

**BRINGING THE POOR INTO THE EXPORT PROCESS:
A QUESTION OF EDUCATION OR ENTREPRENEURSHIP?**

**A paper contributed by the
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1. Introduction

This paper discusses two alternatives, education or entrepreneurship, as possible strategic approaches to reduce poverty in developing countries by integrating the poor into the export process.

The paper describes the positive effects, and the major challenges, of both strategic approaches. Case studies from the Export-led Poverty Reduction Programme (EPRP) projects in Cambodia and from the Oxford University Press in South Korea add practical evidence to the findings.

1.1 Defining Education

Education is the development of individuals' capacity to be productive members of society. It covers a range of experiences, from formal learning and professional education to the building of understanding and knowledge through day-to-day experiences and on-the-job training. In addition to economic development, education is widely seen as a crucial element for any poverty reduction strategy.¹

1.2 Defining Entrepreneurship

Entrepreneurship is the practice of starting new organizations or businesses in response to identified opportunities. A successful enterprise depends on the political, financial and economic environment, infrastructure, transport and business support services (BSS). Secondary to external factors, internal factors as family background, and especially entrepreneurial spirit, are important elements for the success of a new enterprise.²

2. Discussion

2.1 Entrepreneurship

Entrepreneurship is the driving force in every economy and is therefore a crucial factor to **enhance economic growth** and to **reduce poverty** in developing countries. It helps poor entrepreneurs directly by enabling them to create an independent activity that generates income. Apart from these direct benefits of income and employment generation, entrepreneurship produces **social and private benefits**. It also boosts people's motivation and self-confidence and it **opens up prospects for education and for future** generations as more financial resources become available.

On the downside, entrepreneurs in developing countries face different internal and external challenges than those in developed countries. **Political instability, inconsistency of markets or inefficiency, corruption and insufficient provision of BSS** hamper the success of new enterprises. Furthermore, the **lack of adequate and affordable infrastructure and transport** makes it extremely difficult to connect to international markets and constitutes barriers to export growth. Additionally, **financial services and credit for production and trade** are limited since the banking sector in most developing countries is weak and not accessible by poor entrepreneurs.

Socio-cultural factors play a decisive role in creating an environment for entrepreneurs. People with a **family background** where the parents themselves are entrepreneurs are much more likely to engage in business activities later in their life. Likewise, children from non-entrepreneurial parents, or people who grew up in a centrally-planned economy (e.g. former communist countries), are unlikely to engage in business activity. In general, **formal and professional education, a stimulating environment** and the right **entrepreneurial spirit** are important factors for the success of an enterprise.³

¹ www.wikipedia.org

² idem

³ The challenges of growing small businesses, SEED Working paper no 47, 2004
Making markets work for the poor, SIDA, 2003

Example: Case study Cambodia (EPRP project)

The project aims at enabling poor, illiterate rural weavers to enhance production and marketing of high-quality silk products. The selected community was trained in creativity and design, modern production techniques, costing and pricing and marketing tools.

The project generated annual sales amounting to 20,000 USD of which 50% were exports. Overall, the monthly income of almost 30 families rose from an average of 20 USD in 2003 to 60 USD in 2005. At present, the Cambodian Craft Cooperation (CCC) is replicating the project with four additional weaver communities to learn from the successful poverty reduction experience.

Training of entrepreneurial skills can be an effective strategy to bring poor communities into the export process. Such training has to be tailored to the target group to lead to a sustainable success, especially in illiterate communities. The case shows that even on the basis of very little basic education, small entrepreneurs are able to participate successfully in the export process.⁴

2.2 Education

Education is a critical factor for building human capabilities and for opening opportunities. It is crucial for poverty reduction and for engaging poor communities into the export process. Apart from **enhanced productivity**, education can have **positive side effects**, e.g. the reduction of child labour or the empowerment of disadvantaged groups (especially women). Formal education can add to existing knowledge, but it must be complemented by workshops, on-the-job training and the **teaching of basic entrepreneurial skills** (e.g. costing and pricing, marketing, communication and understanding of market trends and mechanisms).

Education and training produce social and private benefits, but it is **costly**. Many poor entrepreneurs cannot afford an educational program - they cannot pay for schools, teachers or material. Furthermore, **opportunity costs** (of not working) impede poor entrepreneurs to participate in trainings events, even when they are subsidized.⁵

Example: East Asia: The education miracle behind the economic “miracle” – Comparing East and South Asia

The rapid development over the last 30 years of East Asia has been based on a vigorous effort to provide broad basic education, high rates of saving and investment and sound institution of governance. The most fundamental difference between South and East Asia lies in the educational policies, the investment in educational training and the commitment of society towards education.

South Asia in contrast to East Asia invested just a small amount of its resources in education and focused almost solely on higher education reaching only the elite class in the society rather than focusing on a basic education for all. This had no noteworthy effects upon the poor. Secondly, South Asia policy makers neglected the importance of vocational and technical training, which led to global market failures because foreign market requirements could not be met. Third, education was only a concern of government rather than of the whole society. Community cooperation and awareness of the importance of education was limited.

By comparing the experience of East to South Asia's development, some important lessons about education as a leading factor to poverty reduction can be learned. Developing countries should focus on a broad basic education and technical skills training. Indirect effects of education are the increase in savings that leads to more available financial resources for investment. Sound institutions and social commitment to education are essential to bring long-term and stable growth.⁶

⁴ www.intracen.org/eprp

⁵ Education for all is development, EFA Global Monitoring Report, 2002

⁶ Human development and Education in South Asia, Oxford University Press, 1998

3. Conclusion

Education and entrepreneurship are closely linked to each other. Education is the basis for ongoing economic development, but business environment and socio-cultural factors are equally important.

1. In general, education facilitates entrepreneurship by teaching skills and tools. But, as experiences in developing countries show, transfer of skills and tools alone do not guarantee a sustainable business success if people have no entrepreneurial spirit.
2. One can find many examples of successful entrepreneurs with the right spirit but without any education other than on-the-job training and day-to-day experiences.

In conclusion, therefore, **education without entrepreneurship** hardly ever leads to poverty reduction though export. However, education can substantially improve the performance of entrepreneurs.

Sources

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