CPD-RMG Study, 2018

VI. Discussion on Bangladesh

Bangladesh in the RMG value chain

- Distribution of margin in the value chain remain the same as observed earlier.
- There is huge difference in the margin received by buyers and suppliers.
- There is considerable difference between suppliers' mark up in small, medium and large scale enterprises which also have implications on buyers' margin as well.
- Buyers' margin includes their costs for forward and backward linkage activities.
- Unless major upgrading take place at the suppliers' end, the scope for vertical development of enterprises is rather limited.

Distribution of Margin between Buyers and Suppliers in the Value Chain

| | Overall | Small | Medium | Large |
|--------------------------|---------|-------|--------|-------|
| Price Tag | 21.3 | 21.9 | 21.5 | 20.1 |
| % of tagged price | 100.0 | 100.0 | 100.0 | 100.0 |
| Buyer's Margin | 78.9 | 82.2 | 77.8 | 72.4 |
| Suppliers' Margin | 21.1 | 17.8 | 22.2 | 27.6 |

Source: CPD-RMG Study, 2018

VI. Discussion on Bangladesh

Major Problematic Factors for Doing Business: 2010, 2014 & 2018

| Rank | 2009 | 2014 | 2018 |
|------|---|---|---|
| 1 | Inadequate supply of infrastructure (23.78) | Inadequate supply of infrastructure (20.31) | Corruption (15) |
| 2 | Inefficient government bureaucracy (15.41) | Corruption (19.70) | Inadequate infrastructure (12.5) |
| 3 | Corruption (12.57) | Inefficient government bureaucracy (14.50) | Inefficient government bureaucracy (11.2) |
| 4 | Policy instability (9.27) | Government instability/coups (9.38) | Inadequately educated labor force (9.8) |
| 5 | Access to financing (8.53) | Access to financing (8.77) | Limited access to financing (9.8) |
| 6 | Inadequately educated workforce (6.66) | Policy instability (7.03) | Policy instability (7.6) |
| 7 | Tax regulations (5.16) | Inadequately educated workforce (4.34) | High tax rates (7.4) |
| 8 | Government instability/coups (4.71) | Crime and theft (3.56) | Complexity of tax regulations (6.9) |
| 9 | Foreign currency regulations (2.84) | Complexity of tax regulations (2.86) | Poor work ethic in labor force (3.6) |
| 10 | Inflation (2.69) | Tax rates (2.52) | Foreign currency regulations (3.4) |
| 11 | Poor work ethic in national labour force (2.62) | Inflation (2.43) | Crime and theft (3.4) |
| 12 | Crime and theft (2.54) | Foreign currency regulations (2.26) | Government instability (2.9) |
| 13 | Tax rates (2.09) | Poor work ethic in national labour force (1.30) | Insufficient capacity to innovate (2.5) |
| 14 | Restrictive labour regulations (0.75) | Insufficient capacity to innovate (0.43) | Inflation (2.2) |
| 15 | Poor Public Health (0.37) | Poor Public Health (0.35) | Restrictive labour regulations (0.9) |
| 16 | | Restrictive labour regulations (0.26) | Poor public health (0.9) |

VI. Discussion on Bangladesh

Major limitations in policies

- Most of the policies are of generic nature targeting broad industrial development with limited focus
 - Export policy; import policy; industrial policy, SME policy; ICT policy; BEZA Act, BEPZA Act, FDI Act etc
- Lack of policies and measures targeting vertical development of sector, enterprises and entrepreneurs
 - Exception: *National Motorcycle Industry Development Policy 2017*
- Biases towards few sectors in terms of providing public support
 - RMG, textiles, plastic, food processing
 - Influence of different pressure groups has weakened the process of rational justification of public support
- Most of the fiscal incentives and financial supports provided to industries are not time-bound
 - Thus the measures may not ensure efficient use of the public support.

VI. Discussion on Bangladesh

- Development of transformative entrepreneurship should be the focus of development policy in order to ensure sustainable development.
- Need to focus on a number of policy related, operational and management issues for ensuring comprehensive development of enterprises and entrepreneurs in the country
 - Adopting sectoral policies targeting key and potential sectors highlighting the value chain of respective industries
 - Ensuring fair competition in the market by proper implementation of rules and regulations including competition policy, financial reporting of companies, company laws etc.
 - Assessment of fiscal and financial incentives provided to different industries and based on that, providing targeted, vertical and time-bound, result-oriented incentive structure for the companies. A life cycle approach needs to be taken into account.
 - Detailed data need to be generated in order to ensure proper targeting of the enterprises for government support
 - SMEs to be differentiated between opportunity-driven and subsistence-driven enterprises and need to formulate policies and supports accordingly.

VI. Discussion on Bangladesh

- Necessary training for skill upgrading for the entrepreneurs need to be further expanded.
- Informal enterprises need to be formalized and proper instruments need to be developed to ensure time-bound measure to increase formalisation of industrial enterprises.
- Development of 'signature programme' is required with a view to promote new forms of entrepreneurship.
- Addressing shortages of capital through venture capital development both by public and private sectors.
- New forms of enterprises such as start-ups should be promoted
- Women entrepreneurship development need to be prioritized through special programmes both in urban and rural areas.
- Necessary regulatory reforms for creating enabling business environment is necessary.
- Addressing the governance related challenges is urgently required to create opportunities for early entrants in the businesses and for those who operate SMEs.

Thank you