

# **Social Entrepreneurship (SE)**

## **Topic 11. Glimpses of Tomorrow**

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# WHAT IS POVERTY?

Poverty is pronounced deprivation in well-being, and comprises many dimensions

<b>Basic concept of monetary poverty</b>	<b>Multidimensional aspects</b>
<ul style="list-style-type: none"><li>• Low incomes and the inability to acquire the basic goods and services necessary for survival with dignity</li></ul>	<ul style="list-style-type: none"><li>• Low levels of health and education</li><li>• Poor access to clean water and sanitation</li><li>• Inadequate physical security, lack of voice</li><li>• Insufficient capacity and opportunity to better one's life</li></ul>

# WHAT ARE THE PRINCIPLES OF A GOOD POVERTY MEASURE?

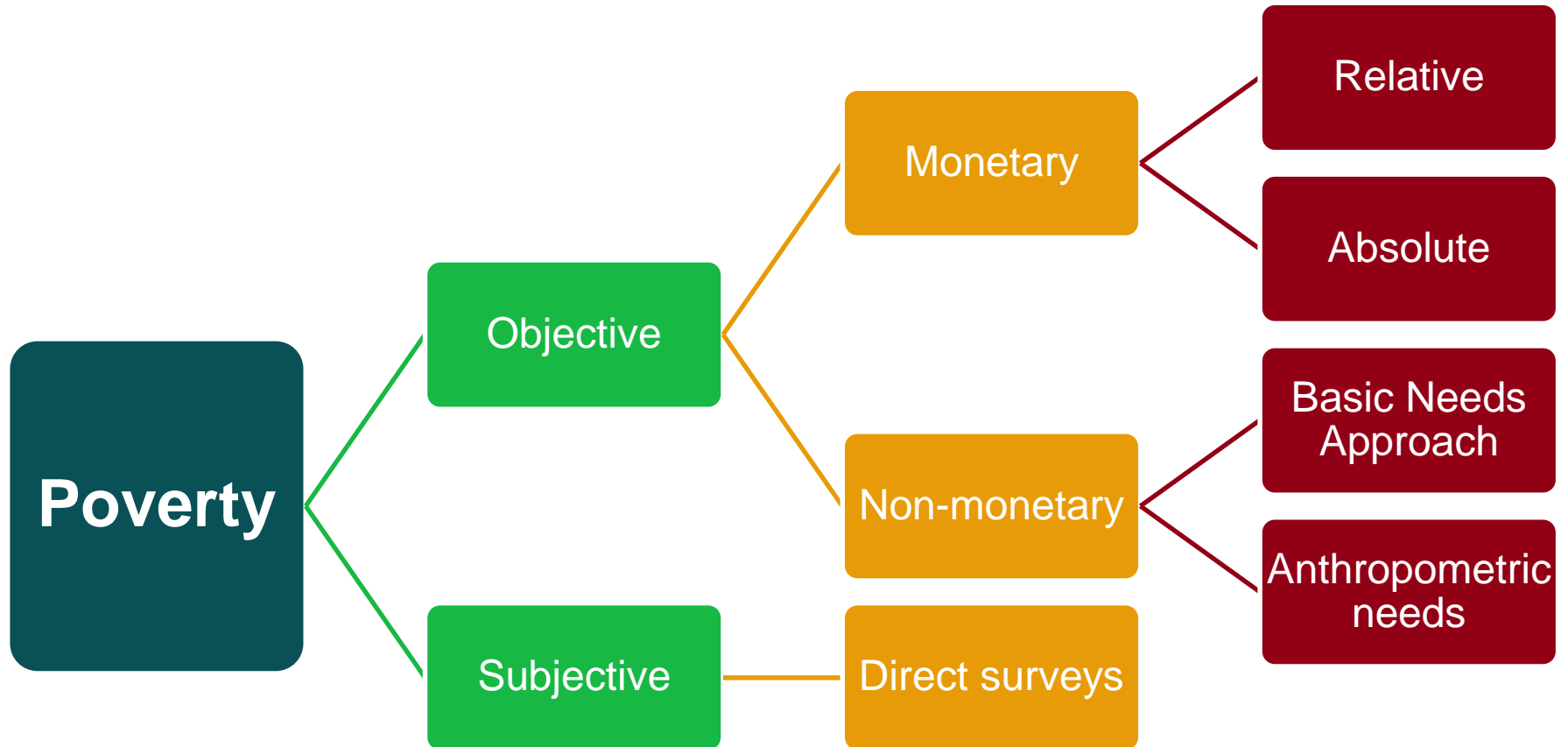
- It must be **understandable** and easy to describe
- It must conform to a **common sense** notion of poverty
- It must fit the **purpose** for which it is being developed
- It must be **technically** solid
- It must be **operationally** viable
- It must be easily **replicable**

# WHY DO WE WANT TO UPDATE OUR MEASURE POVERTY?

- To **better** compare the poverty of different households and regions in the country
- To **better** compare poverty over time
- To **better** compare poverty between countries at a global level
- To **better** compare poverty between countries at a regional level
- To **better** monitor poverty
- To **better** define a poverty reduction strategy
- To **better** evaluate the impact of a poverty reduction strategy

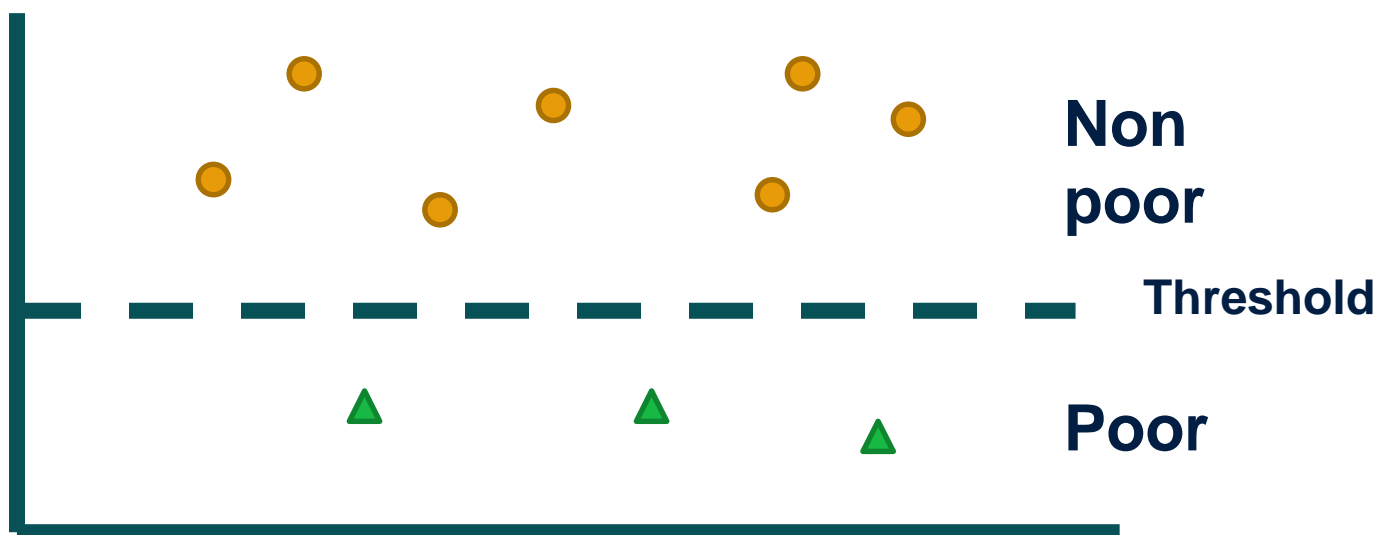
*The answer to some of these questions will condition the properties and choices of a poverty indicator*

# POVERTY MEASURES



# HOW TO MEASURE MONETARY POVERTY?

1. A **welfare measure** for individuals, used to derive a distribution of living standards
2. A **poverty line**, threshold below which individuals are classified as poor
3. A **poverty index**, summary statistics of poverty in population



# HOUSEHOLD WELFARE

## Consumption and income are most widely used

- Some theoretical advantages of consumption measures
- Some policy advantages of income measures

## Both types of household welfare measure need proper adjustments in terms of:

- Price differences (CPI; Purchasing Power Parity; etc.)
- Normalize the size of a household (Per capita vs. per adult equivalent scale)

# ADJUSTMENTS FOR HOUSEHOLD EXPENDITURES: PRICE ADJUSTMENT

Which is more?

- 20 Somoni in 1990, TJK vs. 30 Somoni in 2010, TJK
  - Adjustment - Use CPI
- 30 Somoni in 2013, TJK vs. \$6 in 2013, USA
  - Adjustment - Use PPP
- 20 Somoni in 2010, Dushambe vs. 20 Somoni in 2010, GBAO
  - Adjustment - Use Spatial Price Index

# ADJUSTMENTS FOR HOUSEHOLD EXPENDITURES: ADULT EQUIVALENCE SCALE VS. PER CAPITA

Do children spend less than adults?

- Many countries replace the number of children with adult equivalent scales (based on daily caloric needs)
- Maybe food consumption but non-food consumption?
- The World Bank usually recommends “per capita” for simplicity and transparency

# POVERTY LINES

## International measures

- \$1.25 and \$2 per day per capita evaluated at 2005 PPP

## Regional measures

- \$2.5 and \$4 for LAC and \$2.5 and \$5 for ECA

## National measures

- Country specific poverty lines, which are linked to a daily calorie requirement (usually around 2100 kcal per capita per day)

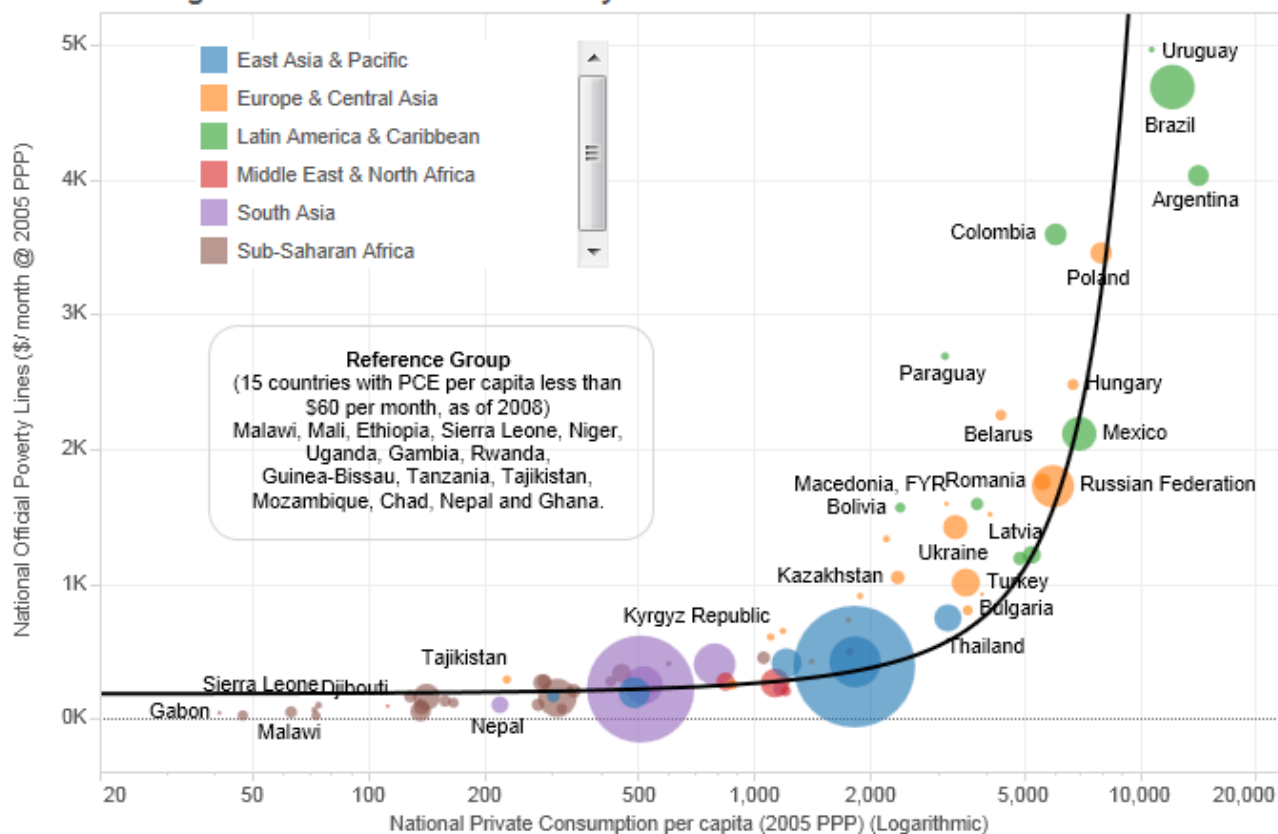
## NORMATIVE OR EMPIRICAL BASKETS?

- Nothing ensures that the items of a normative baskets will be available for consumption
- There is no guarantee that these items have prices that can be estimated robustly
- Nothing ensures that the products from a normative food basket can be consumed by a significant fraction of the population (products that are not part of the population food habits).
- The normative baskets, use multiple criteria (caloric, protein intake, micro nutrients, % protein of animal origin, etc.) end up being ad hoc baskets that depend largely on the expert who built them. The criteria of transparency, acceptance by consensus and reproducibility are hardly met in this case.
- **An empirical basket is preferable**

# WHY DO WE NEED AN INTERNATIONAL DOLLAR PER DAY POVERTY LINE?

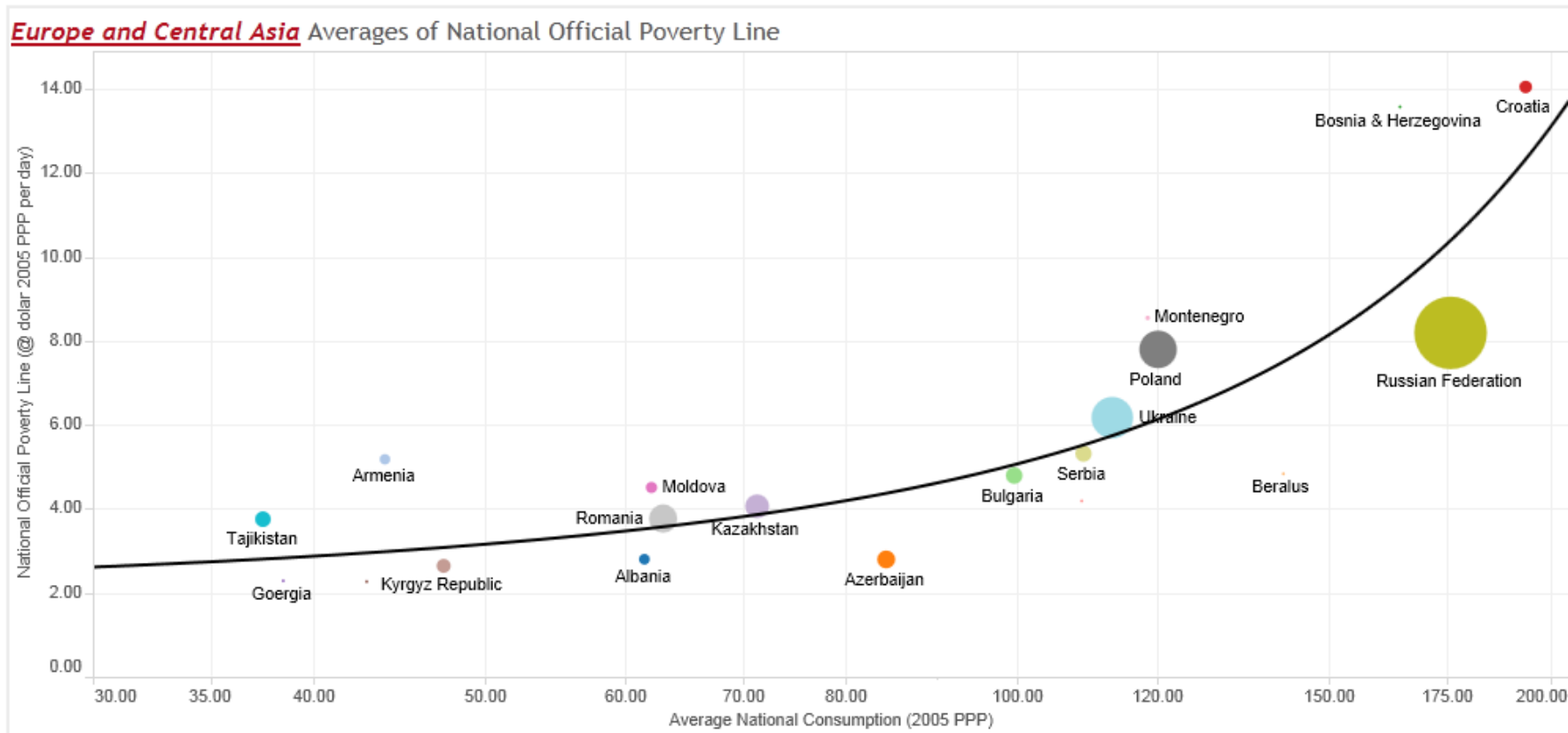
National official poverty lines are a function of preferences, norms and level of economic development

Global Average of National Official Poverty Lines



Note: the ECA Team for Statistical development would like to thank Shaohua Chen and Prem Sangraula for sharing their data

# REPLICATING A SIMILAR EXERCISE ONLY WITH THE ECA COUNTRIES GIVES US AN **AVERAGE REGIONAL POVERTY LINE OF 2.5 USD-PPP**



Source: ECA Team for Statistical Development compilation based national official figures and country specific poverty assessments.

# FOR ANY GIVEN METHODOLOGY TO ESTIMATE A POVERTY LINE, FINAL RESULTS CAN BE DRIVEN BY...

## Preferences

- Countries, households or individuals might have different aspirations, as their level of economic development increase.
- Relative or Weakly-Relative Poverty line argument

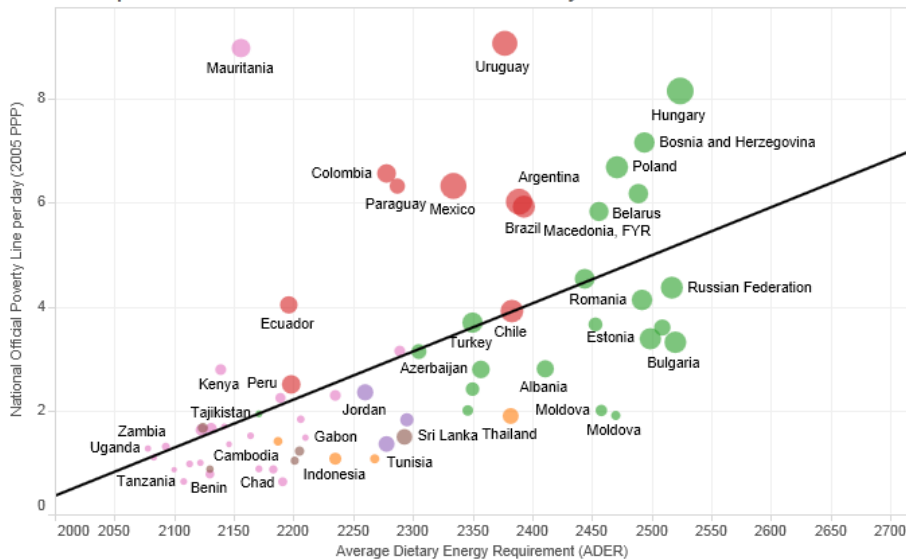
## Circumstances

- There might be exogenous structural factors that might affect the consumption patterns of different countries at different points in time
- Demographics, Natural endowments, Climate

# ...AND BOTH DEMOGRAPHIC AND CLIMATE CIRCUMSTANCES STAND OUT IN ECA

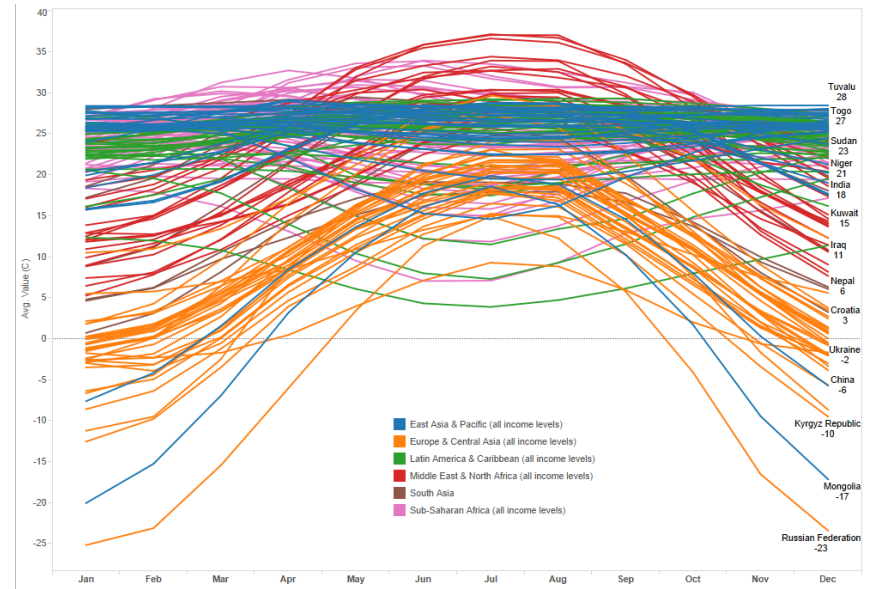
The average dietary energy requirements is positively correlated with the national official absolute poverty lines, and show very distinct regional patterns, reflecting distinct demographic compositions.

Relationship between ADER and National Official Poverty Lines



Source: FAO

Many of the ECA countries are among the few with sub-zero average monthly temperatures.



Source: World Bank Climate Change Knowledge Portal  
<http://climateknowledgeportal.worldbank.org>

# POVERTY INDEX

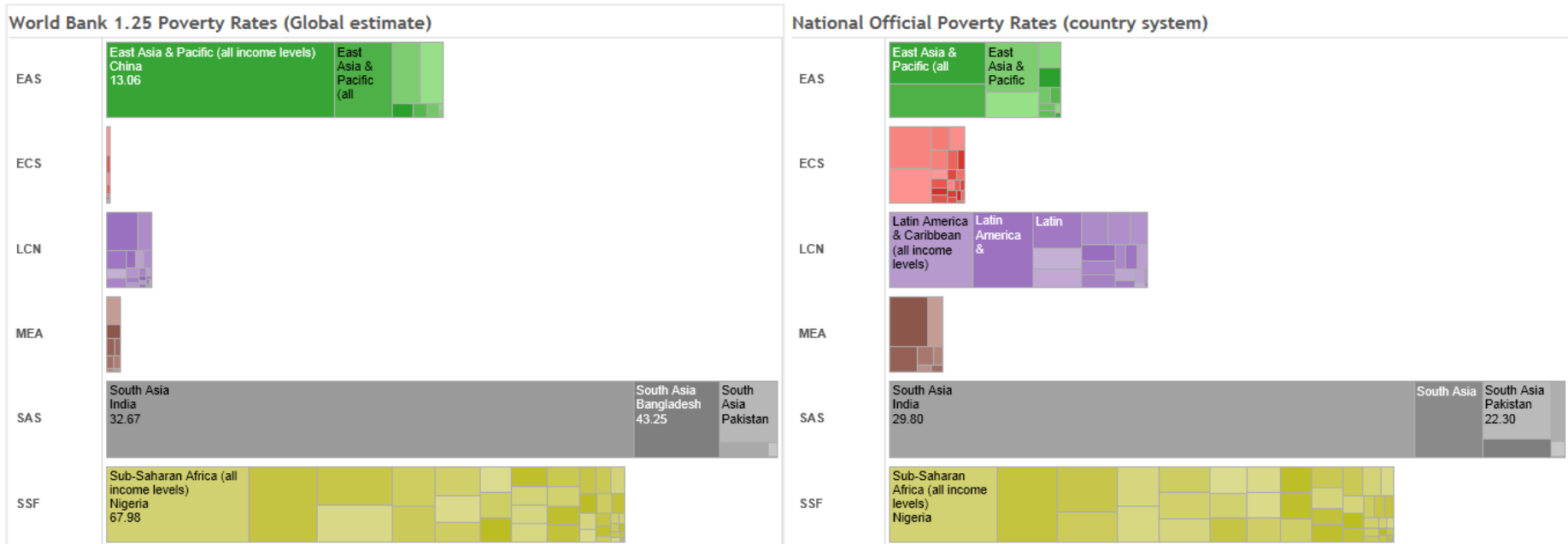
## Poverty Headcount Rate

- The most used measure, including WBG Goal of “Ending Extreme Poverty” and MDG 1
- A proportion of population below the poverty line

$$\frac{\text{The number of the poor}}{\text{Total population}}$$

- A limitation: Insensitive to how far from the poverty line the poor are. Other indices like Poverty Gap Index and Severity of Poverty Index can address this issue

# IN A FEW REGIONS THERE ARE IMPORTANT DIFFERENCES BETWEEN THE GLOBAL AND NATIONAL POVERTY NUMBERS...

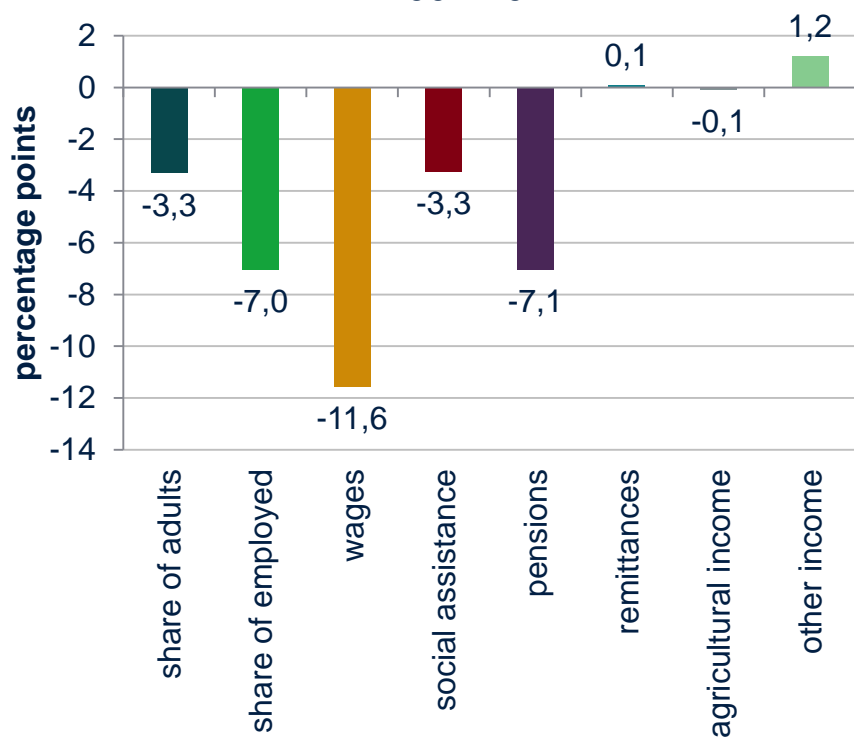


Note: Based on the latest available numbers from WDI and POVCALNET.  
Source: FCA Team for Statistical Development

...and reflects the different levels of economic development

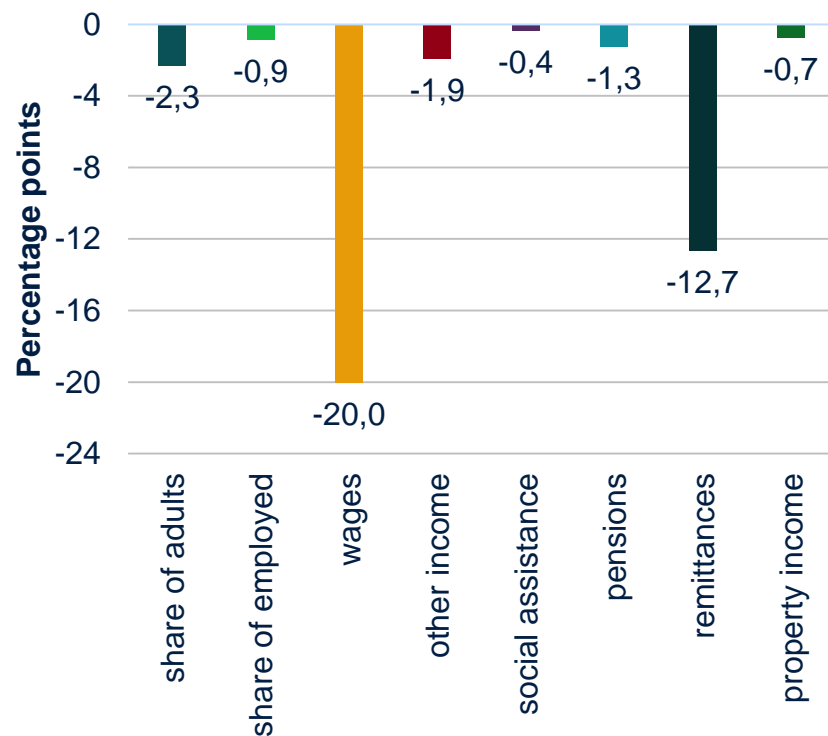
# BUT ANY MEASURE OF POVERTY IS JUST A MEANS TO AN END. THE MOST IMPORTANT OBJECTIVE IS TO UNDERSTAND HOW POLICIES CAN HELP REDUCE THE POVERTY RATE...

TURKEY (5 USD-PPP)  
2002-2011



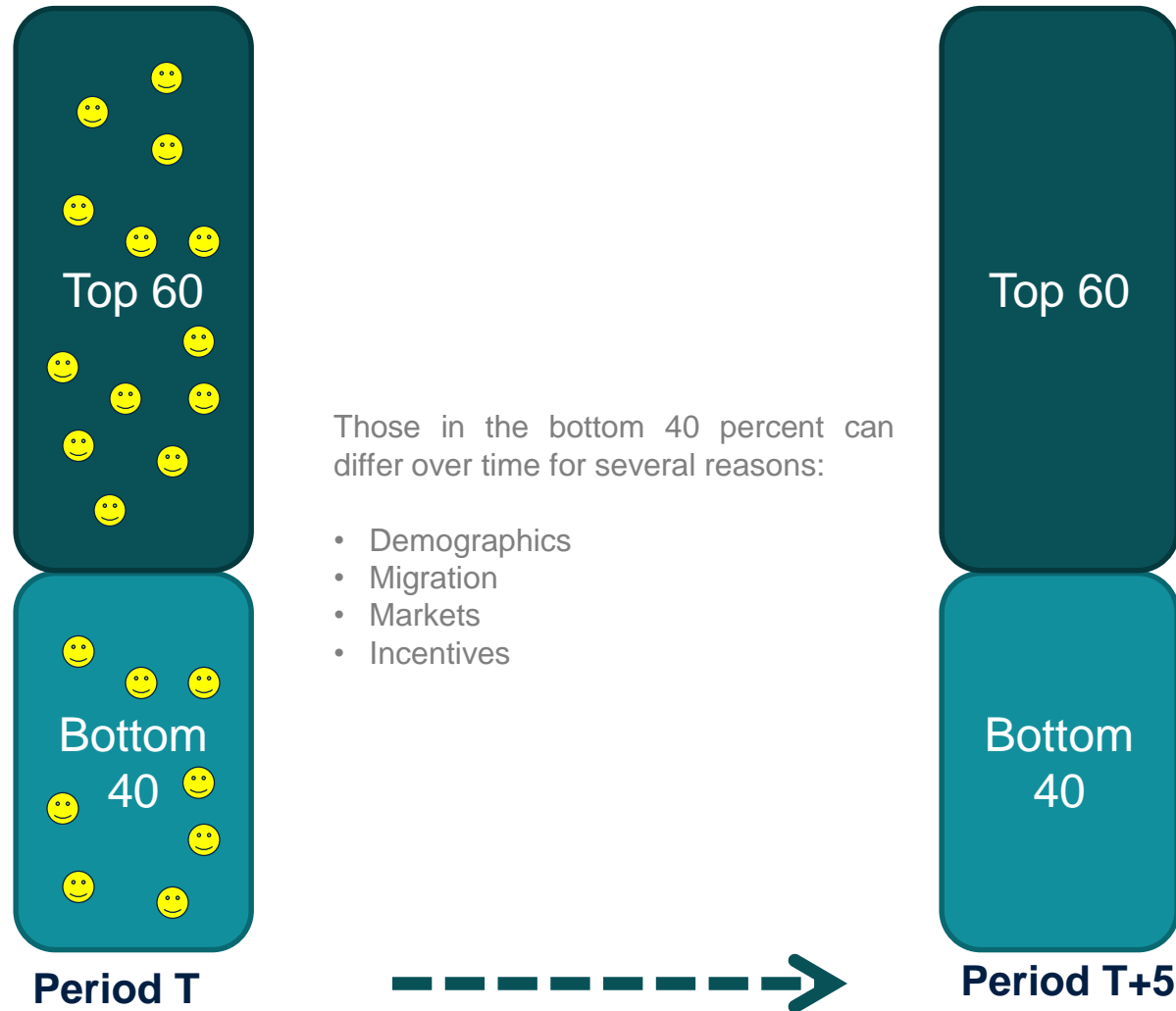
Source: Azevedo and Atamonov (2013)

TAJIKISTAN (2.5 USD-PPP)  
2003-2009



Source: Azevedo, Atamonov and Rajabov (2013)

# BY HELPING IDENTIFYING THE WINNERS AND LOSERS OF POLICY CHOICES MADE IN OUR COUNTRIES...



# ... AND ULTIMATELY UNDERSTAND THE DRIVERS OF INTRA AND INTER GENERATIONAL MOBILITY

## CLASS TRANSITIONS IN TAJIKISTAN FROM 2003 TO 2009

2003	Origin (in 2003)	2009			
		Poor	Vulnerable	Middle Class	
Poor	71.8	48.4	38.8	12.8	100
Vulnerable	22.1	29.2	46.7	24.1	100
Middle class	6.1	15.6	54.5	29.9	100
Total	100	43.6	40.8	15.6	100

Source: Azevedo, Atamanov and Rabajov (2013) based on TLSS.

Notes: Transition matrix is based on synthetic panel for 2003-2009. Threshold for poor is 162 somoni and for middle class 294 somoni per month. Explanatory variables include year of birth cohort, number of children, education of the head of household, rural/urban and regional dummies, and different interactions between these variables and means are the regional level. Sample: head of households 25-55 years of age.

# FINAL CONSIDERATIONS

Clarity, transparency and simplicity are the most critical aspects of any poverty measure

- Clear institutional architecture
- Open methodological guidelines
- Access to the survey data
- Clear calendar for the release of the numbers

# Education May Contribute to Entrepreneurship in Several Ways

Provide basic skills essential in any work environment

- Broad education (math, reading, history)
- Specific skills (science, technology)

Enhance and nurture intangible skills that are particularly useful for entrepreneurship

- Prudent risk taking
- Creative thinking
- Social skills

Provide incentives to concentrate on measurable skills

- Educational system may emphasize progress in skills that are easy to measure
- Schools may choose to teach to the tests

# Research on the Role of Education in Entrepreneurship Focus on General Education

Theoretical predictions about the effects of education on selection into entrepreneurship are ambiguous

- Education may improve managerial ability thus increasing self-employment
- Increase outside options

Empirical research reveals differences between U.S. and

- In Europe, there is effect of education on business entry
- In U.S., there is a large effect of education on business entry, and especially on business success

# Education May Affect Selection Into Entrepreneurship And Entrepreneurial Performance

Higher levels of education may increase entrepreneurial skills and increase the likelihood of becoming an entrepreneur

- Potential selection biases

Returns to entrepreneurship are not significantly higher than paid employment

- Suggest there are other significant benefits

Most people are over-confident about abilities and probability of entrepreneurial success

# Education Appears to Have Some Influence on Entrepreneurial Performance

Theoretically, education should be associated with higher performance among entrepreneurs

- Education improves productivity (Mincer)
- Education signals about quality (Spence)

In the US, empirical evidence reveals that the returns to education are somewhat higher among entrepreneurs than among employees

# There Is Much Potential for Research on Effects of Education on Entrepreneurship

Most existing research results are potentially biased

- Reflect correlation, not causation
- Future analysis could borrow sophisticated empirical methods from the literature on returns to schooling

No consistent measures of entrepreneurship outcomes

- Typical measure used is becoming self-employed

No consistency in measuring those dimensions of educational system that may be important for entrepreneurship

- Independent variable is typically “years of schooling”

# Lecture Overview

Role of education system in ensuring an entrepreneurial workforce?

Examples of entrepreneurship programs in schools

Programs designed to “teach” entrepreneurship beyond schools

Discussion

# The Educational System May Encourage Entrepreneurship Outside the Classroom

Schools may create environment for direct involvement of students in entrepreneurial activities

- Builds interest in and capacity for entrepreneurship

Encourage extracurricular entrepreneurial activities

- Project Echo's high school business plan competition

Provide interactions with real entrepreneurs

# Current Research Does not Answer Many Policy Questions on the Role of Schools

What are the different roles an educational system may play in educating an entrepreneur?

How to balance between exact science and methods that foster creativity and an entrepreneurial mindset in school curricula?

- Will NCLB have negative implications for entrepreneurship?

What approaches and methods could schools use to promote learning and creativity?

Do more entrepreneurial (competitive) school environments make better schools?

- Does competition in the schools system increase entrepreneurship?
- Incentives for teachers
- More choices for students and parents
- More entrepreneurial schools

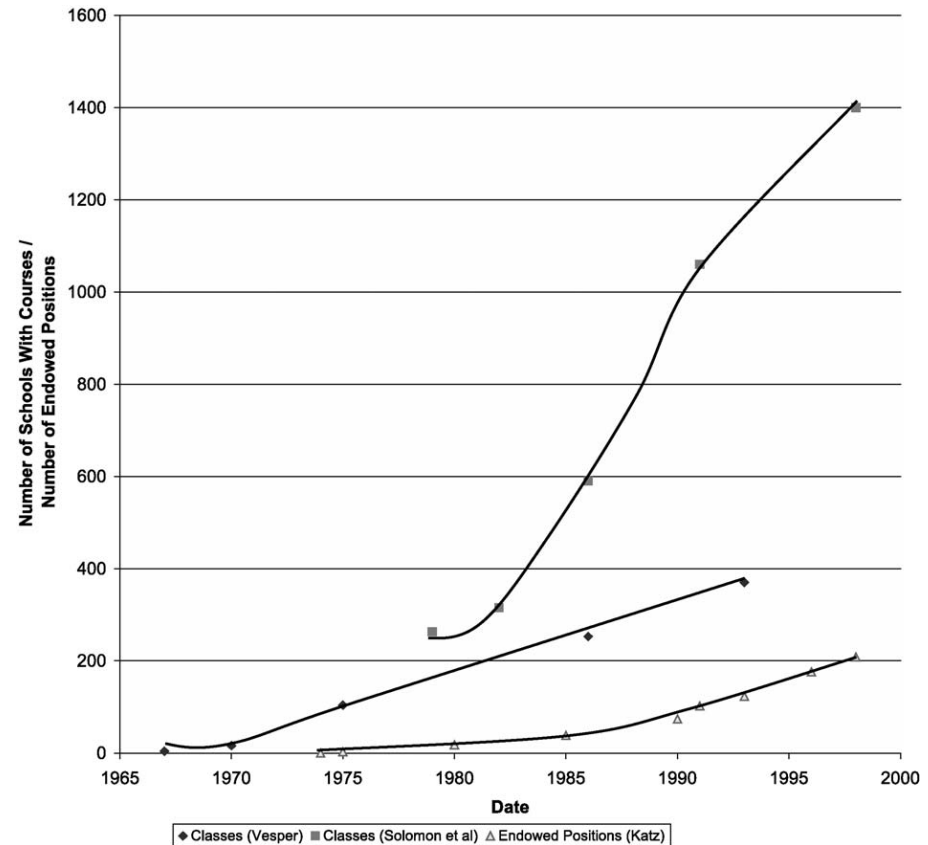
# Colleges and Universities Have Increased Their Entrepreneurship Education

Increases in the number of schools that provide entrepreneurship education

Increase in the number of endowed positions

Increase number of entrepreneurship courses

Kauffman foundation campus initiatives



# We Know Relatively Little About the Effectiveness of Entrepreneurship Education

Does entrepreneurship education affect outcomes?

- Note unobserved heterogeneity problems
- Which outcomes are important?

What classes/methods/approaches are effective?

What is the balance between theory and practice?

What is the balance between classes and extracurricular activities?

Who are the best teachers for new entrepreneurs?

When should entrepreneurship education occur?

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