

## STATES &amp; LOCAL FINANCE

## The IGR Initiative

MARTIN IKE-MUONSO

Martin Ike-Muonso, a professor of economics with interest in subnational government IGR growth strategies, is managing director/CEO, ValueFrontiera Ltd. He can be reached via email at martinoluba@gmail.com

**T**HIS ARTICLE IS A near-perfect clone of my essay "Awakening government entrepreneurship", published in this newspaper's July 6, 2020 edition. The significant difference between that article and this one is the focus. While the earlier publication focused on the Nigerian government, this one is narrower. Nevertheless, the message is the same, and the underlying principles are also the same.

The low level of entrepreneurial consciousness among African countries' governments considerably hinders their prosperity. Subnational governments appear to be worse. In Nigeria, for instance, only about four subnational governments are economically viable and fiscally independent. The rest largely depend on centrally distributed revenue allocations for survival. This inconvenient reality is avoidable if they lead the prosperity creation process in cooperation with business organisations and other individual economic actors. And much like these co-creators of prosperity, they should wear the toga of entrepreneurship.

The entrepreneur's focus is always the creation of economic value narrowly expressible in profit terms. Nevertheless, it goes beyond that to include deliberately taking risks to create net economic worth, not minding whether it is within a commercially focused enterprise, non-government organisations or government institutions. Three distinguishing characteristics make this possible, namely, the entrepreneur's focus on finding and acting on opportunities, coordination of other factors of production and the management of the underlying risks necessary for success in the two preceding characteristics.

Subnational governments in Africa must, therefore, cease to see their roles narrowly in managing market failures which nevertheless has some fundamental elements of entrepreneurship. Instead, they should proactively focus on creating opportunities with ultra-high net economic values. Succeeding in this requires that the government assumes and internalises the characteristics of the entrepreneur beyond just managing market failures. Central to this is that subnational governments should prospect for enduring long-term prosperity-creating opportunities and fund the costs of attendant uncertainties associated with such exploration. That is one significant way they can climb the innovation ladder, become respected players in the international economy, and massively expand their revenue-generating capacities.

There is a four-stage hierarchy in the accomplishment levels of governments. Governments struggling to overcome challenges with the rule of law, transparency, and corruption populate the ladder's

base. This base stage is where many subnational governments in Africa belong. In the second stage are governments that are focused on managing market failures. Their primary concern is effectively dealing with negative externalities and adequately providing the publicly needed infrastructure. They have overcome the challenges of the rule of law, transparency, and corruption. Governments at the third stage in the hierarchical ladder have overcome challenges in the first two phases and focus more on the welfare of their citizens through increased improvements in resource distribution and economic inclusion. At the final stage in this hierarchy of government accomplishments are those that have successfully navigated through the first three stages and have fully assumed the nature and characteristics of the entrepreneur. They take risks just like typical entrepreneurs. Such governments make massive investments in scientific research and innovation with planning horizons spanning a century. They master the art of navigating in the dark in search of treasure. Generally, all governments possess some elements of the characteristics that define each stage. What differentiates one from the other is the intensity of the defining aspects that it contains. Most developing countries are in phase two, while most developed countries, such as the United States, are in the final stage.

It is undeniable that the effective management of market failures creates the right environment for economic prosperity. Nevertheless, there is enough evidence to show that governments that have advanced beyond this level perform much better. Managing market failures is the fundamental role of government. It is not debatable that governments that perform very well in this role will also orchestrate enormous prosperity for their people. However, subnational governments' sustained and robust performance requires that they participate in the prosperity creation process at the fourth phase in the hierarchy of accomplishment. That entrepreneurial evolution phase, as earlier explained, requires both the effective management of market failures plus a long-term focused exploration of economic values, which often involves the funding of uncertainty.

If governments had assumed leading roles in digging deeper into known unknowns and unknown-unknowns to explore prosperity-creating opportunities, they would have become well-steeped in state entrepreneurship. A valuable extension of such a mindset is the conscious rejection of the theoretical stereotypes that turn weaker governments into economic victims of global economic monsters. Entrepreneurs do not necessarily

## Awakening entrepreneurship in subnational governments

compete based on comparative advantage. Sound entrepreneurs deploy all possible means to create the positions (advantages) they use to succeed. Most governments uncritically accept that they are endowed mainly with natural resources, which should be their comparative advantage. This notion and the supporting economic theory are absurd and hardly confer a meaningful long-term benefit to the countries and subnational governments that swallow that pill. To succeed strongly, subnational governments of African countries should identify areas where they feel they can build their strengths regardless of whether it currently exists. They should invest over time to create those competitive advantages using state resources and other means available to the government.

Apart from setting the preconditions for business success via the management of market failures, there are at least four diverse ways in which the government can become entrepreneurial. By leading the entrance into the known-unknowns and the unknown-unknowns opportunity environment, the government can effectively facilitate the emergence of non-existent markets. For instance, it will require the government's backing for Africa to have any share in the search for and mining of solid minerals in outer space. Only African governments at the national and sub-national levels that sincerely believe in such a venture can muster the financial resources and courage required to compete with the rest of the developed world in that quest.

The Madagascar government showed a ray of this vital role of the government when it ventured into manufacturing a cure for COVID-19 infection. That way, it broke through the barriers of drug accreditation and validation and consequently stamped the manufactured remedies as fit for use despite the hues and ululations of the Western world. Many African countries immediately commenced the patronage of the drug. Similarly, the earliest scientific exploration by most of today's developed countries was government-funded. This venture included oil extraction and exploiting other natural resources from the African continent. It is that kind of behaviour that confers on governments the unique role as innovation agents. Subnational governments can do the same. This is possible because governments can set aside legislative hurdles and take financial risks to bring about certain marketable benefits to their people. This risk-taking is very much the case in the initial expeditions to the moon and today's satellite technologies.

The government is, therefore, the most suited to take the highest risk required for new frontiers of national and subnational economic successes. An excellent example of such a boundary could be the research funding enabling the exploration of the sun or other outer galaxies. In a more general sense, the entrepreneurially focused government should either partially support or fully make available all the resources needed for innovative breakthroughs that will benefit the citizens, even if that is going to be in



the next century. That way, the entrepreneurial government becomes the chief risk-taker in new frontiers that define long-lasting prosperity and enhanced revenue prospects. The absence of this quality partially differentiates virtually all the developed countries' governments from those in Africa.

Several examples prove how governments are beginning to wear their entrepreneurial armour to attract sustainable long-term prosperity for their people. Developed countries unarguably reached their current status on the wings of protectionism, a conscious entrepreneurial action by governments to create competitive advantages for themselves. They are alert to opportunities and always create or sustain one by establishing substantial competitive advantages. And now, the developed countries are massively projecting the comparative advantage to perpetuate their status and prevent poorer countries from climbing the ladder. From China to Mexico, to Japan and the United States and Canada, they are all neck-deep into protectionism through which the state entrepreneurially protects its competitive advantages.

One of the world's undebatable entrepreneurially focused governments is that of China. China's meteoric economic transformation, which included uplifting hundreds of millions of Chinese people out of poverty, is ascribable primarily to the government's entrepreneurial leadership. The government, through numerous ways, financed science and technical skill acquisition and significant technological breakthroughs. With the government's backing, China's banks generously funded long-term projects that fall within the areas where the government has shown interest in developing local expertise and competitive advantages. Again, in response to Marianna Mazzucato's "The Entrepreneurial State," Teresa Tritch wrote in the New York Times on March 23, 2014, that "it is, in fact, the way the United States has operated since World War II. Through the National Institutes of Health, the Defense Advanced Research Projects Agency and other agencies and departments, the government has for decades gone beyond financing research and creating the conditions for innovation to occur; it has also envisioned the future, engaged in the riskiest experimentation and

overseen the commercialization process".

Finally, while this is not an exhaustive checklist, the national and subnational governments of the African continent can quickly climb the hierarchy of accomplishment ladder by implementing the following four steps. The first is to alter the policy direction almost entirely in favour of the markets. Entrepreneurship is natively embedded and delivers excellent results when in the market superstructure. Pro-market systems create the right incentives for innovation and powerful profitable performance. The second step is for governments to evaluate their programmes and policies through the lens of innovation development and higher revenue performance. Traditionally, most government institutions hide under the "citizen welfare mentality" to shirk the assessment of their achievements in terms of revenue and net income increases. By changing its self-evaluation templates to capture improvements in revenue and net income without necessarily sacrificing citizen welfare, the incentive for innovation will more naturally spring up. The third step is a massive organisational change in the public sector in favour of high-risk taking and exploring the treasure-hiding world of the known-unknown and unknown-unknown. Entrepreneurs' food and water are risk-taking and exploration of uncertainty. Sound entrepreneurs grope in the mist, convinced that profit-making opportunities exist. Likewise, if the government's consciousness of entrepreneurship is to awaken, then it must be ready to shift its mindset towards risk-taking without gambling with the lives of the citizens.

Finally, entrepreneurial incentives primarily come in terms of profits. Public sector reward systems should also reflect that shift in entrepreneurial awakening. The reasonably inflexible uniformity of compensation, which has promoted free-rider incentives, should give way to handsomely rewarding entrepreneurial performance and vice versa.

● business a.m. commits to publishing a diversity of views, opinions and comments. It, therefore, welcomes your reaction to this and any of our articles via email: [comment@businessamlive.com](mailto:comment@businessamlive.com)