

Entrepreneurship, Finance and Growth: the Challenges for Public Policy

MENA-OECD INITIATIVE

October 26, 2009

Paris

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Entrepreneurship, Finance and Growth: the Process of Development

- Schumpeter, entrepreneurship and economic growth
 - According to Schumpeter (1934), the entrepreneur is the innovator who implements change by initiating new combinations, which can take **several forms**:
 - (1) the introduction of a new good or quality thereof,
 - (2) the introduction of a new method of production,
 - (3) the opening of a new market,
 - (4) the conquest of a new source of supply of new materials or parts, or
 - (5) carrying out the new organization of any industry.

- Knight (1921) makes a key distinction between **risk and uncertainty** and relates profit to the uncertainty of the business risk

- Role of Financial Markets:
 - Allocation of credit according to efficiency criteria, rewarding the “**creative destruction**” of the Schumpeterian entrepreneur who bears the Knightian uncertainty and therefore creating opportunities to finance growth.

Entrepreneurship, Finance and Growth: the Process of Development

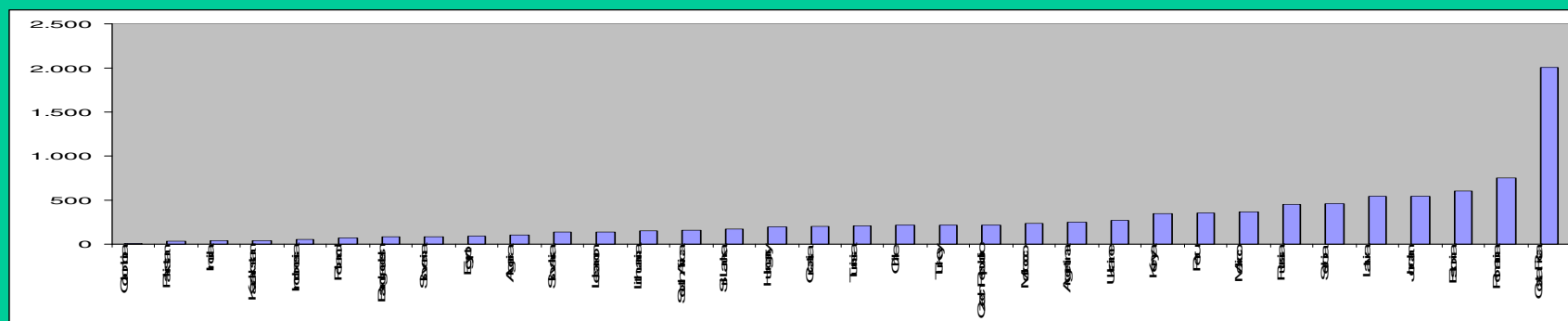
- Entrepreneurship promotes economic growth
- Micro and SMEs account for 90-99% of GDP in many countries
- Promoting Enterprises means fostering economic growth

Finance and Growth: Promoting Entrepreneurship

Propensity to Entrepreneurship

GEM capture “*propensity to entrepreneurship*” in various countries, e.g., percentage of population that is self-employed

New Corporations over GDP

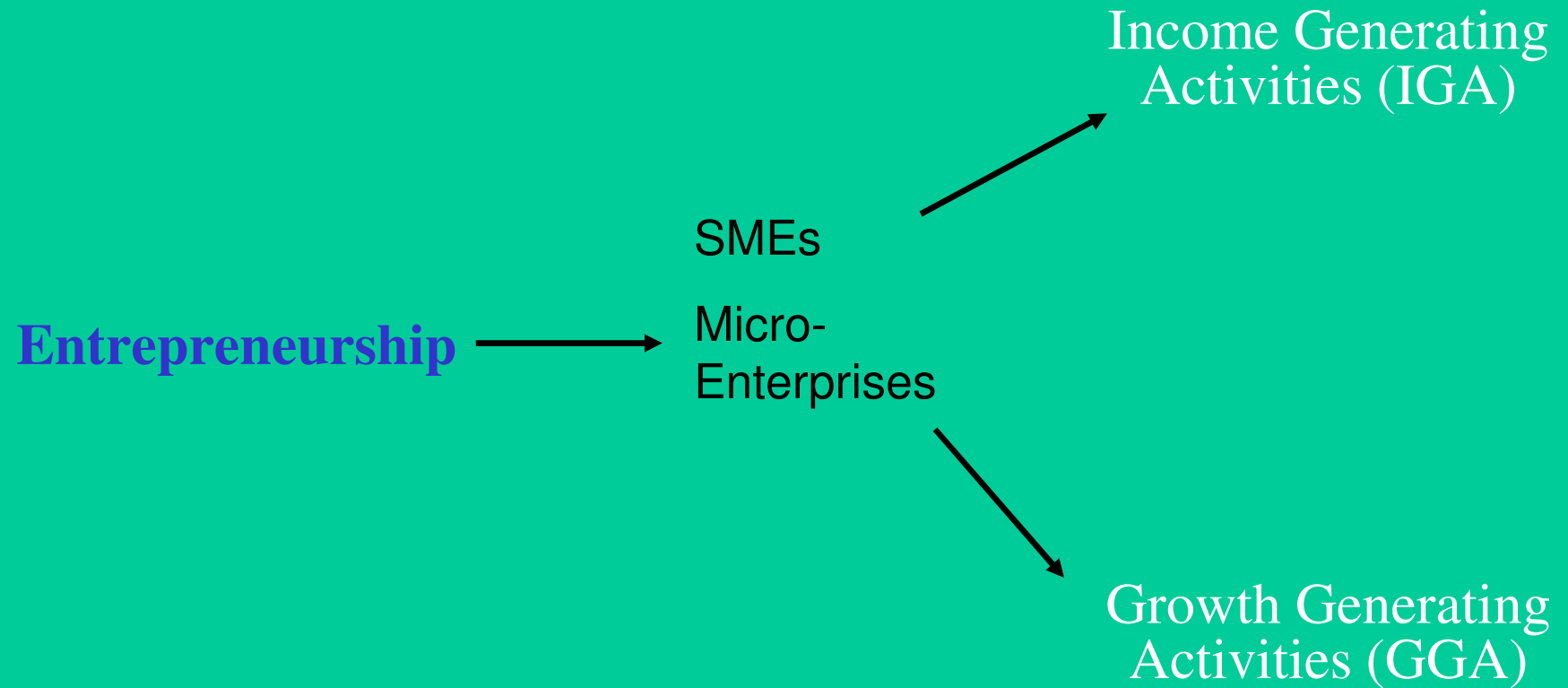


Finance and Growth: Entrepreneurship -Main Countries in the Meditterreanean

Country	Year	New Corporations	Crescita %
Algeria	2002	13.770	-
	2003	10.123	-26,49
	2004	12.494	23,42
	2005	12.164	-2,64
Egypt	2002	.	-
	2003	.	-
	2004	.	-
	2005	9.595	-
Jordan	2002	4.792	-
	2003	5.080	6,01
	2004	6.532	28,58
	2005	7.706	17,97
Lebanon	2002	2.853	-
	2003	2.891	1,33
	2004	3.470	20,03
	2005	3.127	-9,88
Morocco	2002	9.362	-
	2003	10.788	15,23
	2004	11.810	9,47
	2005	13.407	13,52
Tunisia	2002	5.460	-
	2003	5.332	-2,34
	2004	5.883	10,33
	2005	6.353	7,99

Data Base World Bank

Finance and Growth: the Process of Development



Risk and Uncertainty

- Risk and Uncertainty according to Knight (1921): calculations of probability of an event
 - Risk is conducive to business, economic activity and entrepreneurship
 - Uncertainty is conducive to inaction
 - The **task** is to **transform uncertainty into risk** and ideally the only uncertainty remaining is that of the outcome of a business initiative, the **so-called business risk**, which leads to profit
 - Financial markets do not function with great uncertainty, or when people discover that what they have in their hands is not risk but uncertainty

Public Policy

Key challenges for public policy are to :

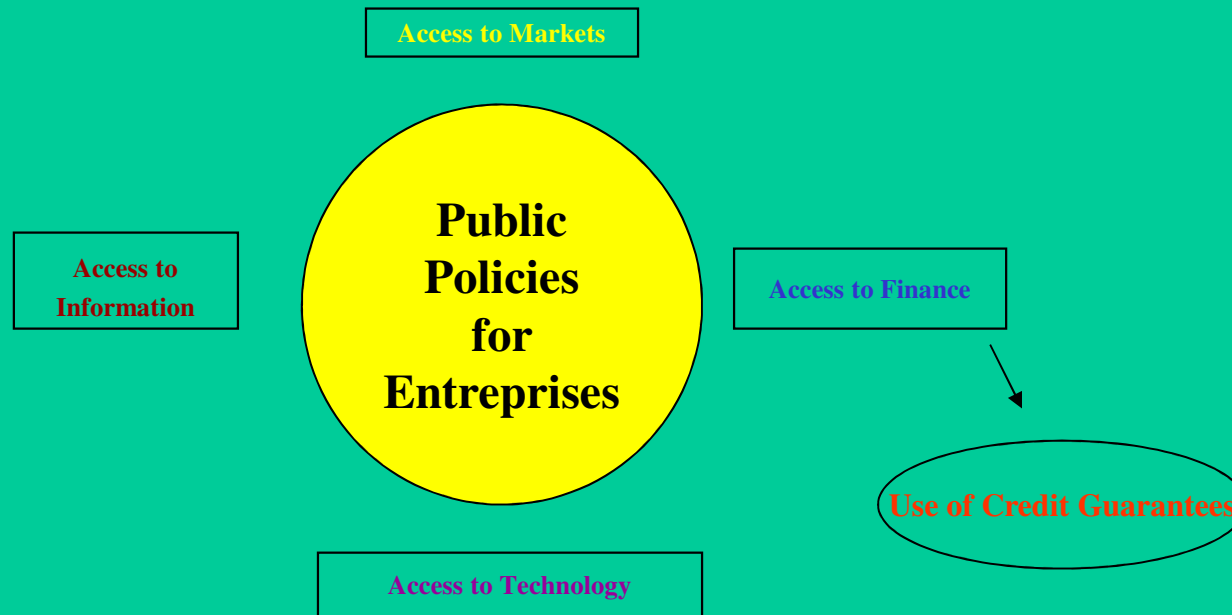
- Reduce and eliminate uncertainty
- Support Micro, SMEs and economic activity,

but also to

- Find the right balance between growth generating and income generating activities.

Public Policies for Credit Guarantees

■ Policies



Credit Guarantee Schemes (CGS)

- Additionality: how do we measure it?
- Are micro enterprises included?

How are CGS helping the development of financial markets?

- Individual aspects: the firm is the life of the owner
- CGS: define specific objectives, monitor, review, evaluate, see what works
- Can the development of Insurance markets help the effectiveness of CGS?

Mediterranean Business Development Initiative (MDBI)

- Initiative by Italy, Spain and also Algeria, Egypt, Morocco and Tunisia
- Intended to support access to finance for enterprises in the Mediterranean
- Based on principles of co-ownership, additionality and market oriented
- Feasibility study under way

Finance and Growth: the Role of Financial Sector

- Bank Credit/GDP as an indicator of financial sector development

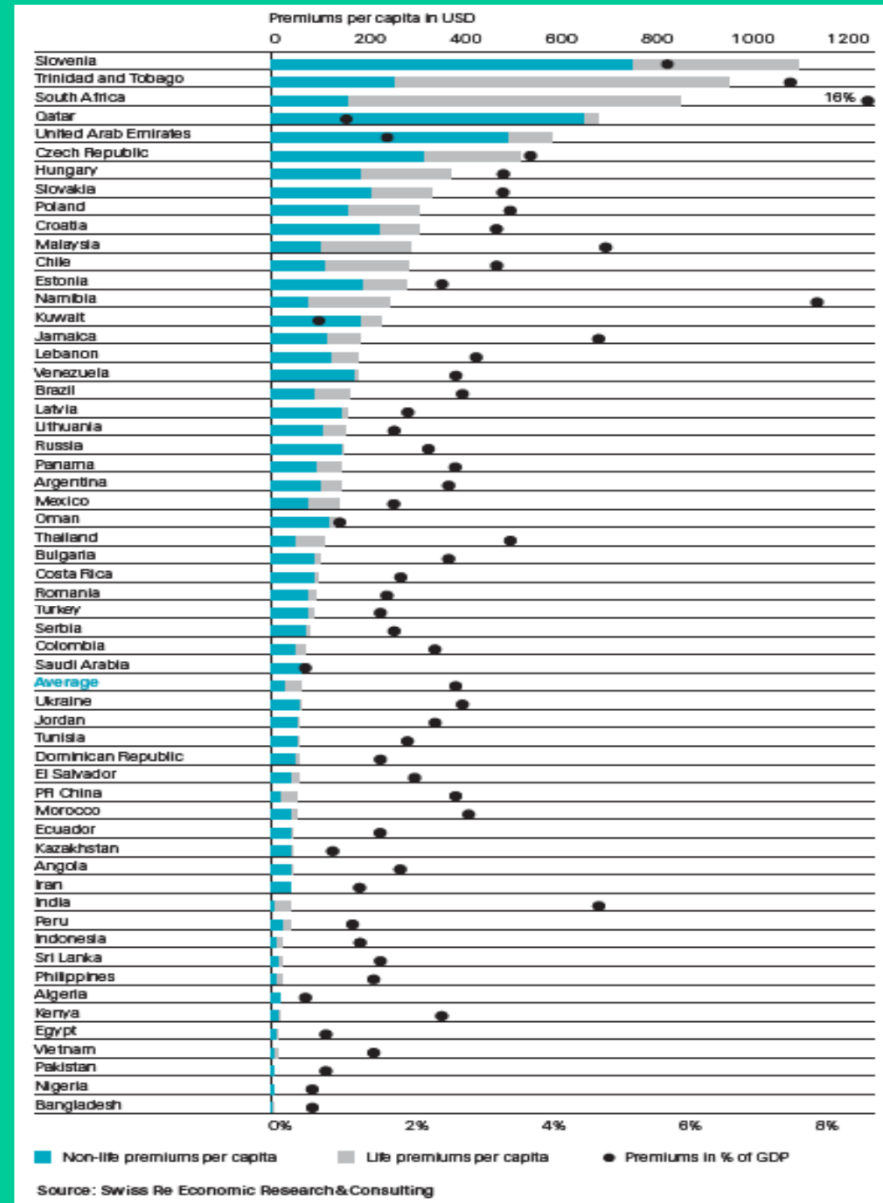
Geographic Area	M ₂ /GDP(%)	Private Loans/GDP (%)
Latin America	0,354	0,251
Advanced Economies	1,11	0,86
Selected Emerging Markets	0,89	0,9

Insurance Markets

- Development of insurance markets:
 - converts risk into uncertainty
 - facilitates entrepreneurs undertaking business initiatives reduces transaction costs and facilitates financing by diminishing borrowers' exposure to risks
 - allows savings to be directed to economic activities
 - leads to development and diversification of financial markets as premia are invested in financial assets
 - improves the stability and profitability of finance institutions.

Finance and Growth: Financial Sector and Insurance Markets in Emerging Countries

Although insurance products are progressively spreading in emerging countries, there is still much room for improvement.



Finance and Growth: Entrepreneurship - GEM Data vs WBGES Data

- Empirical work based on GEM (*Global Entrepreneurship Monitor*) and WBGES (*World Bank Group Entrepreneurship Survey*) produce interesting results.
- Different data sets,
 - WBGES measures are based on registered companies, entrepreneurship in broader sense,
 - GEM capture “*propensity to entrepreneurship*” in the various countries (e.g. percentage of population that is self-employed).

Finance and Growth: Entrepreneurship

- GEM Data vs WBGES Data

- GEM: informal economy, WBGES official economy
- GEM data are higher in emerging countries (e.g., role of informal economy)
- Less administrative and other obstacles to start a business in developed economies
- Less problems of access to finance.

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