ROMANTICIZING PENNILESS ENTREPRENEURS? POVERTY, VULNERABILITY, NON-MONETARY WELFARE AND BUSINESS START-UP RATES ACROSS COUNTRIES (SUMMARY)

José Ernesto Amorós  
*Universidad del Desarrollo, Chile, eamoros@udd.cl*

Oscar Cristi  
*Universidad del Desarrollo*

Wim Naudé  
*WIDER-UN University*

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**Recommended Citation**

Amorós, José Ernesto; Cristi, Oscar; and Naudé, Wim (2010) "ROMANTICIZING PENNILESS ENTREPRENEURS? POVERTY, VULNERABILITY, NON-MONETARY WELFARE AND BUSINESS START-UP RATES ACROSS COUNTRIES (SUMMARY)," *Frontiers of Entrepreneurship Research*: Vol. 30: Iss. 15, Article 5. Available at: http://digitalknowledge.babson.edu/fer/vol30/iss15/5
SUMMARY

ROMANTICIZING PENNILESS ENTREPRENEURS?
POVERTY, VULNERABILITY, NON-MONETARY WELFARE
AND BUSINESS START-UP RATES ACROSS COUNTRIES

José Ernesto Amorós, Universidad del Desarrollo, Chile
Oscar Cristi, Universidad del Desarrollo, Chile
Wim Naudé, WIDER-UN University, Finland

Principal Topic

Whether policies can indeed improve entrepreneurship in developing countries, and whether more and better entrepreneurship will necessarily lead to better development outcomes, have long been subject to controversy. At the basis of this controversy are divergent views with respect to the nature and contribution of entrepreneurship in developing countries. One the one hand are those who see the predominantly micro and small nature of firms as being more survivalist and less important for growth and development, and who warns have warns ‘not to romanticize these penniless entrepreneurs’ (Banerjee and Duflo 2007: 162). On the other had an increasing number of scholars see the kind of small scale entrepreneurship dominating in developing countries as important for poverty alleviation, growth and innovation. In this paper we wish to add two fresh perspectives to help clarify the debate. Thus we argue that development is a multi-dimensional concept, and that the interest ought to be not only on the impact of entrepreneurship on income poverty, but on multi-dimensional poverty and wellbeing. Here it is not only ex post poverty measurement that is necessary, but moreover ex ante poverty (vulnerability). We also stress from the standpoint of the capabilities approach that entrepreneurship is an end in itself, and that promoting human development broadly may also be important for entrepreneurship.

Method

We use the Global Entrepreneurship Monitor database from 2001-2008. To this we add data on human wellbeing from a number of sources, including the UN and World Bank. Wellbeing is measured using (1) ex-post poverty measures including poverty rates and non-income poverty measures and (2) ex-ante poverty measures capturing vulnerability. Due to possible loop of causality between entrepreneurial activity and poverty we use simultaneous equation methods of estimation (e.g. 3SLS) in our regression analyses.

Results and Implications

We find that entrepreneurship has a positive effect on the trends of poverty reduction. On the side of the effect of poverty upon entrepreneurship, improving resilience (and hence reducing vulnerability to poverty) reduce start-up rates. Our arguments and results offer a fresh perspective on the relationship between entrepreneurship and human wellbeing in developing countries.

CONTACT: José Ernesto Amorós; eamoros@udd.cl; (T):+56(2)3279438; (F): +56(2)3279241 Universidad del Desarrollo, Av. Plaza 700, Santiago 761-0658, Chile.