



THE LEAST DEVELOPED COUNTRIES REPORT 2018

OVERVIEW

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Entrepreneurship for Structural Transformation – Beyond Business as Usual



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DEVELOPED COUNTRIES
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Beyond Business as Usual



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The Overview contained herein is also issued as part of *The Least Developed Countries Report 2018* (UNCTAD/LDC/2018).

UNCTAD/LDC/2018 (Overview)

This Overview can also be found on the Internet,
in all six official languages of the United Nations at www.unctad.org/ldcr

FOREWORD

Nowhere else in the world is radical economic transformation more urgent than in the least developed countries, which have the challenge of accumulating productive capacities at an unprecedented speed, in the face of the rapid reorientation of global production and digital transformation, to achieve the Sustainable Development Goals by 2030.

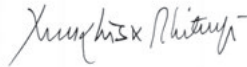
At the centre of radical economic change is transformational entrepreneurship. *The Least Developed Countries Report 2018: Entrepreneurship for Structural Transformation – Beyond Business as Usual* demonstrates how transformational entrepreneurship generates many of the social and economic innovations that underpin sustainable development. Transformational entrepreneurs create new products and business models; they offer dignified employment; their success leads to broader improvements in the quality of life and even bolsters fiscal sustainability. Dynamic entrepreneurs also make a greater contribution to wealth accumulation and distribution.

In the least developed countries, however, underdevelopment and unfavourable forms of participation in global trade constrain the emergence of the dynamic, opportunity-seeking entrepreneurs needed for structural transformation. The dearth of dynamic local entrepreneurship endangers structural transformation and ultimately weakens national ownership and the potential impact of attaining the Sustainable Development Goals in the least developed countries.

The weakness of dynamic entrepreneurship has important implications in the least developed countries, where entrepreneurship policy is often mobilized as an alternative to unemployment and a remedy for structural inequalities. This type of policy is often an imperfect way of fostering high-impact and dynamic entrepreneurship, which requires a distinct and strategic approach and deliberate long-term nurturing that entail coordinated and coherent action and smart policies across a range of relevant policy areas.

The Least Developed Countries Report 2018 presents a compelling case for a structural transformation-centred approach to entrepreneurship policy in the least developed countries. The report underscores entrepreneurship policy based on a fundamental recognition of disparities in the contribution of different types of entrepreneurship to structural transformation and wealth creation. It establishes a more active and proactive stance for the State in steering the emergence of dynamic and transformational local entrepreneurship. Importantly, it calls upon

the least developed countries not to overlook the pivotal and complementary role played by large enterprises, alongside medium-sized and smaller enterprises, with a view to the least developed countries formulating deliberate strategies to nurture entrepreneurship that has impact. By encouraging least developed country policymakers to avoid policies that might undervalue the benefits of entrepreneurship, this report makes an invaluable contribution to least developed country efforts to add value to their implementation of the 2030 Agenda for Sustainable Development.

A handwritten signature in black ink, appearing to read 'Mukhisa Kituyi', with a stylized flourish at the end.

Mukhisa Kituyi
Secretary-General of UNCTAD

OVERVIEW

Sustainable development, structural transformation and entrepreneurship

Sustainable development is enshrined as a global goal in the 2030 Agenda for Sustainable Development adopted by the international community in 2015 as an aspirational vision to shape the development strategies and policies of all countries, including the least developed countries (LDCs). Sustainable development implies a radical reconfiguration of patterns of production and consumption, and changes in the relationship between societies and the natural environment. It therefore requires the structural transformation of economies, especially in LDCs, which need to transition to high-productivity economic activities and sectors in order to tackle the traditional challenges of economic and social development in a new way that mainstreams environmental considerations.

The concept of sustainable development links three dimensions of sustainability — economic, social and environmental — and the 2030 Agenda emphasizes the unity of, and mutual support between, these dimensions. This three-dimensional view reflects the understanding that an exclusive focus on economic growth ignores and potentially hinders social development and environmental protection. It therefore calls for an integrated approach to development concerns, combining a growing and sustainable economy with environmental protection and the satisfaction of basic needs. Successive policy statements issued by Member States of the United Nations have emphasized the right and obligation of both developed and developing countries to pursue sustainable development strategies, while also acknowledging the policy space that this necessitates.

UNCTAD has long emphasized the importance of economic structural transformation to poverty eradication and long-term development in LDCs. Structural transformation refers to the transfer of production factors — particularly land, labour and capital — from activities and sectors with low productivity and value added to those with higher productivity and value added, which are typically different in location and organization, as well as technologically. This process allows an economy to continually generate new dynamic activities characterized by higher productivity and greater efficiency.

The 2030 Agenda is thus transformative, in so far as it requires a radical change in economic processes, in methods of production, consumption and transportation and in lifestyles. It also requires a transformation of the socioeconomic relationship within different societies, as well as with the natural ecosystem, to focus on the attainment of societal goals within environmentally sustainable boundaries.

In this context, LDCs need to undergo a process of structural transformation analogous to the historical transformations of developed countries and emerging market economies. However, they need to embark on this process while starting from a position of heightened structural vulnerabilities and in such a way as to avoid repeating the negative environmental consequences of the past. Such structural transformation has become a sine qua non for LDCs to fulfil the economic, social and environmental dimensions of sustainable development and achieve the Sustainable Development Goals.

Rural development in LDCs is an imperative, as agriculture continues to play a disproportionate role in LDC economies, absorbing two thirds of the labour force and generating some 22 per cent of economic output on average, compared with 8.5 per cent in other developing countries. This makes the transformation of rural economies central to the overall structural transformation of LDCs.

The expansion of productive capacities plays a pivotal role in sustainable development. According to UNCTAD, the notion of productive capacities encompasses the resources, entrepreneurial capabilities and production linkages that jointly determine a country's capacity to produce goods and services. Strengthening productive capacities is thus a key dimension of growth and structural transformation, which occurs through three interrelated processes, namely capital accumulation, technological progress and structural change. The development of productive capacities is thus inevitably influenced by the nature of the interaction between entrepreneurs, the State and markets.

Entrepreneurship is a diverse and multifaceted phenomenon that has been conceptualized in different ways. Behavioural definitions of entrepreneurship define an entrepreneur as a coordinator of production and an agent of change through innovation. Occupational definitions conceptualize entrepreneurship as the result of an individual's choice between wage employment and self-employment based on an evaluation of the returns offered by each. The latter conceptualization was formulated with the situation of developed countries in mind. However, self-employment in LDCs is less a matter of choice than a result of prevailing labour market conditions and a lack of alternatives. This underlies the distinction between entrepreneurship by necessity and by choice.

Most definitions of entrepreneurship share common elements, in particular innovation, opportunity seizing and opportunity creation, risk-taking, judgment in decision-making and the development of business organizations. Entrepreneurial activity occurs primarily in private firms or self-employment, but also in State-owned enterprises, cooperatives and non-governmental organizations. The most common organizational form in which entrepreneurial activity takes place is the firm, which encompasses a wide variety of types, including domestically owned and transnational companies, private firms and State-owned enterprises, and firms of different sizes and ages, operating in all sectors of economic activity.

Entrepreneurship, in particular through its innovative dimension, can make an important contribution to structural transformation in several ways. First, it is an important mechanism for shifting productive resources from economic activities with low value added and productivity to those with higher value added and productivity, whether in agriculture, industry or services. Second, it can stimulate investment and contribute to building a knowledge-driven economy, which plays a central role in economic growth. Third, even unviable innovations in production that introduce goods, services, production technologies or business models that are new to a particular setting may provide valuable information for future entrepreneurial decisions, including those of other entrepreneurs, in the form of cost discovery. All of these effects are particularly critical in LDCs that are in the initial stage of structural transformation. Entrepreneurship is thus a sine qua non of sustainable development.

Entrepreneurial activity also directly contributes to economic growth by stimulating job creation, improving skills and encouraging technological innovation, and can increase productivity by encouraging competition. Differences in the level of entrepreneurship or in types of entrepreneurship can thus have a significant effect on economic performance, and control for the traditional factors of production, namely land labour and capital. Along with the benefit of increased incomes

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