
**Entrepreneurship in
Developing Economies:
The Bottom Billions and
Business Creation**

Entrepreneurship in Developing Economies: The Bottom Billions and Business Creation

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Entrepreneurship in Developing Economies: The Bottom Billions and Business Creation*

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Abstract

Over 100 million of the 1.8 billion midlife adults living on less than \$15 a day are attempting to create new firms. Another 110 million are managing new ventures. This is almost half of the global total of 450 million individuals involved with 350 million start-ups and new ventures. They are responsible for almost half of all new firms and one-third of new firm jobs. For the poor, business creation provides more social and personal benefits than illegal and dangerous migration, criminal endeavors, or terrorism. Almost all of the business creation by the bottom billions occurs in developing countries, half are in Asia. The ventures initiated by the bottom billion are a significant proportion of all firms expecting growth, exports, an impact on their markets, and

* Ayman El Tarabishy suggested using the GEM data set to explore this topic resulting in the first draft of the assessment dated 7 December 2011. This substantial revision reflects suggestion made by Tomasz M. Mckiewicz to adjust all measures of income to a harmonized global standard, proposals by Erkkö Autio to use multi-level modeling to examine the relative impacts of individual and national factors, and comments from Elena Bardasi that more complete information about the basis for developing the estimates of daily income would be helpful. The author alone is, of course, responsible for any errors of omission or commission.

in high tech sectors. Assessments based on multi-level modeling suggest that young adults, whether they are rich or poor, in countries with access to informal financing and an emphasis on traditional, rather than secular-rational, and self-expressive values are more likely to identify business opportunities and feel confident about their capacity to implement a new firm. Such entrepreneurial readiness is, in turn, associated with more business creation. Compared to the strong associations of informal institutions with business creation, formal institutions have very modest and idiosyncratic relationships. Expansion of access to secondary education and early stage financing may be the most effective routes to more firm creation among the bottom billion.

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1

Introduction

The poor also have the right to buy and sell.

(Salem Bouaszizi, brother of Takek Bouazizi, self-immolated in Tunisia after confrontation with government officials, triggering the Arab Spring. uprisings. Hernando de Soto, 2011.)

Of the 7 billion world citizens, about 2 billion are surviving on very little, estimates range from less than \$1.50 to \$4.00 per day.¹ Most of these, more than half, are adults in their economically productive years, from 18 to 64 years old. This challenge has been exacerbated by the global recession, the stagnation that developed after 2007, leading to a shortfall in jobs for both current and future workforces.² It is estimated that between 2007 and 2011 the advanced economies have lost 27 million jobs and the developing countries 53 million jobs.³ Given

¹The lower estimate (\$1.50 per day) is based on summary data provided in Shah, Anup, global Issues “<http://www.globalissues.org>,” updated September 20, 2010; the higher estimate (\$4.00 per day) is for 2006 from Pinkovskiy and Sala-i-Martin (2009, Table 2.2).

²ILO (2010, 2011).

³ILO (2011, pp. vii–viii).

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the higher birth rates in developing countries, the total “job shortfall” can be expected to increase in the next several decades. Providing these individuals with a way to contribute to the global economy is a major challenge.⁴ This clearly has major consequences for the bottom billions.

Several strategies for including the bottom billion in the world economy have been proposed. The original assessments focused on improvements in national attributes and institutions.⁵ Another focus has been to encourage major multi-national corporations to expand their sales and production operations to include “the poor.” As the aggregate demand among the bottom billions is substantial, this could be quite profitable.⁶ It has also been proposed that providing assistance to high potential new and small firms may provide jobs for this emerging mass of young adults. This reflects substantial research in developed countries that indicate a small percentage of high growth firms are responsible for a substantial proportion of job creation. A number of such initiatives have recently been launched, often associated with a “toolkit” to guide the indigenous business owners.⁷

The focus on high growth firms as a solution to the jobs shortfall has several complications. First, the net impact of efforts to assist several hundred or even several thousand new and small firms is likely to be small, given that tens of millions of jobs need to be created. For example, Egypt alone has about 3.4 million citizens in the start-up (pre-profit) stage of business creation; assisting several hundred new or small Egyptian firms may provide some interesting success stories, but may not have much overall impact.

More significant, all the research on “gazelle” job creation compares these firms to others that were started at the same time; they do not track the basis for the job growth or the effect on the total system. Much of the job growth of the high flyers comes at the expense of their competitors, who may be driven out of business, or from purchases of competing firms. The net job growth in the system may be very small. The dominant firm in job growth in the United States has been

⁴Goldstone (2010).

⁵Collier (2007).

⁶Prahalad (2010).

⁷Weidemann Associates (2011).

Wal-Mart, which went from zero employees to 2 million in 50 years. Despite the multiple benefits to the consumer, the net jobs in retail did not increase, they were just redeployed.

The options for the bottom billions are limited. Many would prefer to find stable, well-paying employment. This has led to the proposals that public policy, particularly in advanced countries, should emphasize job creation, rather than appeasement of financial markets.⁸ The lack of employment opportunities has been associated with higher rates of social discontent, which may be exacerbated by dramatic levels of income inequality found in developing countries.⁹ It has been one of the major factors leading to the Arab Spring uprisings.

But the absence of employment has also led to substantial economic migration, as those in desperate straits make their way to more promising labor markets. This often involves very risky and dangerous travel over circuitous routes across the Pacific, the Mediterranean, the Caribbean, deserts and into jungles.¹⁰ Reports of deaths and abuses by “transportation agents” are, unfortunately, commonplace. Economic desperation is also the major motivation that makes young women susceptible to “employment offers” that lead to forced participation in sex trafficking.¹¹

Other options, fortunately chosen by a small minority, involve criminal activity in various forms, such as engaging in piracy off Somalia, participating in kidnapping gangs in Latin America, joining the mafia in Russia, or, in order to make their mark in the world, pursuing terrorism. None of these choices provide positive social benefits and participants generally have a short life span.

But another choice is to pursue business creation. There has been some attention to facilitation of business creation among the bottom billions. The micro-finance programs associated with the Grameen

⁸ILO (2011, p. viii).

⁹Milanovic (2005, 2011).

¹⁰In early 2012, thousands of Haitians have found their way into the upper Amazon of Brazil, seeing construction work (Romero, 2012); apparently being well treated by the local and national authorities.

¹¹Milanovic (2011) provides a wealth of examples, from literature and real life, related to life choices — some desperate and risky — in response to various forms of income inequality.

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Bank in Bangladesh has been the basis for expansion to other developing countries.¹² The overall impact of these programs, despite individual examples of dramatic success, has been mixed, in part because a substantial portion of the micro-finance support is used to benefit poor households in ways not related to business creation.

Approaches to assist the bottom billions would be more effective if there was a better understanding of the extent to which “the poor” are already involved in business creation and the nature of the ventures they pursue. For example, worldwide over 200 million are in the start-up or pre-profit stage of business creation. If one in three is able to create a profitable job for him or herself,¹³ it would cover a substantial proportion of the 80 million employment shortfall mentioned above. The following assessment develops such a description using a unique data source that has only recently become available.

Initiated in 1999, the Global Entrepreneurship Monitor (GEM) program has involved harmonized surveys of representative samples of the adult populations in 77 countries, many of which are in the developing world.¹⁴ It can be used to determine the nature and extent of business creation by those at all levels of economic status, advantaged and disadvantaged. The analysis is based on data from 836,958 interviews from 74 countries that have the necessary data. These estimates are provided for eight global regions, encompassing the entire world. While there is certainly a margin of error in all estimates, the major differences are dramatic and provide useful first estimates regarding the prevalence and amount of business creation by those with different levels of daily income.

The assessment has five components. First, there is a review of the procedure used to identify the bottom billions, which is based on estimates of annual income converted to daily income in 2009 US dollars adjusted for purchasing power parity (the procedure is outlined

¹² Bornstein (2011).

¹³ Longitudinal studies of business creation in the United States have found that after 6 years of effort about one-third of start-up ventures report a period of profitability (Reynolds and Curtin, 2011).

¹⁴ An overview of the research and the procedure for assembling the data set is provided in Appendix A, more details on the program are provided in Reynolds et al. (2005) and on the project Web site, “www.gemconsortium.org.”

in Appendix B). For convenience, five groups are identified for analysis, with daily per capita incomes of US\$6.32, US\$10.25, US\$ 20.61, US\$ 46.20, and US\$ 143.88. Their global distribution and personal characteristics are reviewed.

The second section reviews the relationship of different levels of daily income with participation in two initial stages of the firm life cycle: nascent entrepreneurs in the pre-profit or start-up stage and owner-managers of new firms, those profitable for 3 to 42 months. Among the 1.8 billion midlife adults living on less than \$15 a day over 100 million are attempting to create new firms and over 110 million are managing a new venture; most are in developing, low income countries.

The third section considers the personal characteristics of those active in business creation. For example, about two in five are women, and the proportion of women is greater among those with less daily income. The effect of personal characteristics or the tendency to become involved in business creation is also explored.

Because many start-ups are team efforts, the 100 million poor nascent entrepreneurs are working to implement about 52 million nascent ventures; the 110 million poor new firm owners are managing about 80 million new firms. The major features of these ventures and firms — type of the business activity, orientation toward job creation, operating in high technology sectors, expecting a market impact, and sales to out of country customers — is reviewed in the fourth section.

The fifth section identifies the national features and individual characteristics systematically associated with participation in business creation. The predictive success of linear additive models based on multiple regression and multi-level modeling procedures is quite good. Attention to the relative impact of national and individual factors indicates that a personal readiness for entrepreneurship is a critical intervening variable in the firm creation process.

The conclusion provides an overview of the major patterns and explores selected policy implications.

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