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ENTREPRENEURSHIP BY POOR

- A study of entrepreneurship among the poor in less developed countries

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Abstract: The importance of entrepreneurship in our society is the way it stimulate the markets through alertness to opportunities, and being creational of new opportunity-ideas. However, entrepreneurship is usually constrained by normative, regulative and cognitive mechanisms that enforces and forms the basis on which the entrepreneur operates. This leads us to the primary question of this thesis: to identify factors and conditions that prevents entrepreneurship from prospering within the less developed parts of the world. To do this, we have to understand the complexity behind entrepreneurship as the product of entrepreneurs. Further, we need an understanding for the constraints lain upon them as a result of growing up within Less Developed Countries (LDCs)[1]. The purpose of this thesis is especially to identify poor entrepreneurs and the barriers they might face due to their standard of living. How lack of financial assets, educational possibilities within the field, regulated property rights, free market conditions, and institutional behavior, all can become heavy burdens for poor entrepreneurs, trying to create something out of nothing based on a new opportunity-idea. Finally, we shall present some policy recommendations for LDCs that can stimulate changes for the better, and by which entrepreneurship can be encourage and stimulated.

[1] Less developed countries will be defined as countries that are less developed in terms of their economy, infrastructure and industrial base. The populations, and therefore the poor entrepreneurs acting within these countries, are usually constrained by low standard of living (primary securities), due to low incomes and abundant poverty (investopedia.com).

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1. INTRODUCTION

The world is filled with different possibilities and opportunities based on where a person happened to be born. Unfortunately, it can also force segments of the population to live under low living standards, constrained by the minds behind the climate that surrounds them and imposes different barriers. This makes it very difficult for entrepreneurs, living within these less developed parts of the world, to act on a new idea and create something out of noting. Which leads us to the purpose of this thesis: to identify factors and conditions that prevents entrepreneurship from prospering in these less developed parts of the world. This is to enable a deeper understanding for how the lack of financial assets, educational possibilities within the field, regulated property rights, free market conditions, and institutional behavior can create barriers for poor entrepreneurs. These are often formed by the minds of citizens and leaders through normative, regulative, and cognitive enforcement mechanisms, and can be very difficult to change. We shall also see that primary securities are preventing many poor entrepreneurs from even trying on a new opportunity-idea, because of the risk involved and the consequences of failure.

However, before we take on these problems we shall provide the reader with an understanding of the complexity behind entrepreneurship and why it is of such importance. For example, a poor person running a small shop just to stay alive is *not* the same thing as being an entrepreneur. This can be exemplified with a reality-based example of true entrepreneurship conducted in India: a woman one day decided to start collect and sell trash that she found on the streets. After a while she figured out that she could convince others to do the same for a reasonable amount of money, and that she then could save enough money to invest in a small storeroom. Here, they began to sort the trash because it paid far more money than unsorted trash. In this way she began to grow what today is a multimillion dollar trash collecting company[2]. This company is a product of her daring to take a risk in a new idea that due to a combination of her innovational and creational mindset was able to blossom through different opportunities. However, for entrepreneurs to be able to tell a likewise successful story they should not only be lucky, hardworking and daring. They must also be surrounded by the right mental climate, and be provided the right kind of tools, and support. This can only be developed and provided through an understanding of the nature of entrepreneurship, and the

[2] Source: Banerjee and Duflo, 2011.

processes itself. Only then can we combat entrepreneurial failures among the poor and succeed in development, resulting in economic growth.

Today the literature on entrepreneurship among poor is often divided into distinct areas separated from each other, and is therefore not providing a concrete and complete picture of entrepreneurship within these LDCs. To do this, we shall provide a meta-synthesis based on qualitative research and studies on entrepreneurship among the poor, in which we have chosen examples mostly from Asian countries. This will not only provide a better understanding of entrepreneurship, but also ground some policy recommendations to LDCs for higher achievements and development within the field of entrepreneurship.

2. ENTREPRENEURSHIP

To introduce the concept of entrepreneurship it is important to give as clear definition of this complex subject as possible, to understand its significant role in economic development through economic growth, and how to measure entrepreneurship so it can be improved.

2.1 Defining entrepreneurship

Defining entrepreneurship is difficult due to its complexity and there is no agreement (Gartner, 1990). The subject's characteristics, dynamics, determinants and manifestations differ across countries (Naudé, 2011). This makes it of such importance to give a clear and distinct definition of entrepreneurship, to understand its meaning throughout my thesis.

Joseph Schumpeter thought of the existing national economic theories and its focus on equilibriums in the markets as something incomplete. By bringing entrepreneurship back into debate he wanted to change the traditional view and explain its significant role for economic development (Landström, 2000). He thought of entrepreneurs as innovators that did not passively follow the existing economic order surrounding us. Instead, he argued, they cause change from within to disrupt existing equilibria (Schumpeter, 1934/2006). Through recognition of market opportunities and risk-taking (Naudé, 2011), entrepreneurs could move the market toward a new equilibrium, and gain profits from spotting arbitrage possibilities by reallocation of resources.

Today entrepreneurship is looked upon as something that contributes to renewal and change from within the economy (Henrekson, 2007). That identifies new economic opportunities, and then introduces these to the market under uncertainty (Weenekers and Thurik, 1999). This by using its innovative spirit as an entrepreneur to creatively calculate risk, skillfully use the environment, see values of business propositions for themselves and the society at large, and while seeking and making good use of opportunities (Velasco, 2013). Furthermore, a distinction between entrepreneurship and self-employment as a last resort income must be stated. By this I mean mass coping or mimics of already existing ideas and that is a sustainer of the change created by the true entrepreneurs. If you walked down almost any street in a city belonging to a LCD you would most likely find yourself surrounded by a huge amount of similar shops that have copied the business ideas surrounding them. These individuals are not entrepreneurs and will throughout this thesis be viewed as casual workers.

2.2 Why entrepreneurship is important in LDCs

If we assume that entrepreneurial and innovational activities can be defined as a technological process[3], and that the latter matters for economic growth and a higher quality of life. Then it would be straightforward to conclude that entrepreneurs will matter for economic development and, with other words, it is a path out of poverty for societies.

Entrepreneurship achieves important functions related to efficiency, competition, product innovation, pricing and industry survival by acting either to disequilibrate (Schumpeter 1911/1934), to equilibrate (Kirzer 1997) or to do both. This bipolar view will have an effect on the market in different ways. Schumpeter wanted to create new opportunities by introducing new innovations on the market too distort the existing equilibrium. On the contrary, Kirzer found that opportunities was a result of reinforcing equilibrating forces on the market, based on arbitrage drawing on market errors (Shane, 2003).

Traditional microeconomic price theories are assuming that the market will find equilibrium under perfect competition. What this say is that in the state of equilibrium on the market, we have perfect information and therefore the prices reflect the value of underlying resources. By introducing new opportunities form outside this existing sphere (and therefore yet not reflected in the existing price system), Schumpeter believed that entrepreneurs pushed the existing equilibrium market away from equilibrium. The essence of an entrepreneur is to break away from routine, to destroy existing structures, and move the system away from the even flow of equilibrium (conflicting with the neoclassical model). Kirzer on the other hand wants to better understand the nature of the market process and the dynamics of market competitions. He argues that the market is in a constant disequilibrium, and that the main

[3] Referring to the definition invented by Nicholas Kaldor (1957).

focus should be on dynamic and competitive processes that pushes the economy towards equilibrium. The entrepreneurs will find these competitive advantages and present them as opportunities. They will then be valued and copied by others, and this will lead to the market finding itself in a new state of equilibrium (Kirzner, 2009/1997; Shane, 2003; De Jong, 2010).

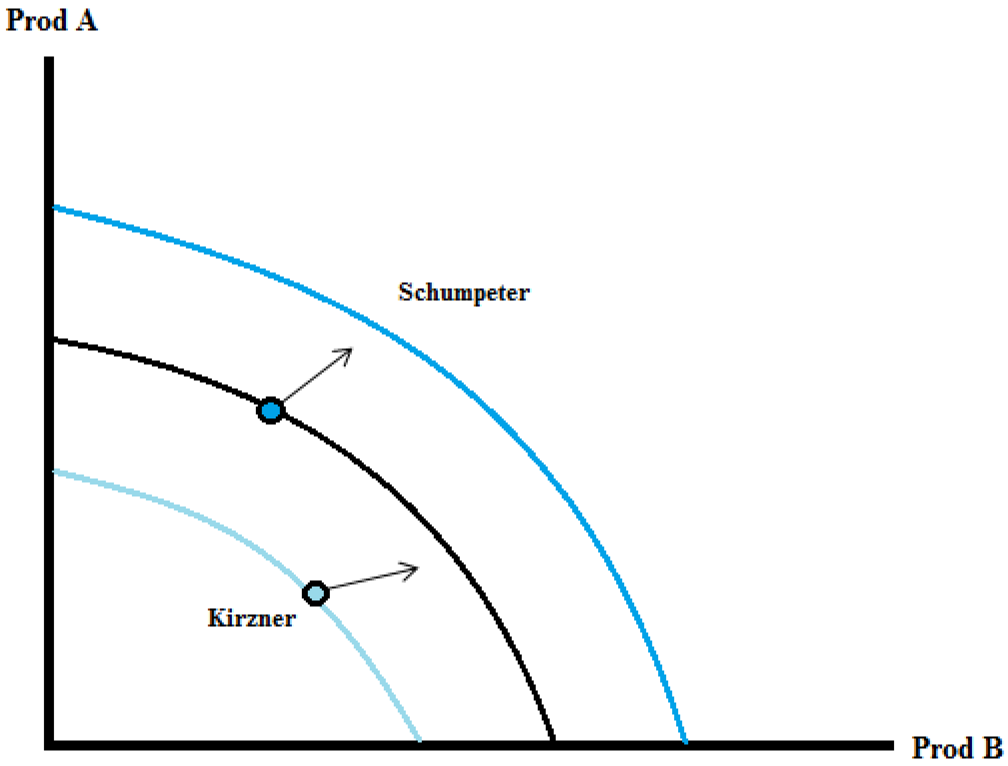

Figure 0: The difference between Schumpeter and Kirzner view on market equilibriums illustrated with the help of production-opportunity curves.

We could view both of these theories in light of the production-possibility curve to illustrate the differences. Schumpeter finds the entrepreneurs on the edge of existing production; inventing new possibilities and pushing the possibility-production curve out in disequilibrium. Kirzner on the other hand finds entrepreneurs as some sort of intermediary that utilize existing resource possibilities that others cannot see, pushing us in to equilibrium (see Figure 0). Today many economists think of both theories as complements to one another – Schumpeter positioning us in disequilibria and Kirzner acting on these new opportunities (Landström, 2000).

The impact of entrepreneurship can take different forms as stated above. Still it is a general belief that it will contribute to job creation, wealth creation, innovation and have related welfare effects. We will choose to emphasize Schumpeter's 'creational' view on entrepreneurship and Kirzer 'alertness' to imperfection on the market, to describe the significant role entrepreneurs play in economic development. We will argue for the importance of change in technological processes, due to entrepreneurship as one of the most important factors for economic growth. Built on, the demand for new products and services, more efficient production methods, and change in the existing economic climate within LDCs can hopefully result in poverty reduction.

2.3 How to measure entrepreneurship in LCDs

Measuring entrepreneurship is of great importance for the creation and implementation of new and better programs, and enabling better evaluations. However, documenting, measuring and thereby to understanding entrepreneurship is difficult because of the characteristic and dynamics involved. Available indicators try to measure things like personal attributes of the entrepreneur and the outcome of the entrepreneurial process (Banerjee and Duflo, 2011).

Personal attributes of the entrepreneur usually intend to measure gender based factors, or factors that can be broadly described by the Five-Factor model, including the following measurements: Openness to experience (specific traits include being artistic, curious, imaginative, insightful, original, and wide interest), (2) Conscientiousness (efficient, organized, strategic, reliable, responsible, thorough), (3) Extraversion (active, assertive, energetic, enthusiastic, outgoing, talkative), (4) Agreeableness (appreciative, forgiving, generous, kind, sympathetic, trusting), (5) and Neuroticism (anxious, self-pitying, tense, touchy, unstable, worrying) (McCrae and Costa, 1987). Also The Organisation for Economic Co-operation and Development (OCED) launched the Entrepreneurship Indicators Program (EIP) in order to collect internationally comparable statistics on entrepreneurship and its determinants (oecd.org).

To measure the outcome of entrepreneurial process is difficult and requires a deliberate degree of segmentation. This because no measure does capture all entrepreneurial activities in any country, let alone for comparison consistently across countries. Another reason is that only some types of entrepreneurship are of research interest (Naudé, 2011). Self-employment rate is one way to try measuring entrepreneurial outcomes. However, firstly it might not be adequately reflecting the context in LDCs, due to the informal sector[4] and the unreported data (Banerjee and Duflo, 2011) Secondly, it does not follow the given definition of

[4] To be accounted for as a formal or informal business has exclusively to do with the registration status of the firm. It has to be registered with an appropriated governmental agency to be included in the formal sector (Naudé, 2011).

entrepreneurship and its implications will be illustrated by The Global Entrepreneurships Monitor (GEM) project. Nevertheless, under the assumption that if it is collected from a standardized source, it could be easy to compare cross countries and this is the reason why it is such a widespread measurement.

The GEM project tries to produce data that can be comparable across countries, by collecting data on early-stage entrepreneurship that comprises two measures. First, we have start-up activity that is measured as 'nascent entrepreneurship' and is counted as the proportion of the adult population that is currently engaged in the process of creating a business. Second, the firm's activities are measured as 'baby entrepreneurship', and are counted as the proportion of the adult population that is currently involved in operating a business that is less than 42 months. This type of data is likely to overestimate early-stage entrepreneurship activities. For example, respondents may be considered nascent entrepreneurs if they have taken steps to form a business. However, these steps may not be materialized for several years – or in worst case scenario, they may never be. This because taking the steps to form a business does not automatically mean that the business has met all official regulatory criteria (Naudé, 2011). Also it falsely indicates on some countries to be more entrepreneurial than others, by using non excluding measurement from what we defined as self-employment errors. In *Table 1* we can see that this would indicate on Peru to be the most entrepreneurial country with significant more start-ups than, for example Japan, with almost no new business activity.

	Nascent	Baby
Iceland	7,83	4,46
Peru	31,36	12,93
Uganda	16,01	18,02
Sweden	1,81	2,87
Japan	0,96	1,21
Hong Kong	1,61	1,58
India	5,42	5,31
Source:	Sameeksha Desai (2009)	

The World Bank Group Entrepreneurship Survey (WBGES) measures formal data that are designed to be comparable across countries. They do not include the informal sector, counting only 'economic units of the formal sector incorporated as a legal[5] entity and registered in a public registry, which is capable, in its own right, of incurring liabilities and of engaging in economic activities and transactions with other entities.' They should be able to compare the data despite different political system and legal origins (Naudé, 2011).

It can also be difficult to measure entrepreneurship due to the institutional environment. Including being clear about the quality of the measurement being used, and what is actually examined. For example: measuring formal activity does not include informal activity (a large sector of the labor force in LDCs) and therefore cannot be seen as a measurement for the countries activity. It is of great importance to understand the relation between selected measurement and the economic development context of the country. By targeting the entrepreneurial context you seek and maybe wish to formalize through policy interventions – bring informal sectors into formal, or maybe focus on entrepreneurial growth. Also you will usually find different result for the same variables using different data (especially cross-country studies). Countries can host multiple types of entrepreneurship in different 'mixes' determined by the context – legal and illegal, formal and informal, necessity and opportunity. As an example Bangalore is hosting high growth in the biotechnology sector, while Mumbai in India is home to many informal new firms (many of these might growth to a level were formalization is necessary).

3. CLIMATE FOR ENTREPRENEURSHIP

The way formal and informal institutions works within LDCs will have a significant effect on entrepreneurship conducted within these countries. The direction they choose to take seems to be based on the thinking of its citizens and the kind of leadership it is under. In this section we will look into some enforcement mechanisms that have an important role in the enabling or preventing of entrepreneurship. We will also revise institutional change for the better concerning entrepreneurs. Finally, the importance of property rights and free markets will be brought into the light for entrepreneurial actions, and how soft budget constraints can affect entrepreneurship.

[5] This has to do with the activities a firm is engaging in and should not be interchanged with the formal/informal dichotomy (Naudé, 2011). For example, illegal activities can be producing drugs, mining in prohibited areas, or hunting almost extinct animals to sell parts of them.

3.1 Institutions

Institutions can plays the significant role of lowering barriers to market entry and exit for entrepreneurs. Both the informal and formal institutions seem to have important roles to play in enabling entrepreneurial actions resulting in economic development within LDCs. Usually defining 'the rules of the game' and thereby the crucial impact it has on the way individuals and organizations behave and interact, as well as how societies preform and develop socially, politically and economical (Skoog, 2005). 'Institutions can be defined as interrelated informal and formal elements – customs, conventions, norms, beliefs, and rules – governing social relationships within which actors pursue and fix the limits of legitimate interests. They are self-reproducing social structures that provide a conduit for collective action by enabling, motivating, and guiding the interests of actors and enforcing principal – agent relationships' (Nee and Opper, 2012). It defines the rules of engagement (Banerjee and Duflo, 2011), and through repeating behavior (conducted of these above informal and formal elements) it creates habits and routines within the society (Alam, 2002). Of significant importance for us is the understanding of its effects on the mode of business activities (entrepreneurship and innovation). Meaning that the system will be based on the thinking of its people, and differ between cultures. Thus, in most LDCs it will be constructed by the habits and routines evolved by men (Alam, 2002). Thereby, various actors; like suppliers, customers, and employer-employees, will be affected, that has a significant role to play in entrepreneurial actions among the poor. Something that not necessarily always encourages all citizens to invest, accumulate, and develop new technologies, as a result of which society will prosper.

3.2 Institutional effects on entrepreneurship

As argued, entrepreneurship seems to have a significant role in alleviating poverty through destruction of existing equilibria. Informal and formal institutions can find themselves work either for or against entrepreneurial actions within a society, through lowering or raising barriers to market entry or exit. These informal and formal institutions can be strengthened or weakened by three components concerning entrepreneurship, namely: normative, regulative and cognitive mechanisms (Shetri, 2007)).

Normative enforcement mechanisms refer to culturally sanctioned and tolerated codes of conduct, including all kinds of behavioral codes within industries and professions, families, ethnic groups and other communities (Shane, 2003). These mechanisms will rule within both the formal and informal sectors. The perception of entrepreneurship in society will therefore be of significant importance, and it is usually affected by its leaders. They might as the communist regime of China – before the privatization begun 1978 – neglect private owned property (Nee and Opper, 2012), and entrepreneurs then had to fulfill social obligations (Shetri, 2007) hindering them from self-selected development. Other institutions may enforce cultural constraints on entrepreneurship not tolerating all kinds of business activities, or make the perception of entrepreneurship highly negative. However, nowadays many leaders are trying to change the attitude towards entrepreneurs throughout society, and make entrepreneurship something desirable among its citizens (Nee and Opper, 2012).

Regulative enforcement mechanisms are given by formal institutions and can hinder entrepreneurial ventures from development by making them unable expand, or even set-up. These mechanisms usually take expression in form of weak laws related to private property rights that is of importance for entrepreneurship (Nee and Opper, 2012). Also, poor enforcement mechanisms are a common result of weak formal institutions that fails to provide institutions that can make different markets free of illegal activities (Banerjee and Nee, 2011). This can also work as a hinder for entrepreneurs trying to escape the informal sector, by not providing registration opportunities.

Cognitive enforcement mechanisms are reflected in a culture of complacency, conformity and risk aversion. These attitudes vary between LDCs towards entrepreneurship and are many times looked upon as either an act of individuals that cannot find a regular job, or as success. Risk-taking is a very important element in entrepreneurship and is not as acceptably applied in many LDCs compared to western countries. However, this view on risk-taking is starting to catch-up as these countries are going oversee and exchanging knowledge (Shetri, 2007). Acceptance of failure among citizens could result in creation of institutions providing safeguards in form of assurance for entrepreneurs in case of failure.

Formal institutions will only work successfully if individuals are able to establish a basic level of trust in the reliability of exchanges, sanctions, and penalties that may be imposed. Trust in the institutional framework will allow entrepreneurs to enter into transactions with only limited information about their transaction partners (Shane, 2003). This because the formal institutions will provide legal safeguards and sanctions which informal institutions – in most cases – can only provide to a limited extent (Nee and Opper, 2012). This is if, as argued above, these three presented mechanism can enforce institutions to establish favorable conditions under which entrepreneurs can work and prosper. However, it is only in situations where formal and informal institutions combine and forms a coherent framework that this kind of change can occur. For example, formal regulations and the rules of law will predominately shape individuals behavior. So within fragile settings with institutional deficiencies and conflicts, non-compliance with the formal rules becomes pervasive, and informal enforcement mechanisms will typically dominate (Shane, 2003).

A major problem is usually that formal institutions seem to change faster than informal institutions which might result in conflicts between both. This in regard to the difficulties in changing people's way of thinking due to the underlying values, norms, and beliefs that it is built on. Also as argued by Schumpeter 'Key institutional innovations are norms and informal practices that allow producer to shift from small-scale household production to new forms of capitalist enterprises.' A similar conclusion can be derived from *a multilevel model*[6] explaining the bottom-up effect in China that enabled the transition towards privatization. This was because people relied, in their business activities, on family reputation, this in the lack of working formal institution. This empowered the citizens of China to commit entrepreneurial actions (Nee and Opper, 2012).

3.3 Institutional change

To change an institution lead by unconstructive thinking and behavior, toward encouragement of citizens to invest, accumulate, and develop new technologies, by which society most likely will prosper is essential. Thereby, they create an environment that will work for entrepreneurship, and establish demand for entrepreneurial actions on the market. However, institutional change is not necessarily believed in general or wished upon by leaders among LDCs countries to be encouraging entrepreneurship (Banerjee and Duflo, 2011). However, this type of institutional change is to be argued for throughout this section.

There are countless of theories of how to implement institutional change usually referring to empirical evidence. Some arguing for the European Union (EU) and the way it foster its new members towards entrepreneurial action that is generally believed to result in development (Hjorth, 2012). Others arguing for change of leadership inspired by Hong Kong and the British History – saying that if you cannot lead your country then leave it to someone who can. In China a way of coexisting between economic social-political dimensions is preferable,

[6] Institutional change can be derived in China through its bottom-up effect that enabled the transition towards privatization through a multilevel model that included following steps: (1) market competition, (2) entrepreneurial actions, (3) mutual monitoring and enforcement, and (4) mimicking (Nee and Opper, 2012).

and therefore searching for a solution within the existing institutional system (Hjorth, 2012). However, more generally believed are maybe programs and education that enables people to get richer and through which good intuitions will emerge and break the vicious circle (Banerjee and Duflo, 2011).

An example of a normative change in India, a country with a high degree of informality. There an institutional change has begun to emerge in hand with dignity. A study with focus on children, rural women and bounded labor as a key-factor for institutional changes, shows that women standing up for their own dignity is a strong norm breaker in India. They have for example through different moneylenders of microcredits been able to make their own decisions regarding economic investment, saving and spending. However, even if they are involved in using the money they do still not control the main economic assets – that still is under the control of men (Olsen and Morgan, 2010).

There seems to be countless of ways to enable institutional change that could be argued for or against. Most likely there is as many ways to make a change possible as there are countries. However, the important thing is not change itself but rather the enabling of entrepreneurial activities. To understand that change often comes from understanding these three mechanisms presented above and how we can force them to encourage entrepreneurial activities and thereby enable development. Enable informal and formal institutions to make these ‘rules of the game’ fair, and based on equal conditions.

3.3.1 Property Rights

Historically the question have mostly been about handling the use of labor and land as it became an important factor in production, and through which property rights started to emerges. Today we know these rights as ownership rights by one individual or family. The economic definition of property rights usually refers to the use or control over a resource or a goods (Ray, 1998). With other words, if ownership of a resource gives you the rights to use the output from it in the way you like. It is crucial for entrepreneurs that are setting up new businesses and wish to maximize their profit to be able to control the earnings from its output, transfer it in the way it like, and have enforcement rights on their property (Guerin, 2003). However, this is hardly the case in most LDCs where unconstructive informal and formal institutions hinder entrepreneurs from entrepreneurship. This by regulating the environment surrounding property rights (both implicit or/and implicit), by either prescriptive control or command approaches, or through market based instruments. The last one will constrain the entrepreneurs from using his or her resources in the way they like, by implementing taxes, subsides, quotas, and transferable permits on goods and services. Another obstacle that could prevent entrepreneurs from using their resources could be normative, for example old traditional values (e.g. new rights for private ownership of land that previously have been used collectively which results in people not caring for the new ownership form), or informal institutions that works outside the legal system (e.g. mafia organizations). The first one will limit the use of input and output quantities, restrict the entrepreneurs to process them in the way he or she wish and also decide the equipment that can be used. These two regulations might have a devastating effect on entrepreneurship and entrepreneurial action on the market.

3.3.1.1 Property rights illustrated in China

During the last decades, China has gone through an enormous development and become a strong competitor on the market. Economist all over the world, are asking themselves, how this could happen in the absence of credit markets, courts and other market institutions, highly regulated by its leaders. Thereby, they made entrepreneurship almost impossible due to these impediments for market entry and exit (Opper and Nee, 2012).

This brings us to a very important subject for a deeper understanding of Chinas progress to better and more equal property rights, namely trust. To understand this better we can imagine different equilibria in Prisoner’s Dilemma. Under rational decision we could expect all other parties (under governmental favorable conditions) to cheat and rationally so would we if we could. This would give us an equilibrium not favoring any party under self-defeating incentives. Opposite we could trust in others, but there would always be a risk in others finding a better deal. Contract by law under a working legal system could ensure us by a written contract under the law that they could not leave just for a better deal. Still, the people in china did not and all still do not trust the legal system (McMillan and Woodruff, 2001). This leads us in to the main reason why China could make such a fast and dramatic change in property rights. In the families, there is no Prisoner’s Dilemma, because each is confident that the others can be counted on. As an example, ‘You can settle any dispute if you keep lawyers and accountants out of it. They just do not understand the give-and-take needed in businesses (McMillan and Woodruff, 2002). A China novo business was built on trust within families and on their reputations. Economics, social networks and informal gossip substitute for a formal legal system, while business networks and trade associations work in conjunction with it. The former bureaucratic control system during the planned economy got replaced by market-oriented formal and informal laws. Even though informal laws like norms is playing a major role in Chinas private sector it has to be in the shadows of a working formal legal system. Because without courts the firms might not be willing to produce complex goods and invest in technical advancement that initially can be very costly to produce complex goods. Belief in courts and contracts they may provide will equal in changed behavior (McMillan and Woodruff, 2001).

So how did people dare to invest initially in their company's future without working formal institutions doing arrangement concerning contracts, property rights, laws, regulations, and the state? The answer is: through informal constraints based on collective actions to enforcing rules. In China this was embedded in norms and networks operating in the shadows of formal organizational rules, both limited and facilitated economic actions (Nee, 1998). Trade associations and private firms started to sell and provide information on businesses not keeping their end of the bargaining. In China threats of public exposure was, under the 1990's and still is, an effective way to collect money. A close relationship between collectors and the press were often established (McMillan and Woodruff, 2001).

This tells us that sometimes development through entrepreneurship must begin on its own within the informal sector, in the absence of the formal highly regulated sector. Institutional change sometimes must come from within, and not from the outside. China was able to change due to the bottom-up effect that found its way around the lack of working institution and the highly regulated markets, built on trust for each other to collectively be able to enforce right and wrong. Thereby, they opened up for entrepreneurial set-up opportunities, which in its second phase enabled institutional change resulting in increasing economic development. Further, this concludes what was already stated above, that informal and formal institutions must work jointly to enable development among the LDC. Also it tells us that change does not need to be forced from above (as many thought above). Instead it can come from within, making people wealthier and in this way change for the better will occur.

3.3.2 Free Markets

We commonly define a free market economy as something allowing buyers and sellers to transact freely based on their mutual agreement on prices without state interventions (taxes, subsidies or other kinds regulation). The concept of free markets are beloved by many economics, and described as the oxygen needed for entrepreneurship (Tiwari, S. and Tiwari, A., 2007). Usually derived from the Laissez-faire principle that refers to 'the ideology of noninterference in the affairs of others, particularly with reference to government interferences on economic matters. Markets should, in this doctrine, be left to operate 'naturally' according to economic laws' (Down, 2010). However, during the last decades we have seen countries like China arise following a more state controlled program. China has, for example, grown to be the world's second largest economy by losing its grip on entrepreneurs, and by focusing its resources (Kressel and Lento, 2012).

The transition toward an open economy with freer markets will be of significant importance for entrepreneurs. This because it will generate a better entrepreneurial climate with lower transactions costs, where information asymmetries will be less sever, and financial services will be available to a larger extent. For example, in Nigeria the entrepreneurs find the lack of credits, poor transportation infrastructure and the lack of independent utilities as the leading constraints of firm growth. On most occasions, this is a result of government monopolization of production that frustrates organizational development and productivity (Acs and Audretsch, 2012). Usually they target demand of industries that have a major strategic function to play which will result in new comers to be of the same kind of businesses (Kressel and Lento, 2012).

However, free markets are by LDCs countries not always preferable among the poor that are not able to participate in the market. Instead they believe poor should wait until the market finds them (Banerjee and Duflo, 2011). At first this might sound unfair to poor people (entrepreneurs) wishing to participate in the market. However, just because a person believes himself to do well in something, it might not be viewed in the same light by others. As an illustrative example that could easily be understood by any person that have been to Delhi, in India, and seen its traffic would understand – that free markets might not always be optimal. The government allowing a free-market on driving license, leading to the price determines how fast you will get it, and not skills and knowledge.

Sometimes it might be necessary to allow the government to enforce rules and norms that make these countries function. Try to solve problems that markets cannot solve by itself initially (Banerjee and Duflo, 2011). Even set in a global context totally free markets would not be optimal. Gray argues that in order for there to be less barriers to trade there needs to be new structure and regulation to achieve it. 'Freer markets aren't simply the absence of regulation. The differences that exist between national economies, their regulations on labor, wage differentials and so forth are what global competitive markets thrives on. It is these differences that entrepreneurs exploit. Totally free markets are an impossible reality; Gray calls it a utopia' (Down, 2010).

Potential entrepreneurs should observe the strategies and business operations of existing entrepreneurs and gather information about potential markets, input suppliers, and production techniques. As such, market entry becomes increasingly important for generating these externalities. Additionally, potential and existing entrepreneurs also learn from failing and failed businesses. They learn what not to do or what to do differently. Market must, therefore, be free from excessive interventions which do not allow firms to fail for these failure externalities to be effective (Ateljevic and Page, 2009).

It can also be of great importance to provide governmental support on small-scaled businesses. This does not say that direct interventions (for instance, specially designed credit schemes) are more important than indirect ones (for instance, in terms of development of infrastructure and creating a business-friendly environment) for the growth of these businesses. In many cases, subsidized credit accompanied by appropriate public policies, which make it easier for small-scaled businesses to distribute and market their output and to buy their raw materials, is much more effective than introducing too many special support schemes for them within a distorted market (Tambunan, 2008)

3.3.2.1 Soft Budget Constraints

Soft budget constraints (SBC) define one of the most important regulative institutional effects and usually appear as some sort of relaxation in the strict relationship between expenditure and earnings. The effects on overall entrepreneurship can be quite severe, favoring specific market areas through institutions – typically the State – making relaxations of the excess of expenditure over earnings. These relaxations typically take the form of subsidies (cost overruns), taxation, credit and administrative tariffs, which will be explained in more detail below.

As stressed above, state-owned enterprises or other forms where the state is involved in the ownership often face 'softer' budget constraints than, for example, private owned enterprises. There are often two types of explanations for the existence of SBC: the exogenous and endogenous. Exogenous effects are coming from outside the system and cannot be explained by the model itself. They are usually applied as governmental attempts to create or gain political power in the state. Whereas endogenous effects, on the contrary, are often explained from inside the model by: entrepreneurship, innovations, educations and likewise investments. Based on a time-inconsistency argumentation where need of relaxation in the strict relationship between expenditure and earnings will occur (Lin & Tan, 1999).

Subsidies are often used by local and national governments to adjust cost overruns based on a time-inconsistency argumentation. 'Soft' subsidies can be subject to corruption, negotiation and lobbying. The state will reallocate resources to its own SOEs from other sectors, this can be compared with the Stalin-system, where they took the state resources from the private agricultural sector and placed these in state run agricultural SOEs. Usually all kinds of output and input prices are being distorted (Lin & Tan, 1999). Normally there will be tariffs, governmental subsidies and so on, which will be favoring the SOEs in selective industrial areas often based on political grounds. This will have a significant negative impact on the overall entrepreneurial actions on markets not favored by the state.

Credits are often used as an instrument in SBC and it is very common to see creation of state-owned banks (SOB) too be able to make such subsidies. In China we could see a drop in the profit to investment ratio from 81 cent per dollar to 9 cent per dollar after the economic reform which took place in 1979 and the state had to make subsidization to SOEs often direct from SOB (Bryane, M. 2007). This can have devastating outcomes like in Brazil when Sao Paolo forced their major banks into bankruptcy (Lynette H. Ong, 2011) and as the information and coordination problems that occurred in the Stalin-system that failed to deliver in time. Once again the state had to step in and make subsidies to make investments and production goals in time and we could see how the SOBs arose (Lin & Tan, 1999). The viability of SOE's began to run out after the economic reform, which began to take their place. And from 1978 to 2000 we could see a decrease in non-preforming loans in the Chinese bank sector portfolio drop from 97% to 78%. This is a good example of the increase in debt burden during state leadership and creation of state-owned credit institutions and how privatization can have a positive effect, due to entrepreneurs destroying existing equilibriums as Schumpeter argued. We should also be aware of how these institutions can be influenced by corruption through politicized acquisition of inputs and through this gain comparative advantage and as a result there will be fewer innovations through entrepreneurship. This could lead to a low marginal productivity of capital in state sector and the quantity-restricted level of credit extended to non-state sectors will make both fall. Credits are also often taken on the public owned savings and if they crash, like demonstrated above in Sao Paolo, it could drag the public economy down with it in the fall. Another problem is the upswing in managers risk aversion due to a new mentality thinking ‘don’t fix if it’s not broken’ because it adopt ‘safety’ thinking. Since all of this subsides from the state to its SOEs. You should also be aware of the managerial power-up within the firms because the manager is not disciplined by the market (Bryane, M. 2007).

Taxation is a common subject in the discussion of SBCs and can be considered on both local and national levels. They are often tailor-made according to the financial situation of different sectors, regions and forms of ownership. Leaks, postponements, ad hoc exemptions and so on can easily be found in the taxation system. These will be favoring the SOE to the detriment of private owned enterprises who will face monopolistic behavior in the state driven market, which will affect the non-state acting entrepreneurs in a contradict way and they will often find the barriers into the market to high (Nee and Opper, 2012).

Administrative prices can be considered soft when they are set by some bureaucratic institution and do not freely contract seller and buyers. Then they who set them have a tendency to automatically adjust to cost increases in the economy by using the permissive cost-plus principle that automatically will adjust prices to costs. We could also find it more difficult for private owned businesses to get permission both locally and nationally to start or develop its business in desired directions. This usually has a tendency to force entrepreneurs to act on the informal market in LDC and it works as a great barrier for the formal market entry.

4. CREDIT MARKETS

For many poor entrepreneurs one major problem is not being able to lend enough money to make a new idea into reality and start earning serious money. Credit markets are not suitable for poor entrepreneurs with no collateral, are active in countries with no working formal system, and are an overall risky investment. We will consider three theories explaining why this might be the case, and how the latest revolution of microcredits imply a different interpretation. Here we will explain repayment enforcing mechanisms and also the risk taken by the entrepreneur in trusting the money lender. Further, we will explain how this will have an effect on interest rates and how this might hold entrepreneurs back from crossing the hump. Finally, we will explain the overall risk in entrepreneurship.

4.1 Credit markets: Not optimal for poor entrepreneurs

Individuals in western societies often take for granted that if you buy something you simultaneously pay for the good or service your receive. But behind this is an enormous amount of social conditions, as well as legal mechanisms making it possible. The social conditions become weaker as the gap between receiving a good or a service and paying for it increases. An example of this would be a loan being granted, and money is advanced by a bank or a moneylender and must be repaid later. Stating one reason for why the need exist to screen potential borrower more thoroughly than potential buyers. Too find out the ability and the willingness to pay. Because if an individual can default on the existing credit market arrangements, under the existing social and legal rules, then he or she might very well do so. In regard to this, we know that most poor entrepreneurs will face markets within LDC with weak mechanism for punishing deviation from the norm. Relying on informal mechanisms will only work up to a certain level, where fear of sanctions against future credibility and trade relations can be implemented. Thereafter, the need of formal mechanisms against illegal actions on the market is needed (Saker, G. and Patra, P. and Sarkar, A., 2012).

Further, the money lender will most certainly require some sort of security to approve a loan. This is a major problem among poor people with no access to any form of collateral, and for that reason, having no access to the credit market under normal circumstances. Unequal societies makes it impossible for a poor entrepreneur to get the credits necessary to start a small business, educate oneself or others, and other things involved in entrepreneurial actions. Absence of credit markets or imperfect credit market in LDC meant for poor individuals is a fundamental characteristic of unequal societies (Ray, 1998).

Combining these two conditions will create tension between the moneylenders and the true entrepreneur concerning risk-taking. Moneylenders wishing to minimize the risk-taking involved in granting loans and this while true entrepreneurs are taking risks in each entrepreneurial action they perform.

4.1.2 Theories illustrating the repayment risk

When a poor entrepreneur wants to receive a loan for a new business start-up there will be three major factors to take into account: (1) Punishment for illegal actions (informal and formal mechanisms), (2) contemporary financial assets of the entrepreneur that can be used as collateral, and (3) the entrepreneurial risk-taking involved in the new business set-up. Now, we will demonstrate theoretically how this works, to get a deeper understanding of the significant problem standing in front of a poor entrepreneur seeking credits.

1. Lack of incentive to repay a loan: Theoretically if you are a poor entrepreneur you would face fewer incentives to repay a loan (independent of inability to put up collateral) than a rich entrepreneur would do. This is easily understood in the light of *diminishing marginal utility*, where each additional unit of money in hand means far more to a poor individual than to a rich individual (Banerjee and Duflo, 2011). In *Figure 1* with utility on the vertical axis and income on the horizontal axis, we can see the same loan to be repaid denoted *L* by a poor and a rich individual. The area *A* represent the utility loss for a poor person X_P repaying the loan, and area B representing the utility loss for a rich person Y_R repaying the same loan. This do clearly indicate a lower incentives for a poor person compared to a rich person to repay a loan, and therefore a poor person involves a larger risk. This does not include externalities that might, for example, enforce punishments on the rich person giving that person larger incentives to do his repayment due to the risk.

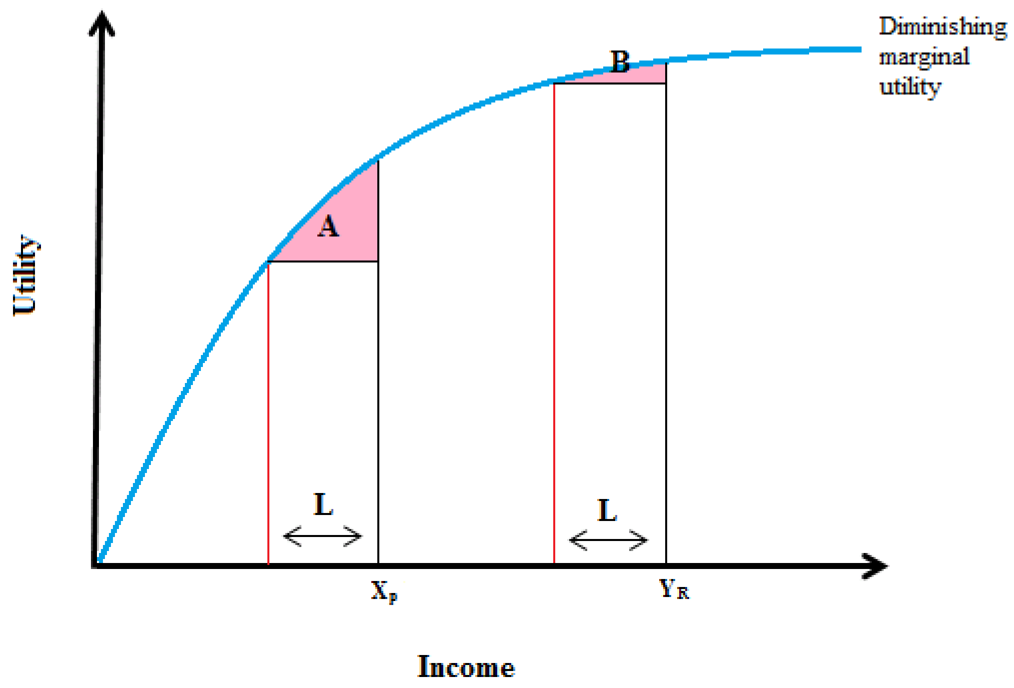

Figure 1: Incentives to repay for the poor and rich: a comparison.

2. Heterogeneity in the default probability: The most important thing for a micro financial institution (MFI) to determine before granting a loan is the probability of the risk of default. They will naturally target a hundred percent repayment rate (denoted P_{target}), and this will determine the size of the loan given to a potential entrepreneur. The loan-taker on the other hand will always base his or her preferred loan size on expected return. Most likely an entrepreneur will believe in a return increasing function, and therefore always prefer a bigger loan (Godquin, 2004). Entrepreneurs are also per definition more risk-taking in their new ideas, believing in high expected return on investments – otherwise they could be accounted for as casual workers. If default probability increases with loan size under heterogeneity, then the safer borrower (l) will be granted a lager loan as shown in *Figure 2* (Freimer and Gordon, 1965; Godquen, 2004). Both groups will intercept on the vertical axis above origin P_{min} due to external factors as illness, accidental destruction of the borrowers productive assets, or planned default. The risk can also defer taking into account for factors as initial endowment, mortal hazard and strategic default associated costs (Godquen, 2004). The conclusion (larger loans should only be granted to safe borrowers) is of great importance in understanding the difficulties for many poor entrepreneurs. Since it contradicts everything an entrepreneur stands for, namely taking risks in new ideas.

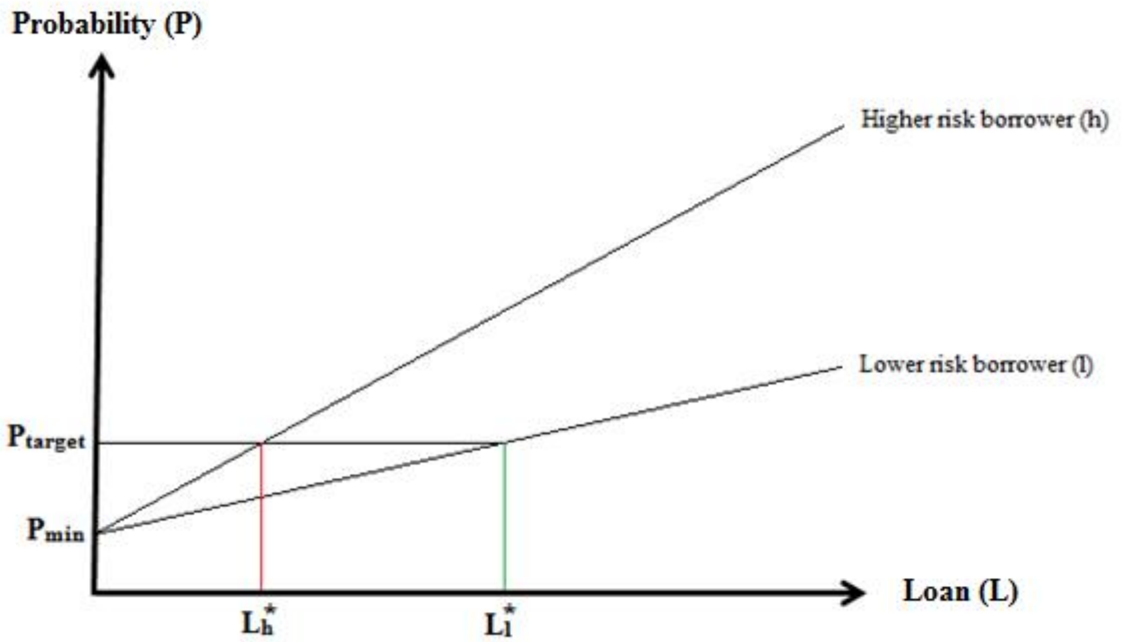

Figure 2: Default probability

3. Wealth available for collateral, expected profit and punishment for default: Suppose that the startup cost of a business (e.g., the acquisition of sewing machines and other equipment, and renting a local place to run a business) is given by the amount *I*. The business itself consists of hiring *m* industrial workers to produce an output *q*. The entrepreneur pays them a wage of w each. This must give the sewing machine business a profit equals to q-wm. Now imagining the entrepreneur receiving a loan and repaying it at an interest rate of r. Then the net profit is easy to calculate as $(q - wm) - (1 + r)I$, and with this information in hand it is easy to figure out whether a person with some given starting wealth W will be granted a loan adequate enough for entrepreneurship (Ray, 1998).

Now (if the entrepreneur received the loan) he or she can set up the W as a collateral and start a business (e.g., a factory), gain profits and start repayments $(1 + r)I$. The entrepreneur can always default the loan for $-W(1 + R)$ at the risk of being captured and punished, but as mentioned above this can be a tricky and sometimes impossible thing to do in some LDCs (especially if social implications makes everyone stop at the same time).

If we imagining a fine being paid as a punishment denoted F, and a fraction λ of the profit maintained from the business. The fact that λ is only a fraction captured, and that the entrepreneur may not be caught for sure, and even if the entrepreneurs is, it may not be possible for the lending authority to seize all profit. Therefore, the entrepreneurs will honor the loan if:

$$I(1+r) \leq W(1+r) + F + \lambda\{q - mw(t)\},$$

And rearranging this inequality, we obtain the requirement,

$$W \leq \mathrm{I} - \frac{\mathrm{F} + \lambda\{\mathrm{q} - \mathrm{mw(t)}\}}{1 + \mathrm{r}}$$

This is fundamental for the understanding of this model and tells us that banks and moneylenders will only advance a loan to an individual with an initial wealth 'high enough'. And if the entrepreneur is below the requirements of receiving a loan, then he or she cannot credibly convince the lender that he or she will repay the loan. This leads us to a very important conclusion: Individuals who start out with a wealth lower than the critical level are, therefore, unable to be entrepreneurs whether they want to be or not. This concludes in that the target individuals throughout my theses, below or just above the poverty line, would not due to this theory be able to receive a loan from the bank or money leaders. They will be in need of some sort of substitution for regular banks and moneylenders and one example highly debated right now is microcredits for poor people.

To be noted is that the smaller F (expected cost of imprisonment) and λ (the fraction of your business profit that your bank can appropriate), the more stringent is the requirement of initial wealth. This means that if both F and λ equals zero, then the credit market would break down as a result. The constraint reduces to $W \geq I$ and in this case the entrepreneurs would finance their own business (Ray, 1998).

4.2 Microcredits

Microcredits are small financial loans issued to poor individuals seeking to start their own businesses. The size of the loan varies between countries and does not usually exceed a couple hundred dollars (businessdictionary.com). They are usually monitored closely with weekly meetings, and retrieved in cooperative to minimize the risk involved (Banerjee and Duflo, 2011). Until the last two decades these types of loans have been mostly provided by informal organizations. Usually due to the major problem with countries relying extensively on public sector ownership of banks (common in Asia), and the allocation of credits and its pricing have been heavily regulated. The government interventions have focused on financing public sector deficits through controlling interest rates and by allowing credits to priority activities (Ahmed, 2006). Something that is – and has been – undergoing significant global change due to the knowledge of entrepreneurship among the poor being a leading reason for economic growth. Facts have shown that poor individuals are willing to repay their loans and this even under existing lack of formal mechanisms.

To understand why many economists worldwide define microcredits as the latest revolution we have to go back to de definition of entrepreneurship, and the exclusion of self-employment. Microcredit has shown to have a significant effect on poverty alleviation (Alam, 2002; Banerjee and Duflo, 2011), at least temporarily. However, as will be argued for below, micro-credits most often only lifts individuals over the poverty line into self-employment. This will enable them to save a little, sustain themselves above the nutrition level, and other necessities. However, the problem is that microcredits are only optimal for individuals satisfied with small changes (Alam, 2012). A study in Sri Lanka showed that if a money lender gave a poor individual, for example, \$250 in credits it would invest everything in its business. However, if you raised the amount to \$500 it would still only invest \$250, and the rest would be invested in luxury goods (Banerjee and Duflo, 2011). They seem to be satisfied with what they have and cannot see the potential in investing everything for increasing future income. However, the entrepreneurs (the investors) will most likely be constrained by factors as time (amount of repayments needed to receive the amount of money needed) and uncertainty (level of risk involved), both concludes in incentives for repayments (Banerjee and Duflo, 2011).

4.3 Repayment Enforcing Mechanism

4.3.1 Social Punishment

The social impact is of great importance when it comes to influencing beliefs, values, and norms among groups of people. These social impacts will – when they are of good character – often work as important complements to the often slow and creaky court system within LDCs globally. Moneylenders usually provide either the more common joint-liable repayment contracts or less common individual ones – both likely to be optimal (Banerjee and Duflo, 2011). Whereas, the joint-liable contracts work in a cooperated form, sharing the responsibility of repayment, like with the famous Grameen Bank (grameen-info.org). Within the system building on pyramided forms in groups of five to ten people (Madajewicz, 2010). The first smaller loans are granted to the bottom of the pyramided (say three people), and when they have repaid their loans, the next will be granted. This one will be lager then the one before, and split among the next in line (now split on two). Finally, the largest loan will be granted to the head of the pyramided often the manager of the project (Varian, 2009).

Studies has started to indicate success in making repayment an implicit social contract (Banerjee and Duflo, 2011), and formal contracts therefore have started to move away from joint-liable to individual contracts. This without the risk increase involved in lending out money to entrepreneur. Earlier we argued for informal mechanism being bounded to the nearest group of people (town, village, family), and that outsourcing outside this sector would need formal mechanism to enforce punishment if illegal activities took place. Maintaining the argument itself, we now should visualizing informal organizations starting to spread this behavior within itself to other sectors. This would enable these socially implemented conditions to maintain legal activity, at least within itself through its members, and the area of the economy they have transformed. Explaining how some providers of microcredits like the MFI Spandana had approximately 590 million rupees ($34,5 million USA PPP) of principal outstanding in the Krishna District alone, representing a 15 present share of Spanadan's gross loan portfolio across India 2006 (Banerjee and Duflo, 2011).

However, relying on social punishment can be a very dangerous game to play, both for the moneylenders and for the entrepreneurs. The risk of attitudes changing is always there and other agents benefiting from it would most likely help them to change. Regardless of if it is illegal or not, due to the lack of well-working formal institutions that prevents this behavior.

The following example will illustrate the significant risk involved in relying on social punishment based on a true example regarding Spandana 2006 in Krishna District, in India: One day a very real looking (fake) newspapers started to show up telling stories about how Spandana's owner had killed her husband. That the MFI did not have a future and therefore there was no need in repaying your loan. Further the owner had plans to flee to America to avoid facing her obligations. This was the first attack which she fought back by driving across the state, showing up in villages telling them that she was still here, and did not plan to go anywhere. However, just months after the first attack the second one went off, accusing Spandana of putting too much pressure on its clients. In fact, so much that farmers across the state had committed suicide. This they falsely claimed, had resulted in the state making it illegal to repay ones loans (Banerjee and Duflo, 2011)!

This was an ingenious move – committed by the government – to change the underling factors among borrowers which the social conditions built on. The system was built on that when one borrower did the repayment, so would others believing in the system and fearing the social impact it could have not doing ones repayments. On the same grounds the system began to have the opposite effect and people stopped doing their payments as a consequence. After one year 70 percent of Spandana's debts were still unpaid for. They tried increasing people's loans, but nothing changed. Not even individuals with their last repayment before they could be granted a next larger one did their repayments (Banerjee and Duflo, 2011).

The illustration above provides a good idea of how strong the social impact can be – both for good and bad causes. How the economic climate can change during a very short time and putting an end to the economic growth. It also gives us a good understanding of why moneylenders can provide microcredits with usually high repayment rates. However, this still does not provide solution to the problem of financing true entrepreneurial activities, involving a lager risk within the activity itself. What it does provide is a less risky market climate overall and an implemented thinking among citizens of doing right, and thereby its repayments assuming 'good thinking'.

4.3.2 The risk taken by poor entrepreneurs

Above we have argued for the risk involved in lending out money to poor entrepreneurs due to a lack of incentives to do repayments. However, it should not be forgotten that the entrepreneur is also taking a risk – outside the risk involved within entrepreneurial business itself – by applying for a loan due to asymmetric information (Ray, 1998). To illustrate this kind of risk-taking we will consider a short example:

An entrepreneur is walking in to some sort of moneylender with no earlier experience of applying for a loan. Nor does he or she possess any prior experience of running a business making this the first time. Then the person probably understands that under these circumstances information is asymmetric (the moneylender having more information). Furthermore, the entrepreneurs will most likely experience the interests being split. Where the entrepreneur is willing to take a bigger risk on belief of the great business idea and the moneylender will be experiencing the moral hazard problem (the cost of the entrepreneurs' risk-taking will be borne by others). Also the entrepreneur will not be sure that the moneylender will act in his or hers best interest, and this is why the principal-agent problem theory (Godquin, 2004) is commonly applied in money lending to poor entrepreneurs.

The principal (the moneylender) is supposed to have control of over the scarce assets or production process (lending microcredits to poor entrepreneurs) which gives monopolistic or quasi-monopolistic[7] power, enabling the lender to dictate the terms of the contract. However, the agent (the entrepreneur) might be aware of alternative opportunities of retrieving microcredits, usually referred to as a participation constraint (Ray, 1998). Although more microcredit providers arise, the lack of knowledge might still be there among these entrepreneurs to compare contract-deals. Leading to contracts being signed under conditions of what the entrepreneurs believe will maximize his or her utility, built on preferences that might not include hidden information. Of course this dilemma can be viewed the other way around and are usually referred to as the incentive constraint (Ray, 1998). Arguably this principle cannot exclude the understanding of the agent taking actions most suited to his own preferences. However, this problem is often solved with the joint-liability model (Banerjee and Duflo, 2011).

Without some sort of formal or informal ways enabling these entrepreneurs to compare their options, it will be difficult to know if utility maximization is constrained by hidden information. Important to mention is also that even if there is only one option available for these entrepreneurs it does not automatically mean that they should take it – the high interest rates can by itself prevent these entrepreneurs from ever leaving the state of poverty.

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[7] Quasi-monopoly is defined as when there is more than one provider of the particular good or service, but the nature of the competition resulting in similar service or pricing towards the customers.

4.3.3 High interest rates

The problem with the high interest rates can be derived from poor entrepreneurs not being able to secure a loan due to a lack of collaterals. This combined with the lack of business experience, uncertainty of business plan, and the market risks, all speaks for a denial of a loan (Opper and Nee, 2012). This forces the poor into the informal sector were the interest rates are much higher and resulting in the poor being stuck in the repayment trap. This debt-cycle, prevents them from being able to flourish, which might result in them crossing the hump and thereby leaving the P-curve illustrated in *figure 3*. Most interest rates for people below the poverty line, living on less then 'one-dollar-day' per person at 1985 USD PPP (web.worldbank.org), would make Bank of Americas usually high interest rates of 20 percent per year to pale in comparison. On average in India entrepreneurs receiving credits from an informal financial institution are faced with interest rates around 3.13 per month (Banerjee and Duflo, 2011), which would equal to 44.75 per year (compounded). Important to mention is that this is the lower part due to the estimated yearly interest rates among poor that lies around 40 to 200 percent per year (Banerjee and Duflo, 2011).

The *Figure 3* is illustrating two production technologies that poor entrepreneurs might face entering into business. The P-curve is giving a kind of low marginal return in the beginning when your investments are low, but on the other hand the R-curve is giving no return on your investment at all. After a while the P-curve will end up to be a bad investment giving almost

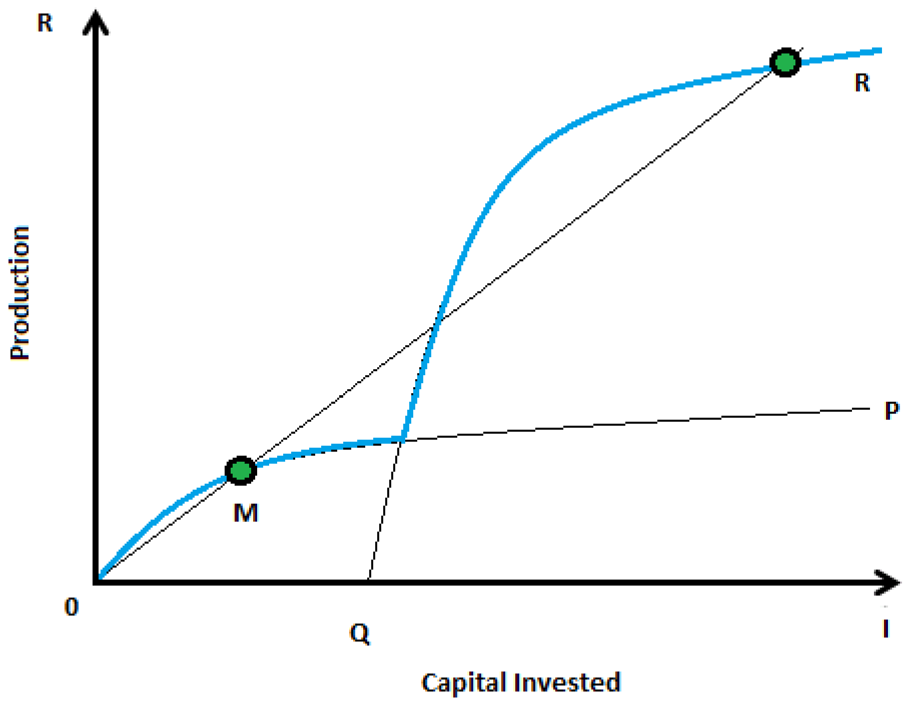

Figure 3: Combining Technologies and the S-Shape of Entrepreneurship

no return on your money. However, if you in point M in some way are able to invest enough money to put yourself on the R-curve then you will find yourself with a very good marginal return on your investments. The O-R is representing the actual return on your investment if you are able to cross the hump. This explains the typical S-shape dilemma: invest little and make little money, or invest enough to cross the hump and invest more and make more money. However, crossing the hump is not an option for most poor entrepreneurs not being able to lend enough money to reasonable interest rates. Saving is for most not an option. Say you initial wealth is $100 and has a 25 percent return on your profit. Then assume that you could invest everything the next year (now $125) and you need $10,000 to cross the hump. It would take you approximately 21 years to be able to cross the hump (Banerjee and Duflo, 2011).

If we assume that these high interest rates are holding entrepreneurs back from lending money and that the good kind of money lenders are afraid due to the risks mentioned above. Then we need to find a solution that enables entrepreneurs to lend more money to lower interest rates. Joint-liability contracts could be one way to receive larger amount of money as in the famous Grameen Bank (grammen-info.org) building on pyramid formed groups consisting of five to ten members (Madajewicz, 2010), receiving larger loans as they climb the repayment pyramid (Varian, 2009). However, this has been tested and works in some cases but hardly in all. Another reason for not crossing the hump is the constant investments in many projects instead of one. Even if Matthew Hussey would argue for many projects at the same time to minimize the risk of losing everything (Hussey, 2011) this does not apply on poor entrepreneurs. Some running three different businesses: selling something to eat in the morning, trading saris during the day, and trading bread to make necklaces in the evening. This holds them back from ever making enough in one project to cross the hump and they are therefore stuck in poverty (Banerjee and Duflo, 2011).

4.3.4 The overall risk in entrepreneurship

Until now we have argued for risks included in granting and receiving a loan. Most due to the lack of working formal ways of punishment for illegal actions, the lack of collateral, and hidden information concerning both sides' incentives. Now, we will go through three additional important things influencing the level of risk aversion (seeking to minimize the uncertainties) conducted by the entrepreneur. First, we will see if an entrepreneur truly is less risk averse than a casual working individual. Secondly, we shall see if the gender-factor has any impact on being more or less prone to take risks. Finally, we shall see if monitoring and training might have an effect on entrepreneurs.

Entrepreneurs: As we have argued, entrepreneurship is usually based on a belief in a great business idea that might create opportunities in the future and generate profit. The risk lies in not being able to do exact predictions about the future, and acting under asymmetric information that might influence many aspects of the entrepreneurial process, including the process of opportunity discovery, the decision to exploit, the identification of the individuals who pursue opportunities and the resources acquisition process (Shane, 2003). These kind of everyday risks are of no concern for a casual worker, save the possibility of losing a job.

On the other hand, an economic experiment preformed in China showed no significant difference between entrepreneurs and 'normal' individuals in handling uncertainty. The experiment involved 700 entrepreneurs and 200 randomly sampled people that could make a choice between to alternatives: (A) a guaranteed amount between ¥360 and ¥90, or (B) attend a lottery that could give you either ¥580 or ¥15. The participants had to do ten individual choices under less than twenty minutes, while the gap between option A and B decreased. Resulting in that the rational individual would at some point choose the lottery. The result gave a mean value of 6.25 for entrepreneurs, and a mean value of 6.10 for the control. These results do not confirm the argument that entrepreneurs are of a special breed (Opper and Nee, 2012).

However, the experiment fails to illustrate the true conditions that entrepreneurs in LDC are working under. Most of the time the uncertainty about the future can result in a negative lost with serious consequences for a poor entrepreneur, usually acting without any kind of insurance. In the experiment you will never make any actually losses entering the game (at least the entrepreneur will receive ¥15). Also we could expect a risk-increasing function, having an exponential appearance, with the amount of risk on the vertical axis and the amount of input in form of financial asset on the horizontal axis. This is in some ways illustrated in the example above. However, the entrepreneur will most likely make the decision on a much sharper curve, because each unit of financial asset has a higher value. This does not say that one extra unit of financial asset are not valued by all poor people. What it does say is that one extra unit of financial asset will have a possibly larger impact for an entrepreneurs, illustrated in *Figure 3*. While the casual worker only will experience a temporary change, and then fall back on the same constant expenditure curve – meaning it takes less of a risk due to future uncertainty hiding the unknown in markets. However, this only shows that entrepreneurs are able to handle a great amount of risk, but still fails to illustrate if there is a difference between entrepreneurial and casual people in risk aversion. To be able to illustrate this is much more difficult. Still in my opinion it is reasonable to assume that poor entrepreneurs are less risk averse daring to enter the market under the conditions given. Assuming that it is of free will and not forced.

Gender factors:

To understand female risk aversion in LDC it is of significant importance to understand the conditions they are facing within these countries. That is, if traditional entrepreneurship constrain females from committing entrepreneurial actions due to cultural factors, or if they are just in general less risk-taking. Together with SEWA Bank, in Ahmedabad, a field study took place to identify the different effect that constraints placed on women by religions and castes could have in forms of restrictions. Most of these restrictions concerned mobility and social interactions that were presented as five norms: ability to socialize alone, requirements to cover the face or wear a veil, ability to speak directly to elders, ability to leave the house or neighborhood alone, and ability to remarry. A five-day program was developed by Freedom of Hunger to teach SEWA Bank and its members to avoid excess debt. The result that could be shown was that 'Muslims in India place more restrictions on women's contact with people outside, but not within, the sphere of kinship. Because Muslim women are entitled to a share in family real estate, controlling their relationship family real estate, controlling their relationships with males outside the family can be crucial to the maintenance of family property and prestige' (Field, Jayachandran and Pande, 2010).

Among Hindus the *upper caste*[8] is living a far more restrictive life then the *scheduled caste*, since the upper caste has to live a pure life without sexual relations, marriage, and in some extreme cases, without contact of scheduled caste. If they got married they are restricted from contact with other men, cannot get remarried ever again, and have restricted mobility outside of their house. This will restrict these women from labor participation. The scheduled caste is looked upon as lower in the eyes of Hindu hierarchy, but for western people probably viewed as a more beneficial lifestyle – fewer social restrictions and, by virtue of being independent

[8] Hindus are as individuals born in to different caste, and the higher up on the life stage they are, the more responsibility (dharma) they will have (Eriksson, Mattsson and Hedengren, 2003). The upper caste are placed at the top of the life stage, and the scheduled cast on the bottom.

earners, enjoy greater financial autonomy and increased control over household financial decisions relative to upper caste women (Field, Jayachandran and Pande, 2010).

These presented conditions are everyday life for many women living in LDC and should give a rather clear picture of what might really hold some of them back. Since, businesses owned by women entrepreneurs are one of the fastest growing entrepreneurial activities in the world today (Brush et al, 2009). Moreover, female participation in entrepreneurship is due to increase economic pressure and awareness as a result of increasing levels of education (Tambunan, 2008). Also moneylenders in LDC seem to argue that lending money to a female is less of a risk than lend money to a man. More than 90 percent of all microcredits are outstanding loans to women (Banerjee and Duflo, 2011). However, this raises several questions about female entrepreneurs and why they are less willing to take a risk. Studies indicate that women value family wealth more than men in general do (Todaro, 2006). If this is true, than it seem to weigh for women facing yet another constraint, namely family wealth – holding them back, where the risk-taking can affect other family members. This would place them in a vicious circle, where barriers are lower for women to receive microcredits and this due to less risk-taking and less, per definition, true entrepreneurship. Not going too deep into the subject, more studies need to be done comparing women among each other and test if female entrepreneurship are constrained by these kind of parameters (family, number of children, and likewise). As a contribution to studies that indicating on women to be in generally less growth orientated than men (Coleman, 2007).

Monitoring and training: There is a clear tension between microcredits and true entrepreneurship, which is associated with risk-taking and occasional failing (Banerjee and Duflo, 2011). Therefore it has been important, especially for moneylenders, to find a way of minimizing the risk involved, and this has resulted in programs that aim at monitoring and train entrepreneurs, in becoming better business runners. This part will be more thoroughly explained under the following section 'Education', due to its significant importance for a better understanding of the conditions poor entrepreneurs are faced with. Before we move over to the educational section we should mention that monitoring of borrowers seems to have an effect on their repayments. However, there seem to be almost no correlation between the time-period spent between each visit (e.g., by a bank man), and repayment rates. This means that, if the bank man is making daily, weekly, or monthly visits, it makes no difference to the repayments[9] (Banerjee and Duflo, 2011).

5. EDUCATION

Below we shall define entrepreneurship education, and try to demonstrate two distinct differences within the area itself. First we will explain the typical entrepreneurial education provided to poor entrepreneurs, in the best of cases, mainly focusing on improving business skills. Secondly, we shall see how entrepreneurial education could be introduced in combination with other disciplines, to create development that could benefit poor entrepreneurs, and the country in whole.

5.1 Defining entrepreneurship education

Entrepreneurship education can be defined as an organized process of developing entrepreneurial traits and values in an individual; enhancing a culture of creativity and innovativeness in seeking, developing, exploring, and making use of opportunities; imbibing managerial skills; inculcating a systematic management to address the needs to effectively and efficiently run the business, and achieve profitability, growth, and sustainability. This process can be both formal (universities and colleges) or informal (other agencies promoting entrepreneurship education). Both with the aim of developing individuals with innovative spirits that calculates risks, has a creative attitude, is adept to their environment, sees values of business propositions for themselves and the society at large, while seeking and making good use of opportunities (Jing, 2012).

5.2 Informal Education

Small sophisticated businesses, in for example Colombo in Sri Lanka, are often aware of what is going on around them in their business climate. This cannot be said about the large potential group of entrepreneurs standing outside the market. They have most of the times not received any kind of formal or informal education (Tharmaratnam, 1986).

We could have a look at an example from the Philippines as illustration of a typical problem encountered among LDC in Asia. A typical Filipino entrepreneur is male, married, 25-44 years old, high school graduate, and comes from the low income group. They are driven by

[9] The study did not include borrowers with a longer time-period between each visit than a month (Banerjee and Duflo, 2011)

necessity and more than half are engaged in retail trade (a typical trade in most Asian countries). There is very little application of technology and minimal use of innovation. Seventy percent are engaged in businesses that do not generate employment since the entrepreneurs assumes all functions in the business. Most of the businesses employ less than four employees and very few have 20 employees or more. However, Filipino entrepreneurs see business opportunities and are highly confident that they have the knowledge and skills needed to do business. Yet in what seems to be a contradictory attitude, they fear failure and have a very low tendency to take risks. Most of them are only engaging in previous work fields or in family businesses (Velasco, 2013).

The problem here seems to be that informal entrepreneurship programs teaches their students to engages in projects for start-ups of products that lack growth opportunity (e.g., food stands along the street, clothes and fashion wear, handicrafts, and household gadgets). This is more of necessity entrepreneurship trying (what we define as self-employment) to provide one job with an income, and in the way alleviate poverty (Velasco, 2013). Also, moneylenders have gone into the business of educating their borrowers in hope to minimize the overall risk-taking. They are often developing programs that will teach their borrowers to accumulating capital (saving, investing and less risk-taking) and in business skills (write a business plan, repayment plans, calculating risks, and so on), to ensure repayments from their borrowers that they argue for can be equalized to success (Banerjee and Duflo, 2011). In one way it might be true that they actually make enough profit to do their repayments. On the other hand, they seem to never be able to cross the hump and are stuck in low marginal returns on their investments. This is, as argued, a contradictory strategy towards entrepreneurship that needs more focus on opportunity spotting, implementation of business plans, management skills, encouragement to believe in an idea, and ways to think ‘outside the box’ (Velasco, 2013). Probably the lack of knowledge is the biggest barrier within the entrepreneurial educational efforts.

5.3 Formal Education

During the time of 1965-90 East Asia enjoyed spectacular rates of economic growth among eight countries/territories: Japan, Hong Kong, Korea, Taiwan, and Singapore in the East, and three Southeast Asian countries, Indonesia, Thailand, and Malaysia. This miracle have been exposed to countless studies indicating different factors causing this growth, and we have come to know that these countries have taken huge strides in accumulation of physical and human capital. The human capital levels, by all indicators, are very high relative to per capita income levels. As an example Korea had a secondary school enrollment rate of 88 percent (up from 35 percent in 1965). Even the World Bank argued that the two-thirds of the observed growth in these economics can be attributed to the accumulation of physical and human capital, and primarily education is the single largest contributor among these factors (Ray, 1998).

UN's Millennium Development Goals (MDG) is the eight goals that the world's nation agreed in 2000 to reach by 2015. Two of them, namely the second and the third, are respectively 'ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling' and to 'eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015'. In India, 95 percent of children now have a school within a half mile or so. It seem like it might not be a lack of educational supply that hinder children to get educated. More generally, the universal problem of finding school boring, and the parental problem of keeping their children in school seem to be more like it (Banerjee and Duflo, 2011). Might this be something we can view as a governmental defeat, or more generally as bad governmental interventions? In Karnataka, India, a mother of six (widow) seemed unable to keep all of her children in school, this could first be assumed to be a result of the dead father. This seemed not to be true, because she alone was able to provide the family with the basic needs. Some of the children that were set of to work had dropped out of school because they found it boring. Two of her children just refused to go (Banerjee and Duflo, 2011). Many might now ask themselves why the children can refuse such important thing (by most generally believed in western countries)? This is because the parents know that the returns on education are low of actual benefit. For example in 2002, Robert Jensen of the University of California at Los Angeles teamed up with some centers in India that were part of small social revolutions in educating young woman. This enabled them to find employment in business process outsourcing centers in these villages. After only a year the girls between the age of five to eleven were about 5 percentage points more likely to be enrolled in school in the villages where there was recruiting. The reason for this was simply that parents started to find out that educating girls had economic value, and therefore they was also happy to invest. The conclusion is that if we make education more attractive, then the demand for it will go up and there will be a pressure to supply it (Jensen, 2010).

The World Bank and the Association of South East Asian Nations (ASEAN) have sponsored studies of how to engage nations in the promotion of entrepreneurship education (Velasco, 2013). Programs as Japan-ASEAN Integration Fund (JAIF) has for example had collaboration between universities for the development of human capital (asiaseed.org), and Consultancy Based Learning for ASEAN SMEs (COBLAS) aims to teach skills and tools in the local university setting, by using local procedures and contexts in the conduct of entrepreneurship education (Velasco, 2013). Further, entrepreneurship education can take place at social forums that enhance and help people who want to become entrepreneurs (weforum.org).

Entrepreneurial success stories tend to build on passion, hard work, and more often luck. These factors do not need formal entrepreneurship education. However, studies have shown that entrepreneurs that went to the university have a higher propensity to succeed and expand the enterprise (Velasco, 2013). One problem is also that most universities offering entrepreneurship education programs subscribe to the notion of research through publication in ISSI journals. Students and faculty alike do not have tangible material to fully understand the environment as for example the Filipino entrepreneurs will have to face. As an example many schools offering classes on preparation of business plan, but not on the actual implementation on the business plan. Further, most teacher do not have experience in running a business nor do they have consultancy experience to share with the students. Entrepreneurship is learned better through experience and what better way to learn it than from the testimonies of teachers? The fact remains that schools have the responsibility to support entrepreneurship education. Also formal entrepreneurship education programs seem to focus on high growth opportunity products. However, these programs are often focused on technological areas as engineering and sciences, and teaching seems more focused on students passing the exams making them see the opportunities for a possible career path of entrepreneurship (Velasco, 2013).

There seems to be a clear interest among leaders in LDCs to increase entrepreneurial skills among its citizens within the formal sector. At the same time poor people find education in general to be a bad investment with low return. Some people believe that some poor families running business are blind to see the potential economic growth through investment in opportunities. What they need is a business plan. On the other hand, some argue that they are happy with what they got, and do not fancy entrepreneurship education or education in general for themselves. What they value is for example their son to become a teacher, or their girl to become a nurse, and the interest is in general is very weak for entrepreneurial activities. Also the typical educational background that can be received is traditional education (study of law, liberal arts and physical science), and therefore they will not get prepared for either employment or self-employment, nor entrepreneurial activities. There is also a lack of awareness of business management at post university stages (Tharmaratnam, 1986).

6. CONCLUSION AND DISCUSSION

Entrepreneurship seems to be a product of a set of unique skills that the entrepreneurs have adopted from the environment he has grown up in. This implies that, some will learn to be extremely talented in a niched area (skilled workers), others are creator of change within a profession they choose (true entrepreneurs), and some will fill other important roles in the production process (casual workers). This makes it very difficult to understand entrepreneurs and measure entrepreneurship, due to its many skills (personal attributes) and areas it works within (creating entrepreneurial outcome). The GEM measurement focuses on self-employment, and therefore gives a distorted picture of entrepreneurial activities within LDC countries. Arguing that self-employment is a positive indicator for entrepreneurial activities within a country, and therefor fails to see the true negative picture behind self-employment (not saying that it is not preferable to unemployment). However, what it does say is that there is a need of refocusing the resources enabling entrepreneurship, this point will be argued below. Further the WBGES measurement is excluding the informal sector, which can almost be found a bit ridiculous when thinking about for example Indian city of Mumbai, where the informal sector is one of the largest entrepreneurial sectors. There is not a single measurement yet discovered that can capture all entrepreneurial activities within a country, and likewise there is not a unique formula for creation of entrepreneurship. However, this does not mean that we cannot provide a better climate for entrepreneurs to grow, by providing them with tools that enables them to act on their opportunity-ideas. These tools should stimulate 'creational' entrepreneur to explore and create new market processes, which the one with 'alertness' for opportunities within a market process should act on. Hopefully, this results in a more entrepreneurial climate and therefor more activity in the market, and less unconstructive self-employment.

We gave an example of individuals within Sri Lanka that would only invest their money to a certain level, and thereafter they would use the rest for consumption of luxury goods. This would most likely not have happened in China before the privatization (or now for that matter) among most families, due to the strict family codes of honor for its members that is missing in Sri Lanka. The reason might be the over 25 years of civil war that lies behind the people of Sri Lank, preventing them to see long term opportunities or trust the system. China for example did provide its citizens with the primary securities. However, it could also be the self-employment reason and that a job costs a certain amount of money, and that the excess of money over cost would be used for temporary enjoyments. This is because they are *not* entrepreneurs, and therefore not able to see development opportunities. This behavior will results in larger loans being granted, due to the lack of risk-taking under the assumption of heterogeneity in the default probability. Resulting in resources being spent on garbage instead for where they were intended, on development projects.

Microcredits are beloved by many economists around the globe failing to understand the problem with focusing on individuals crossing the poverty line, instead of entrepreneurial activities. This because it is resulting in people getting pegged downed in lives temporary a bit better than before at the cost of the overall societal wealth. The aforementioned said under the assumption that entrepreneurial activity will results in development, and that mass copy or mimic this activity would result in its destruction. What this means is that temporary shifts for the better among some citizens will result in an overall decrease in the wealth of their society, and indicating on the importance of regulation and protection against this behavior on the market.

However, change is a very complex thing to implement due to normative, regulative and cognitive mechanism that force individuals, and thereby institutions, to act in a certain way within the informal and formal sector. The goal should be to provide the markets with good self-reinforcing institutions that through collective actions will guide the interest of actors and enforce principal-agent relationships. Further we argued for strong leadership (Hong Kong) to be an important mechanism for institutional change, and that if people got richer the general effect would be a change for the better. This point toward, that the strategy used by Spandana in Krishna District, in India, was one of the right ones to implement a change for the better. That under strong leadership infiltrated important factors and segments of the market and regulates it through the social power of the collective, and at the same time creates or finds incentives among the citizens to either supply or demands this change. However, for this change to occur there is in need of a basic level of wealth (infrastructure, primary securities, education, and so on) to make it possible. It would not be an option in too chaotic countries.

More interesting, if we look at The Philippines we would find a country with people optimistic towards entrepreneurship and what really stops them is the lack of risk-taking. This is probably the result of non-working regulative mechanism not providing them with some level of basic security, promising them not to be socially excluded or end up on the street. However, if we look at Sweden that provides entrepreneurs with all desirable tools to be a successful entrepreneur, we would find two factors that most likely hinders many entrepreneurs: (1) a normative constraints telling the swedes that success is something you should not ‘ brag’ about and, (2) a regulative constraints that ends up being a cognitive constraint saying that failure is not an option (prevents Swedes from trying again), because their names will be in every register for others to see if failure became the outcome of their first try. What this tells us is that there is not *one* perfect context to be found, because the solution have to include factors such as culture, social conditions, educational levels, health security, and so on, making the analysis of each country unique and likewise the solution to their situation.

There is also a danger in letting actors form the outside in on the domestic markets. They never truly know what will come over the bridge when it is built, and more important – what they will bring with them. Developed countries will most likely have some sort of formal security against for example illegal actions, which LDCs might not have. Without these regulations illegal activities could arise like hunting endangered species, as with China entering India and Nepal hunting rhinos for making aphrodisiac, or the building of factories in African countries at the expense of the environment. Large companies might benefit from the weaknesses in LDCs and might take over comparative advantages or natural resources (for example diamonds and oil in Africa, or by processing their natural resources into more valuable goods and thereby making almost all the profit (taking advantage of technological weaknesses).

Free markets, built on trust in the formal institutions, will most likely result in a decrease in transaction cost and of asymmetric information, together with an increase of availability of financial services. This would also most likely result in trust for its leaders to put SBC on overall important welfare businesses (for example, medicine, education, infrastructure, and so on) to provide the primary security needed within a country to implement change in the beginning of development. However, most of the times it seem as personal interests can be reflected in business decisions, and that some types of businesses (not necessarily welfare enchanting) will face SBC, resulting in just a few kinds of businesses on the market. Also, state-owned enterprises with monopolistic power would have the same effect on the market through dictating contracts and terms on the market, which most likely will result in corruption that harms poor entrepreneurs. This will in the end not be good for LDCs and their citizens, with a less secured portfolio against shifts in the market and comparative advantages, setting them back to where they started.

Education seems to have a week effect on entrepreneurial action on the market among poor undereducated individuals that fail to see the return in such investment. Another reason seems to be the constant focus on repayment strategies and theoretical business skills (e.g., manger skills, write business plans, calculate risk, opportunities evaluation, saving, and so on), instead of teaching them to use their innovative spirit outside the money lenders office, or the university. Teaching a poor entrepreneur how to write a business plan will not be to any good if they are not shown how to implement it in the real world and similar thinking has to be implemented among students at university level to encourage development. This is because they usually possess a unique skill that will make it easier to not fall into the trap of mass copy and mimic that the informal education often provides poor entrepreneurs with. The solution should be – no matter what level you belong to – a combination of theoretical learning and practical real-based-learning out in the real market. Therefore it is important that also the teachers as these kinds of experiences, which is not usually the case.

As a final point we shall mention some important gender aspects on entrepreneurial activities. We know that 90 percent of all microcredits are given to women and that they represent the fastest growing area of entrepreneurial growth. They are also constrained by normative, regulative, and cognitive factors built on the minds of men and family preferences. Is this a case of perfectly incorrect resource focusing? Perhaps implementers of change should focus on excluding women with families, and see how these other women behave. This might indicate how severe the problem of cultural and contextual constraints is. Further, it would also demonstrate preferences among women shaping the family utility function. However, focusing resources only to female entrepreneurs might give a larger welfare enchanting effect per unite, but on the cost of missing out on male entrepreneurs.

Policy recommendations for LDCs: The leaders within LDCs need to establish institutions and organizations that provide poor entrepreneurs with tools (business knowledge, securities, financial assets possibilities, and so on) to enable a start-up. For example, they could establish a self-reinforcing entrepreneurial institution that could provide towns and villages to start up organizations that educates, helps and stimulate entrepreneurship. They could provide loans to a lower interest rate and hold competitions to find great entrepreneurship ideas, and provide these winning ideas with desirable tools for start-up. This would benefit, not only the small towns and villages, but the LDCs as a whole. Further, there should be implemented, among money lenders, some regulations against copy and mimic of others. For example, one condition to receive should be a description of their idea (not necessarily a business plan). This is very important to prevent incorrect resource focus to drag the welfare among all citizens down. Further, we need to do a research on female entrepreneurship that excludes females with families to see if they are more risk taking. This could provide valuable information indicating what resources should be focused on females before they starts a family, or gets forced into one (preventing this).

Most LDCs seem to understand the importance of education in generall for development, but fails to provide incentives among poor to invest in it. To do this, one solution might be making the schools more practical and problem solving for poor, so it could result in an actual job, creating a new venture, or be a part of one. This could help parents to see the return on educational investment, and as a result make parents force their children into school in hope of a better future. Further, they should implement an understanding for that tools enabling them to find new knowledge, is more important than the knowledge itself – especially for creation of entrepreneurs among poor people. They should also work hard in engaging both formal and informal educational sector to be a part of the learning process in the market, and not only theoretical. Preferable would be if the leaders would enable industrial supported programs on all levels, provide facilities for business start-ups and registrations, and hands-on ways to combat failures.

Finally, there is a need of regulating the market and the actors on it as we have established an understanding for in this thesis. We know that we need regulative ways to hinder copying and mimicking of other ideas, repayment defaults, and other illegal activities on the market. One way of doing this is assuming that the establishment of these other policies presented above will make people better off in general and therefore also supply and demand more from the market. The leaders also need to find ways of not letting actors that will prevent development and the welfare of its people to come over the bridge. This by finding some sort of solution benefiting them all – this however is outside the frame of this thesis. In general leaders among these LDCs must understand the importance of making people see and dare to believe in change for the better by providing them with the right tools to combat their state of living.

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