



# Principles of Entrepreneurship Promotion



## INVEST IN ANALYZING THE ENTREPRENEURIAL ECOSYSTEM

Entrepreneurs are influenced by a set of characteristics of their surrounding framework conditions, starting with the legal and regulatory environment to access to finance or cultural norms and behaviors. This set of characteristics is often referred to as entrepreneurial ecosystem. Some scholars argue that many policy interventions fail, because they do not take a holistic approach in supporting such entrepreneurial ecosystem. The most relevant step to design successful support measures for entrepreneurship promotion is first to understand the entrepreneurial ecosystem you are working in, its strengths and weaknesses and then carefully define measures that can strengthen the ecosystem. GIZ has developed a Guide on how to map the entrepreneurial ecosystem, which supports practitioners in collecting, analyzing and visualizing the most relevant data. You can map an entrepreneurial ecosystem on different levels, on the national, subnational, local or even city level. Research indicates that local connections are far more important to entrepreneurs' success than national or global contacts, so you might want to focus on the local ecosystem. Be aware that in many countries there is a blatant difference between the ecosystem in the capital or bigger cities and more rural areas.





## MAKE SURE TO CLEARLY DEFINE YOUR TARGET GROUP

A plethora of different definitions is used for who actually is an “entrepreneur”. Amongst many definitions, scholars mainly differentiate between two different types of entrepreneurs: the necessity entrepreneurs (also sometimes referred to as subsistence entrepreneurs) and the opportunity entrepreneurs (sometimes referred to as growth entrepreneurs). These two groups respond very differently to policy measures (e.g. think about their needs for finance and possible sources of finance), as they have very different aims and challenges to face. Considering entrepreneurs as a homogenous group can therefore lead to misguided or inefficient support measures. Apart from the difference in motivation, there are many other subcategories of entrepreneurs, be it by age, geographical location, impact orientation, etc. Being aware of the heterogeneous sets of entrepreneurs and their specific needs is therefore of utmost importance.





## BE AWARE OF THE DIFFERENT STAGES AN ENTREPRENEUR HAS TO GO THROUGH AND ADAPT A “GRADUATION” APPROACH

There are various phases which entrepreneurs have to go through, before they can claim to run an established business. Starting with the ideation phase, in which an entrepreneur develops an idea about a scalable product or service to the scaling phase in which the business starts to grow fast. In all the different stages an entrepreneur has very different needs for support (technical and financial). Many entrepreneurs fail in the so called “valley of death” phase. That happens not only because this is the stage that entrepreneurs become dependent on access to external finance (e.g. risk capital, not only family, friends and fools), but also because many support programs target the very early stage entrepreneurs (around the incubation phase) and less support is geared towards the later stages of growth. When designing an entrepreneurship program, it is important to determine which phases the program wants to focus on and make sure that there are other measures in place to support the entrepreneur throughout the other stages, not necessarily covered by the program itself. It is also a possibility to apply a “graduation” approach or the “funnel model” within the program, offering support to entrepreneurs in different stages.





## **THINK ABOUT HOW TO WORK ON DIFFERENT LEVELS (MACRO, MESO, MICRO) AND HOW TO ENSURE THE SCALABILITY OF YOUR APPROACH**

GIZ adopts a multi-level approach to its capacity development programs. This, of course, should also be the case for entrepreneurship promotion programs. Entrepreneurship programs can on one hand offer support on the level of the target group (challenges for entrepreneurs, hackathons, mentoring, awareness raising). On the other hand these programs include the meso-level in their activities (cooperating with intermediaries like chambers of commerce, associations, NGOs, social businesses, civil society organizations, networks) while at the same time ensuring that these measures are related or directly fed in to broader strategic processes (national entrepreneurship promotion strategy, implementation plans, government programs). For example there would be little impact expected from offering entrepreneurship trainings, if the legal and regulative framework in a country prevents entrepreneurs from registering their business (e.g. due to prohibitive costs or lengthy procedures or little benefits related to becoming a formal business).





## LOOK FOR NEW PARTNERS TO COLLABORATE WITH AND POOL RESOURCES FOR INCREASED EFFICIENCY

Classical donor organizations have not become the only player in entrepreneurship promotion in emerging and developing countries. In the past years, other actors, such as foundations but also corporates have emerged and started promoting small and growing businesses (see example above: Corporate Start-up Collaboration – India). Different organizations bring different capacities and additional resources to support the entrepreneurial ecosystem. Engaging in coordination and collaboration efforts and pooling resources can increase a programs efficiency. The possibilities for partnerships, with corporates, universities, banks, civil society organizations, should be considered not only in the implementation phase, but as already in the design phase of a project. Working with partners might also improve the possibility of ensuring sustainability and of scaling the approach at a later stage.





## **INCLUDE THE ECOSYSTEM PLAYERS IN AN INCLUSIVE STRATEGY DEVELOPMENT PROCESS – MAKES THE IMPLEMENTATION EASIER**

In case your program works on developing a national, regional, sectoral or city-level entrepreneurship promotion strategy, it is advisable to arrange for this to become an inclusive process, capturing the thoughts and ideas of the different ecosystem actors (government, NGOs, business support organizations, media, academia, banks, investors). This will allow a better-informed decision making as well as more commitment and ownership for the strategy from the broader ecosystem. This could be done for example by facilitating stakeholder workshops and/or even setting up a public-private dialogue mechanism focusing on entrepreneurship promotion.





## **INVEST IN LOCAL CAPACITIES AND AVOID BUILDING UP PARALLEL STRUCTURES, CROWD-OUT OR SUBSTITUTE LOCAL ACTORS**

There are many situations in which it is necessary for GIZ programmes to directly support entrepreneurs through trainings, mentoring programmes, incubation or acceleration initiatives, etc. One reason would be to pilot an approach in a new context or making sure to have a good practice example at hand that could also inform policy decisions. However, the main focus should be on engaging with local actors, building up their capacities to offer these services, deliver trainings or organize events and manage networks. This is a longstanding rule, not only for entrepreneurship promotion, but for all public sector development and development cooperation as a whole. In the area of entrepreneurship promotion this might be a challenge, because there are fewer formal and institutionalized intermediary organizations (such as business associations, chambers, etc.). The entrepreneurial ecosystem many times consist of a great number of smaller, less institutionalized actors. To find the right anchor organization to work with, might therefore take more time (see principle 2 “mapping the ecosystem”).





## **BE AWARE OF THE FACT THAT YOU MIGHT INTERFERE IN EXISTING MARKETS OR EVEN DISTORT THEM**

With many of the usual entrepreneurship promotion measures, you will intervene in existing markets. Especially with projects focusing on a specific type-class entrepreneur (sector, level of maturity or size, motivation), this means excluding others from benefits and giving an advantage to some others. The reasoning behind this is mostly market failures that prevent businesses and markets to function in an efficient way. Nevertheless, it is of importance for entrepreneurship programs to acknowledge the fact that they might interfere in markets, be aware of why this interference is needed and how to deal with potentially negative consequences for some market participants.





## **INCREASE THE SUSTAINABILITY OF YOUR PROJECT BY ENSURING THE ORGANIZATIONS YOU ARE SUPPORTING RELYING ON A SUSTAINABLE MODEL**

While the microfinance field was able to off-spin a range of services that could be delivered with a profit and have become fully commercial in some cases, the field of non-financial entrepreneurship services, like trainings, business development services, incubators and accelerators has been struggling to reach the same level of sustainability. It is particularly challenging to offer these services to entrepreneurs, as small and growing businesses are likely to be more hesitant to invest their limited funds in these services. Therefore, it is particularly challenging in this area to build or support a sustainable market for business services. Other financing options, such as linking services to financial services or also considering local public sources to co-finance these services in the long run might be viable options. The guiding principles for donor intervention in business development services, developed by the Donor Committee for Enterprise Development, can be a useful source to consider.





## APPLY BEST PRACTICE OF ENTREPRENEURIAL CAPACITY BUILDING

Entrepreneurship promotion is not a new area within development cooperation. During the past decades, many training methods and approaches have been developed, tested and improved along the years. Some of the most recognized training methods are **Competency-based Economies, Formation of Enterprises'** (CEFE), developed by GIZ, **'Start and Improve Your Business'** (SIYB) developed by the International Labor Organization (ILO) and **Empretec** developed by UNCTAD. In the past years, new approaches, such as LeanStartup or the Business Model Canvas have raised significant interest. In addition, it has developed into a good practice approach to match trainings with more individual components, such as mentoring schemes. Investing a little time to select the adequate method for your program is time well invested.





## MAKE USE OF NEW TECHNOLOGIES AND DIGITALIZE, WHERE APPROPRIATE

In many emerging and developing countries, the entrepreneurial ecosystem within the capital city looks very different to the ecosystem in smaller cities or rural areas. Many support measures do not reach entrepreneurs from more rural areas, as e.g. trainings are mainly provided in the capital city. Experience has shown that new technologies and digitalization offer the opportunity to extend the reach of support measures, through e.g. applying methods such as online training or virtual incubation (see example from India, Start-up Wave). In addition, new technologies as 3D printing significantly reduced the costs for prototyping and e-commerce and other innovations open new markets and make new business models possible. Naturally, the entrepreneurship scene is open to innovation. This means that an entrepreneurship program has to be open as well in integrating new technologies and take options into account as early as the planning phase of a project.





## **BETTER CONNECT ENTREPRENEURSHIP SUPPORT MEASURES WITH ACCESS TO FINANCE**

At a certain stage of growth, entrepreneurs will need to look for external finance. Depending on the type of entrepreneur, the adequate type of finance will vary. For subsistence entrepreneurs, the access to micro-finance will play an important role, opportunity-driven entrepreneurs will rather be looking for innovative finance sources, such as crowd-investing or venture capital. Even if a project is mainly focusing on non-financial service provision to entrepreneurs, it is important to consider possible sources of finance for the beneficiaries and support them in finding the right kind of finance. There are many matchmaking formats applied in development cooperation, used to connect entrepreneurs with potential financiers.





## LINK UP TO THE INTERNATIONAL ENTREPRENEURIAL ECOSYSTEM NETWORKS

An entrepreneurial ecosystem centers on a specific geographic region. Nevertheless, entrepreneurship promotion is characterized also as a field where many international networks can be found, such as the Impact Hubs, Endeavor, Ashoka and others. These networks not only provide support to entrepreneurs through their local branches, but also offer the access to an international network of entrepreneurs and supporters. A program focusing on promoting entrepreneurship should consider the possibilities of linking up the local ecosystem with other international ones. This applies also to monitoring and benchmarking the entrepreneurial ecosystem (see principle 15).





## CULTURE MATTERS!

There are individual factors (personality traits, level of education, etc.) that influence whether or not someone decides to start a business. However, there are also societal values and norms that may influence the level of entrepreneurial activities. Openness to innovation, risk-taking and failure are just a few of the factors that influence the entrepreneurial culture of a country. There are huge differences between countries regarding how favorable entrepreneurial behavior is perceived. One relevant area for entrepreneurship promotion is therefore to foster a business start-up culture and positive attitudes towards business foundation. This can take many forms, from organizing events for entrepreneurs to share their experience of failure, awareness campaigns (such as Ana Hunna) to working with students or groups of society that are underrepresented in the entrepreneurship sphere, such as women, on an entrepreneurial mind-set.





## SUPPORT PARTNERS IN JOINING INTERNATIONAL BENCHMARK INITIATIVES

Data on the entrepreneurial ecosystem that also provides the possibility of comparing the ecosystem to that of other locations is prerequisite for designing successful entrepreneurship projects. One option to benchmark the national ecosystem with that of other countries is building up a national team and joining the Global Entrepreneurship Monitor. Through an adult population survey (covering a minimum of 2.000 individuals per country) as well as expert interviews this exercise provides a useful source of data and information on the local situation entrepreneurs are confronted with.





## MANAGE EXPECTATIONS AND ACCEPT FAILURE

Starting a business comes with the risk of failure. The same applies for entrepreneurship support programs. Not all of the entrepreneurs, benefitting from your interventions, might succeed in the end. In addition, it might take some time for businesses to reach the phase in which they create a significant amount of jobs. Thus, you should explicitly include this risk into your monitoring and evaluation system. Second, when it comes to entrepreneurship promotion an aspect that is difficult to monitor and therefore is often-times excluded, is the role of entrepreneurs as innovators and drivers of (structural) change.

