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Economics Research

Peace, Prosperity and Pro- Growth Entrepreneurship



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1 June 2007,

War and Poverty, Peace and Prosperity Conference, Levy Economics Institute, U.S.A

Introduction

- *“Entrepreneurship has emerged as the engine of economic and social development throughout the world”* - Audretsch and Thurik (2004:2)
- *‘A key obstacle to growth in low-income environments is an inadequate level of entrepreneurship in non-traditional activities’*.
- Iyigun and Rodrik (2004:1-2)
- *“What impoverished entrepreneur would work day and night to build a new firm knowing that robber barons will seize it at the first signs of profit?”* – Fogel et al., 2006:541
- *“Business success in a developing economy requires....how to take advantage of legal loopholes and who to bribe”* – Munshi, 2007 :1

Types of entrepreneurship

- *‘Entrepreneurs are defined, simply, to be persons who are ingenious and creative in finding ways that add to their own wealth, power, and prestige’ - Baumol (1990:987)*
- Productive, un-productive and destructive entrepreneurship
- Productive entrepreneurship : opportunity driven or necessity driven (& lifestyle entrepreneurs)
- High-potential growth productive entrepreneurship

Entrepreneurship and peace & prosperity?

- Empirical evidence from 37 countries participating in the 2002 Global Entrepreneurship Monitor finds significant evidence for *'the existence of entrepreneurial activities that do not contribute to economic growth'*.
- *'At times the entrepreneur may even lead a parasitical existence that is actually damaging to the economy'*. - Baumol (1990:894)

Entrepreneurship and War

- Growth and warfare in Middle-Age Europe
- the '*unprecedented prosperity enjoyed afterwards by the countries on the losing side of the Second World War*'.
- Has much of the U.S.'s growth after the Second World War been due to technologies emerging from war contexts? (Ruttan,2006).
- Foreign firms and entrepreneurs in many African conflicts Nafzinger (2006:16)

Entrepreneurship during War

- Even during periods of war and conflict there is evidence of substantial entrepreneurship at work, fulfilling a threefold role in
 - Sourcing funds to sustain conflicts
 - Overcoming the adverse impacts of conflict
 - Exploiting profitable opportunities arising from conflict *(illegal mining and smuggling, preferential rationing systems, theft of humanitarian supplies, banditry and predation on civilians.)*

Entrepreneurship after War? - I

- Many war participants, including rulers, warlords, and smugglers develop substantial business interests during the war.
- This not only makes the achievement of peace in many cases difficult (*as these participants profit more from war than peace*) but will also have a significant impact on the post-conflict economic success.
 - Many war-time entrepreneurial activities provide capital for post-war investment,
 - Provide a means for wartime actors to obtain political power after the war; and
 - Provide incentives for entrepreneurs to undermine government institutions.

Entrepreneurship after War? -II

- Destruction of infrastructure, flight of human and financial capital creates challenges for post-war entrepreneurship (funding, education, skills, infrastructure).
- There is no automatic peace dividend from the end of a civil war, and there could also be a 'war overhang effect' – depending on length of war (Collier, 1999).

Entrepreneurship after War?-III

- Transition process itself can create unfavourable outcomes
 - New opportunities for rents
 - Patronage / limited access orders
 - Regulatory capture
- Continued military spending divert resources
- Macro-economic stability, good governance and institutional reform may not lead to automatic resurgence of private sector

Conclusion

- There is not a lack of entrepreneurship in fragile states or post-conflict states.
- ‘Entrepreneurship’ is not necessarily intrinsically good or bad, but depends for its effects on the structure of incentives that a particular time and society offers.
 - These structures and incentives can result in either a ‘rent economy’ or a ‘productive economy’

How to change incentive structures for pro-growth entrepreneurship?

- Raise the costs of conflict and benefits of cooperation .
- Institutional reform from conflict – limited access order – open access order (‘very difficult’ – North)
- Other difficulties:
- *‘Entrepreneurship in developing countries is arguably the least studied significant economic and social phenomenon in the world today’*. - Lingelbach et al., 2005
- Lack of quantitative data, and measurement difficulties w.r.t. entrepreneurship in fragile states and post-conflict states constraints policymaking and institutional reform.
- However, certain lessons from EE-FSU, African literatures.

Lessons from the literature

- Understanding the context of poverty and conflict
- Understanding institutional reform (process and phases) and entrepreneurial responses
- Engage displaced communities, minorities and entrepreneurs
- Enlarge market size and market access
- Improve Human and financial capacity
- Government-private sector support modalities
 - The developmental state & private sector development
 - Removal of obstacles
 - Support inputs, not outputs
 - Entrepreneurial ventures vis-a-vis small business support
 - Decentralisation

These are discussed at greater length in the paper

The prognosis

- The average rate of growth in a cross-country sample of post-conflict states for the five years following was 5.9 %
- The private sector share of GDP in increased in most EE-FSU countries from around 0 % in 1989 to over 65 % by 2001.
- In China the growth in entrepreneurship, as measured by self-employment, was explosive, not only in the richer coastal provinces, but also in the rural areas, where the number of self-employed increased by more than 30 million between 1988 and 1995.
- In Africa, in the mobile phone sector, where government regulation has been limited and private entrepreneurs the major initiators, the number of mobile phone users have increased from about 2 million in 1998 to over 100 million by 2006.
- Many firms are small and micro, which has disadvantages, but also advantages.
- New firm creation may be more important than existing firms.

Final remarks

- Entrepreneurship is ever present in fragile and post-conflict states. It is not lacking as some would claim.
- Unproductive and destructive entrepreneurship implies that the establishment of peace may not automatically result in prosperity, and might even cause a relapse into conflict.
- To prevent this, efforts to increase the supply of entrepreneurship itself may be less important than efforts to change the allocation of entrepreneurial effort into productive entrepreneurship.
- For the latter, six dimensions have been outlined, and the need for further research on entrepreneurship stressed.

