**Enabling Environment for Entrepreneurship[[1]](#footnote-1)**

**Ishrat Husain**

This morning I would like to divide my remarks in three parts. First, I would like to point out four mega trends – both global and national – which are going to shape the environment for business and enterprises in the future. Second, I would like to recount the main impediments that are constraining the growth of entrepreneurship in Pakistan. Finally, I would present the key elements of an enabling environment that would be conducive for the growth of entrepreneurship.

**MEGA TRENDS**

**Globalization**: Globalization, with all its faults and follies, is going to influence our lives whether we like it or not. The 2008-09 global financial crisis shows that no country can remain insulated from the tremors and shocks of a crisis even if it originates elsewhere far off from a country’s national boundaries. The speed, intensity, spread and impact may vary but every country is likely to be affected. Technology, trade, labor movement, cross-border capital flows and financial integration are the main channels that connect the countries around the globe. These channels will intensify even more in the coming decades and a country has to position itself to derive maximum benefits and avoid the pitfalls of globalization.

**Drivers of Growth**: Recent empirical evidence shows that it is not physical capital, natural capital or human capital that will drive growth in the knowledge economy of the 21st century. Countries with fewer of these resources have taken off and flourished because of ideas, innovation and creativity. Investment in knowledge creation, accumulation, dissemination along with capacity to translate these ideas into commercially viable business proposition by dynamic entrepreneurs will generate wealth and bring about prosperity. Very few oil rich countries have achieved what Japan, Korea, Singapore, Hong Kong and Taiwan have been able to do in the last few decades.

**Demographics**: Pakistan today has a young population with 60 percent below the age of 30. Western countries are moving in the opposite direction where the ratio of elderly and dependent population is rising. This provides Pakistan an excellent opportunity to transform this demographic change to its advantage. By educating and equipping its younger population with the skills required both inside Pakistan as well as in the labor scarce countries the addition to our labor force can become a source of continuous supply to the rest of the world. On the other hand, an uneducated, unemployable youth with poor skills can create a social and political upheaval for the country.

**Urbanization**: The rate of growth of urban population has been twice as fast as that of the average population growth in Pakistan. It is my guesstimate that the 2011 census would show that urban population now accounts for 40 percent of our total population. While urbanization will create its own challenges for access to services, land and housing, transport, congestion, pollution, etc. there is likely to be a shift in power politics. Traditional rural based leaders would lose power to the modern urban leaders. Nuclear families will take the place of extended families. Social safety nets and support systems that families in the rural and tribal settings have provided historically would gradually wither away. Urbanization, if managed properly, can be a source of enhanced productivity for the economy but if neglected or mismanaged can create chaos, disorder, crimes and mafias.

**IMPEDIMENTS IN THE EXISTING ENVIRONMENT**

Although there are many impediments in the existing environment I would highlight seven of them which are quite severe.

1. **Intrusion by the Government:** Government is still too much intrusive. Too many clearances, NOCs are required to set up and operate a business in the formal sector. Low paid functionaries such as Labor Inspector, Food Inspector create a lot of nuisance for the businesses. The growing tendency towards in-formalization is a manifestation of the rising Government intrusion. Informalization, on the other hand, limits future growth and the economy gets trapped in low productivity equilibrium.
2. **Incompetence of the Government:** While Government is intrusive but at the same time it lacks competence and capability to enforce its laws and regulations. The situation is aggravated by poor law and order situation, absence of rule of law, unclear property rights leading to protracted litigation and inefficiency in the delivery of public goods and services.
3. **Uncertain Macroeconomic Situation:** Uncertainty and un-predictability about macro economic situation discourages risk taking. The investors know little about the future direction of the economy. Road map is not clear. The economy suffers from too much volatility and the businesses cannot properly plan because they face too many unknowns and imponderables.
4. **Limited Access to Institutional Finance:** Access to finance from the financial institutions is highly limited. The paradox is that the default rate among the large borrowers is much higher than the small borrowers. The impact on banks’ balance sheets of these write offs or provisioning of large loans is much severe. Yet the banks’ business is too much lop sided. These days it is not even the large private businesses but the risk-free Government paper that is popular with the bankers. Absence of venture capital and Angel finance are a major obstacle in nurturing start ups.
5. **Skill Shortages:** Shortages of skills that are in demand by the economy co-exist with excess supply of skills that are redundant or have become obsolete. The growing tendency towards studying Commerce and Business Administration at the expense of Science, Technology and Engineering subjects at college and University level is not a good omen for the future. Soft attitudes and “become rich overnight by hook and crook” mindset is catching up among the youth which is highly damaging for competing in knowledge based economy.
6. **Inadequate Physical Infrastructure:** Physical infrastructure is inadequate in relation to the expanding demand and access to these services is highly inequitable. When the supply is constrained rationing can be done by price or administered controls. In Pakistan, across-the-board subsidies have lowered the real cost of energy provisioning. Public utility companies – electricity and gas – favor well connected and influential large consumers and discriminate against small businesses when they have to allocate scarcities. Most of the Non-Performing Loans in the SME sector can be ascribed to losses caused by energy shortages, interruptions in supply of gas and load shedding.
7. **Intellectual Property Rights:** Protection of Intellectual Property Rights is weak and the enforcement capacity is too diffuse and scattered. Piracy, infringement and violations have become so common place that new comers with good ideas and workable business propositions are scared that their ideas will be stolen before they could be put to the execution stage.

**ELEMENTS OF CONDUCIVE ENABLING ENVIRONMENT FOR ENTREPRENEURSHIP**

What are the key elements of policy and institutional framework that will provide a conducive environment for fostering entrepreneurship in Pakistan? I would focus only on five priority areas that will make a difference.

1. **State – Market Boundaries:** Clearly define and demarcate the boundaries between the Government and the private sector and ensure that these boundaries are respected in practice. Encroachment by either side should result in heavy penalties. Government should remain protector of life and property, facilitator for businesses to flourish and thrive, regulator for the rights of consumers, health, safety, environment, adjudicator for resolving disputes, provider either directly or through partnership with the private and NGO sector of physical infrastructure and social services.
2. **Skill Formation:** All hands on the deck approach to educate our young particularly through – universal compulsory primary education, should ensure that no child stays out of school. Technical and vocational education is imparted to equip those ,who do not wish to pursue higher education, with employable skills. Higher education emphasizing Science, Technology and Engineering should be encouraged through incentives such as scholarships and stipends.. The average years of schooling of our labor force has to double from 3 to 6 years. Entrepreneurs cannot afford to take risks in absence of good quality human resources. The addition of 1.5 to 2 million new entrants to labor force every year cannot be absorbed if the level of educational attainment is not raised.
3. **Long Term Economic Direction:** Create an environment whereby the existing and potential businesses and investors are aware of long term economic direction, policy framework and credible institutional mechanism to deliver those policies. A strategy to ensure access to finance for small businesses, start-ups, take-overs, mergers and acquisitions should be devised and opportunities for exit should form an internal part of this strategy.
4. **Improve Governance:** Strengthen and improve the overall Governance system by altering the structure, responsibilities and capacity of Federal, Provincial and Local Governments; re-engineer business processes, manuals, rules of business and regulations; revamp human resource policies in the public sector to attract, retain and motivate good quality talent; introduce E-government that will bring convenience to the citizens, transparency in the system and minimize discretionary powers of the functionaries; hold public servants and politicians accountable for malfeasance and private gains at the expense of public exchequer. Modernization of economic and business laws and strengthening of key regulatory agencies should be carried out and missing laws such as corporate insolvency secured transactions, should be enacted.
5. **Expand Provision of Efficient Physical Infrastructure Services:** Public-Private partnership in investment, modernization, up-gradation and operation of water, energy, railways, ports and road sectors would improve the competitive edge of Pakistan by lowering the cost of production and distribution. Knowledge infrastructure can be aided by spreading IT and IT enabled services and broad band wireless interconnection throughout the country.

**CONCLUSION**

I would like to conclude by submitting that the agenda that I have outlined above is doable. India until 15 years ago had the same impediments but by reforming their institutions and policies and opening up to the rest of the world the environment for entrepreneurship has improved significantly. The rate of economic growth has jumped up from 3 percent until 1980s to 8 percent in the last decade. I am confident that we in Pakistan could also embark upon this path.

1. Opening remarks delivered at the INSEAD Alumni Association – IBA Conference on “Entrepreneurship: Revitalizing the Economy”, held at Karachi on May 7, 2011. [↑](#footnote-ref-1)