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ECONOMIC AND SOCIAL COUNCIL  
Second regular session of 1988  
GENERAL DISCUSSION OF INTERNATIONAL  
ECONOMIC AND SOCIAL POLICY,  
INCLUDING REGIONAL AND SECTORAL  
DEVELOPMENTS

Indigenous entrepreneurs in economic development

Report of the Secretary-General

I. INTRODUCTION

1. In General Assembly resolution 41/182 of 8 December 1986 on indigenous entrepreneurs in economic development, the Assembly requested the Secretary-General to study measures at the national and international levels to promote the contribution of indigenous entrepreneurs in both private and public sectors to the economic development of developing countries, drawing upon the work already in progress in the United Nations system and bearing in mind the need to avoid duplication of effort and cost, and to report thereon to it at its forty-third session through the Economic and Social Council. The present report is in response to that request.

2. The present report consists of four sections; section II introduces the issues; section III comments on general national policies relevant to the emergence of indigenous entrepreneurs; and section IV reports on specific efforts, national and international, that have been made in recent years to train entrepreneurs and support them.

3. Reference is made to the forthcoming issue of the Journal of Development Planning (United Nations, Department of International Economic and Social Affairs), which is devoted to entrepreneurship in developing countries and reports on recent research in a number of relevant areas.

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## II. THE ISSUES

### Entrepreneurs and entrepreneurship

4. In theories of economic growth, the agent of innovation and change has been called the entrepreneur: the entrepreneur founds new firms, or introduces new techniques, new products, new forms of organization, modes of financing or marketing. In so doing, entrepreneurs break through the resistance to change that is characteristic of all societies.

5. In current discussions about entrepreneurs and entrepreneurship, these terms have come to be used to refer to venturesome and energetic owners and leaders of enterprises as well as to managers in general. An abundance of experience has made it clear that entrepreneurship is an essential dimension of economic and social development, that it is scarce in the sense that relatively few individuals are inclined to start and manage enterprise, and that in one and the same nation the supply of it can vary from region to region and between ethnic groups. At the same time, the essence of entrepreneurship remains an enigma. Relatively little is known about its sources, which are presumably rooted in the personality of the entrepreneur and in the culture of the community. Efforts to promote entrepreneurship remain in an experimental stage, and although much has been learned only a few general lessons can be drawn.

6. In mature industrialized countries, attention is usually focused on the entrepreneurs on the frontier of change, as they launch high technology, new financial packages, or new marketing concepts. In less advanced countries, however, it has an indispensable role in importing, imitating, and adapting technology, and, even more important than that, it can mobilize the dormant talents of vast populations, as it is realized that opportunities for progress exist on all levels of society, from the village to large public enterprises.

7. Entrepreneurship has been described as a low-cost strategy of economic development, which is only another way of saying that, in the end, creativity and widespread initiative for self-help are indispensable elements in social change. Although many Governments have acknowledged the importance of promoting and facilitating entrepreneurship, the evidence shows that in many instances their policies inadvertently obstruct it rather than promote it.

### Indigenous entrepreneurs

8. In the conditions of today, developing countries where indigenous entrepreneurship is weak tend to become dependent on transnational companies and foreign entrepreneurs. Thus, Governments have attached high priority to the promotion of high-level indigenous entrepreneurship and management, capable of holding its own in international competition.

9. In some countries, an imbalance in entrepreneurship among ethnic groups is a source of political concern, which induces Governments to promote and assist entrepreneurship in weaker groups in order to improve the balance in economic and social conditions.

10. Specific support programmes for entrepreneurs such as training, financial assistance and extension services have multiplied in the last decade, and the interest in such approaches is still growing, although they vary greatly and there is as yet no comprehensive assessment of them.

### III. GENERAL NATIONAL POLICIES

11. The most important contributions Governments can make to the promotion of entrepreneurship lie in the realm of overall economic and social policy. High rates of economic growth, low rates of inflation, a developed physical and social infrastructure, a fiscal system that does not unduly penalize enterprise, realistic interest and exchange rates, and an effective international trade régime are all essential elements in an environment where entrepreneurship can thrive. A conflict may arise between giving incentives to enterprise and improving the distribution of incomes. The purpose of the present report is not to review overall economic policy precepts but to focus on direct steps that can be taken in the furtherance of indigenous entrepreneurship. However, if the environment is unfavourable, no programmes for the strengthening of indigenous entrepreneurship is likely to make much difference, and a brief reference to some areas of particular interest seems called for.

#### The legal and regulatory framework

12. The legal framework governing and regulating economic activity is an essential part of the environment of enterprise. The legal systems surrounding land tenure are sometimes of great complexity and variety, whereas those that have evolved in response to the needs of industry and commerce in the modern sector are more uniform. They cover the formation of enterprises, bankruptcy, accounting and auditing, industrial relations, forms of taxation, and other aspects.

13. As important as the laws on the books is the assurance that the law will be administered fairly and predictably. Due process and transparency are especially essential for entrepreneurs of modest means who do not have the resources of large domestic or international companies in seeking redress.

14. Regulation of business has been found essential in all countries in order to ensure the public interest and protect the weaker partner in such matters as safety on the job, consumer protection, public health and pollution. In developing countries where markets are sometimes characterized by inadequate competition, Governments may regulate prices; where the Government seeks to guide investment according to a development plan, investment permits may be required; and if the balance of payments situation is strained, exchange control and licensing may be practised.

15. When regulation becomes too complex and exceeds administrative capacity, it can stifle entrepreneurship or drive it underground. Costly delays, uncertainty, and arbitrariness may kill entrepreneurial initiatives. Attempts to adhere to the rules may be too costly. Recent studies have given impressive evidence of this effect. A network of impossibly complex rules and regulations surrounding enterprise has gradually evolved in many countries. Elaborate in nature,

cumbersome in application, arbitrary in implementation, and time-consuming and costly in their administration, they raise formidable obstacles to development. Permits and approvals become a source of income to those who issue them and a heavy cost of entrepreneurs who need them. Time and ingenuity are spent in circumventing regulations instead of more productive pursuits; resources are spent on enforcing inherently unenforceable regulations. "The other road", i.e. to operate illegally, has become the only rational solution for many entrepreneurs. While the underground economy that has thus evolved testifies to considerable entrepreneurial vitality, it is clearly not an ideal solution and does not permit the growth of firms beyond a modest size.

#### Widening and protecting markets

16. The inadequacy of transportation and communication facilities remains a serious obstacle to the integration of national markets in many countries, and also to the emergence of more trade among developing countries. Thus, extensions and improvements of road systems have frequently been found to call forth large numbers of indigenous entrepreneurs responding to the new opportunities.

17. Virtually all Governments have at some time sought to reserve domestic markets for national enterprise by protectionist measures. This will in itself favour foreign investors as much as indigenous entrepreneurs, but in combination with selective foreign investment régimes it would have a discriminatory effect. While this violates principles of openness and non-discrimination in the international trading system, the infant industry argument in favour of protection of new industry until it becomes competitive is widely embraced in developing countries, and as a development strategy import substitution has been important in fostering domestic enterprise, especially when the international economic environment has been unfavourable, as was the case in the 1930s and is again in the 1980s.

18. Outward-looking strategies emphasizing export promotion have been relied upon by some developing countries in recent decades, notably the newly-industrialized countries. Indigenous enterprise in these countries has undergone a remarkable surge which has been accompanied by an outstanding economic success. The latter appears to be due to the outward-looking trade strategy, the existence of a strong entrepreneurial tradition, the provision of entrepreneurial opportunities and the rapid enhancement of the educational level. The policies of these countries have also over the years given attention both to rapid enhancement of the educational level and to the provision of entrepreneurial opportunities.

#### Credit and capital markets

19. Inadequate access to finance is the most widely cited barrier to entrepreneurship. In many countries, money and capital markets are fragmented and relatively rudimentary. The modern sector may be reasonably well served, but bank branch networks frequently do not penetrate far into the hinterland. In many cases, small-scale indigenous entrepreneurs and farmers do not speak the language in which banks conduct business and are in any case not welcome customers because of the high transaction costs of small loans and their lack of loan collateral.

20. Much is being done to improve credit and capital markets. Banking practice in indigenous languages is spreading, and bank branches are being enlarged. In most of Latin America, and in India, Indonesia, Pakistan and Sri Lanka, to mention only some countries, government banks provide bank services also in small urban centres and rural service centres.

21. Parallel markets for credit outside the formal institutions are common. Kerbside credit markets and moneylenders play a prominent role in most countries in Asia and Africa and offer credit to small-scale entrepreneurs, but usually at high interest rates. Traditional and informal arrangements among friends who are bound by mutual confidence play an important role. Tontines in West Africa and cheettu in parts of South Asia show great vitality. Moreover, co-operative credit societies have emerged in many developing countries. Widely publicized and successful ventures, such as the Commercial and Savings Bank of Somalia and the Grameen Bank of Bangladesh, are providing small loans at reasonable interest to very small-scale entrepreneurs, with remarkable records of loan recovery.

22. Enterprises that are large and sophisticated enough can raise capital by selling equity to the public investors. Although stock markets remain of limited importance in most developing countries, a number of them already have well organized markets. They include Latin American countries such as Argentina, Brazil, Chile, Colombia, Mexico and Venezuela; Asian countries such as India, Indonesia, Pakistan and the Philippines and many of the smaller newly-industrialized countries; and in Africa, Côte d'Ivoire, Kenya, Nigeria and Zimbabwe.

23. Governments in most developing countries have set up long-term lending institutions as well as development finance institutions which both lend to and invest in small and medium-sized ventures. The record has been mixed, but it is very clear that credit is an essential key to the promotion of indigenous entrepreneurship.

#### Education

24. General education should be expected to promote entrepreneurship. Literacy and arithmetic seem obviously essential. It is nonetheless difficult to establish a clear link between education and entrepreneurship, and studies of this relationship remain inconclusive. There are developing countries that have established high levels of literacy and rapid economic and technical growth, and others with equally high levels of literacy where no burst of entrepreneurship can be attributed to it. Higher education by itself does not promote entrepreneurship either. Some developing countries with substantial outputs of students with skills in commerce, engineering, and science have seen more unemployment than entrepreneurship among them.

25. A decade ago some school systems were derided for their reliance on "rote learning", which was thought to suppress creativity and initiative. Now it appears that these very systems have produced the most aggressive and successful entrepreneurs.

26. There is no doubt about the importance of education and skills in the development process, and of the great need for managerial, technical and scientific skills. But these do not by themselves seem enough to produce entrepreneurship, namely, the drive to start an enterprise and make it grow.

#### IV. PROGRAMMES TO PROMOTE ENTREPRENEURSHIP

##### Entrepreneurs of all kinds

27. One result of the new interest in entrepreneurship in recent years is the realization that, although entrepreneurs are uncommon individuals, entrepreneurship is a force for social change encountered throughout society and an indispensable element in development.

28. Attention has thus come to be focused on entrepreneurship in many different contexts, and the task of training and supporting entrepreneurs can no longer be seen as a single type of activity, as the diversity of entrepreneurship poses very different problems. The following enumeration is meant to be illustrative and in no way comprehensive:

(a) Training of small-scale entrepreneurs to enable them to start companies with some growth potential is the most prevalent form of entrepreneurship promotion. One of the best known examples is the Entrepreneurship Development Programme in India. Its success is attributable to the co-operation of financial institutions and agencies implementing entrepreneurship development policies, and to the combination of information, guidance and finance under one programme. Programmes of a parallel nature have been implemented in Ghana, Indonesia, Kenya, Malaysia, the Philippines and Thailand.

(b) There is also now a special interest in the promotion of grass-root enterprise, so-called micro-enterprise or village enterprise, both in rural and urban areas. This reflects a growing concern about poverty and increasing doubts about trickle-down strategies of development.

(c) The need for indigenous entrepreneurs capable of managing high-technology enterprises has been recognized in several countries. The combination of government and private sector resources in institutions such as the Korea Technology Development Corporation and the Korea Development Finance Company has proven successful in promoting high-technology enterprises.

(d) The importance of women entrepreneurs in many developing countries has received attention. Special programmes have been launched because women are often excluded from the institutions and resources that are necessary to make a going concern of their business activities. Assisting women can have a considerable impact on socio-economic structures and significantly contribute to economic development.

(e) Entrepreneurship in public sector agencies and corporations is a major concern in many countries, and means of promoting it have been studied extensively; several programmes aim at training managers, decentralizing decision-making and rewarding good performance of individual managers. Others focus on planning of public enterprises, improving systems of information and developing new technologies.

29. What all this amounts to is a general recognition of the indispensable role of creative, innovative and efficient individuals in all walks of life.

#### Training and teaching

30. A wide variety of programmes have thus been conducted over the last decade or longer to promote entrepreneurship. Even though the design of such programmes varies considerably, four components are found in most models: access to finance, technical assistance (extension), training and social promotion of the poorest groups in society. Some models emphasize basic training in managerial competence and matters relevant to the formation of small enterprise; others are inspirational; and some aim essentially at combining modest credit with support and advice to small-scale and micro-enterprise over an extended time.

31. The United Nations system and the regional development banks contribute in several ways to the promotion of indigenous entrepreneurship. Agencies, such as the International Monetary Fund, the International Bank for Reconstruction and Development (World Bank) and the regional development banks provide policy advice on maintaining economic conditions that generally support the emergence and growth of entrepreneurship. Other agencies have been prominent in sectors of their special interest: the United Nations Conference on Trade and Development (UNCTAD) in state trading and shipping sectors; the United Nations Industrial Development Organization (UNIDO) in industry; the Food and Agriculture Organization of the United Nations (FAO) in agriculture and food sectors. Still others have focused on certain instruments of entrepreneurship promotion, such as training (International Labour Organisation (ILO)) and access to equity finance (International Finance Corporation (IFC)).

32. ILO, UNIDO, the International Centre for Public Enterprises, UNCTAD, the Department of Technical Co-operation for Development and the regional commissions of the United Nations have promoted indigenous entrepreneurship through technical co-operation, in particular, training. Furthermore, publications addressing various issues of entrepreneurship development have been an important instrument of technical co-operation. The same applies to the organization of seminars and symposia which have promoted the exchange of information and experience. The United Nations Development Programme, in addition to its own technical co-operation, has also financed activities of a number of intergovernmental organizations and initiated feasibility studies of incubation centres for small technology-related firms.

33. One of the aims of technical co-operation and other activities undertaken by intergovernmental organizations is to assist in the formation and the improvement of institutions supportive of enterprise development. Training and research

institutions, management organizations, lending and other financial institutions, including stock markets and regulatory organizations, have been assisted significantly by several intergovernmental organizations.

34. The multilateral financial institutions, the regional development banks and the International Fund for Agricultural Development (IFAD) have been sources of finance for small-scale enterprises in developing countries. The World Bank and the regional development banks have long provided credit to enterprises in the public sector. These institutions and IFC have also provided funds to development finance institutions, which in turn provided both loan and equity capital to indigenous enterprises in developing countries. More recently, they have begun to provide equity capital directly to private enterprises. IFAD has been particularly active in financing very small-scale enterprises in the rural sector.

35. Non-governmental organizations have responded very strongly to the need to promote indigenous entrepreneurship. To mention only a few, the Trickle Up Programme, Jaycees International, OXFAM (Oxford Famine Relief Organization), the International Institute of Rural Reconstruction, the International Co-operative Alliance, Women's World Banking, the International Chamber of Commerce and many others provide financial resources and technical assistance, especially to very small-scale enterprises. The International Technology Development Group and the Small-Scale Industries Development Organization are important sources of technology. The National Alliance of Young Enterprises (in India), Associated Country Women of the World and the World Assembly of Small and Medium Enterprises maintain training programmes.

36. Whether successful models of entrepreneurship promotion can be exported to countries with different cultures and infrastructures is a question that has recently attracted much interest. Experience so far suggests that, once they are adapted to local conditions, imported models can be useful complements to national ones.

37. Non-governmental organizations are often best suited to assist entrepreneurs in the informal sector, but some official aid programmes offer them support in this task.

#### The experience

38. The efforts to promote and support entrepreneurship in developing countries are so diverse, and for the most part so recent, that they defy overall assessment. They are still largely experimental. There is little reason for concern about duplication of effort, although there is a growing interest in sharing experiences. This is reflected in the work of the Committee of Donor Agencies for Small Enterprise Development which, with secretarial assistance by the World Bank, engages in an exchange of information about programmes and activities undertaken by the participating agencies.

39. With regard to entrepreneurship training programmes, skepticism is sometimes voiced as to whether entrepreneurship can be taught at all. Critics argue that if it is a matter of personality and creativity, teaching might not be able to add much and that the selected trainees may not be the right persons.



40. So far the record includes cases of impressive achievement, such as the Indian model, as well as others where results have been disappointing. For example, in Kenya, after vast expenditure and scores of projects, the growth of firms in the 10 to 50 employee bracket was minimal, whereas the micro-enterprise category without any assistance or attention had been expanding very rapidly. Many programmes everywhere have been in the nature of pilot projects that have not been successful enough to graduate into permanent efforts and programmes. The problems most frequently encountered in programmes are poor designs for credit and marketing components, inappropriately low user charges and interest rates, and poorly delivered technical assistance. Furthermore, monitoring methods tend to be overly complicated and impact evaluations are not undertaken periodically.

41. However, as an ILO survey of the training of entrepreneurs for small business concludes, "the field has matured in the last decade. Enough programmes with 60 to 70 per cent of their trainees successfully starting new businesses exist to establish that entrepreneurs can be trained".

42. It would be a serious mistake to imagine that enough is now known about how to enhance indigenous entrepreneurship, and that generous allocations of resources to this purpose would accelerate structural change or lay the foundation for future growth. But it would be equally wrong to ignore the fact that much of what goes on in this area is on the frontier of development, that some considerable experience has been gained and that very important experimentation is under way.

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