

ENTREPRENEURSHIP POLICY TOOLKIT

PART 1. INTRODUCTION AND FUNDAMENTALS



Prepared by:



**INNOVATION
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**Make-IT
in Africa**

Objective of the toolkit

This toolkit is designed for **forward-thinking policymakers** who want to transform their entrepreneurial ecosystems, as well as **startup founders** and other key **ecosystem players** that want to support their governments with policy reform through deliberation and cutting-edge evidence.

The objective of this toolkit is to provide policymakers with **a range of policy solutions** that are practical and easy to use. Seasoned policymakers and those new to the field of entrepreneurship will find value in this toolkit, which is:

- 1) A one-stop-shop for information:** the toolkit aggregates research from multiple sources (development organizations, entrepreneurs, academia, policymakers, etc.) on entrepreneurship policy, centralizing information in one place.
- 2) User-centered:** the toolkit is designed with users in mind. It addresses many considerations a policymaker must evaluate, provides a participatory ecosystem assessment approach and includes a catalogue of interventions and best practice examples to learn from.

Objective of the toolkit

Focus: Technical know-how

This toolkit provides **technical know-how** regarding the tools and processes that policymakers across Africa need to develop policies and legislation that support the growth of businesses.

Questions of **policymaking processes and politics are beyond the scope** of this toolkit. These will be addressed in depth by a forthcoming Policymaking Handbook that the Innovation for Policy Foundation is developing. This Policymaking Handbook will address:

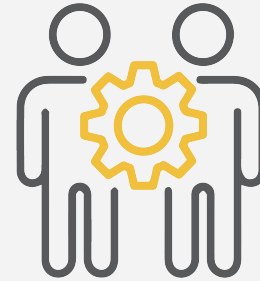
- the process of policymaking, e.g participatory approaches;
- navigating the political landscape;
- the design of good public policies, and more.

Keep an eye out for this work on our ecosystem.build platform!

Target audience of the toolkit



Policymakers



Development Partners



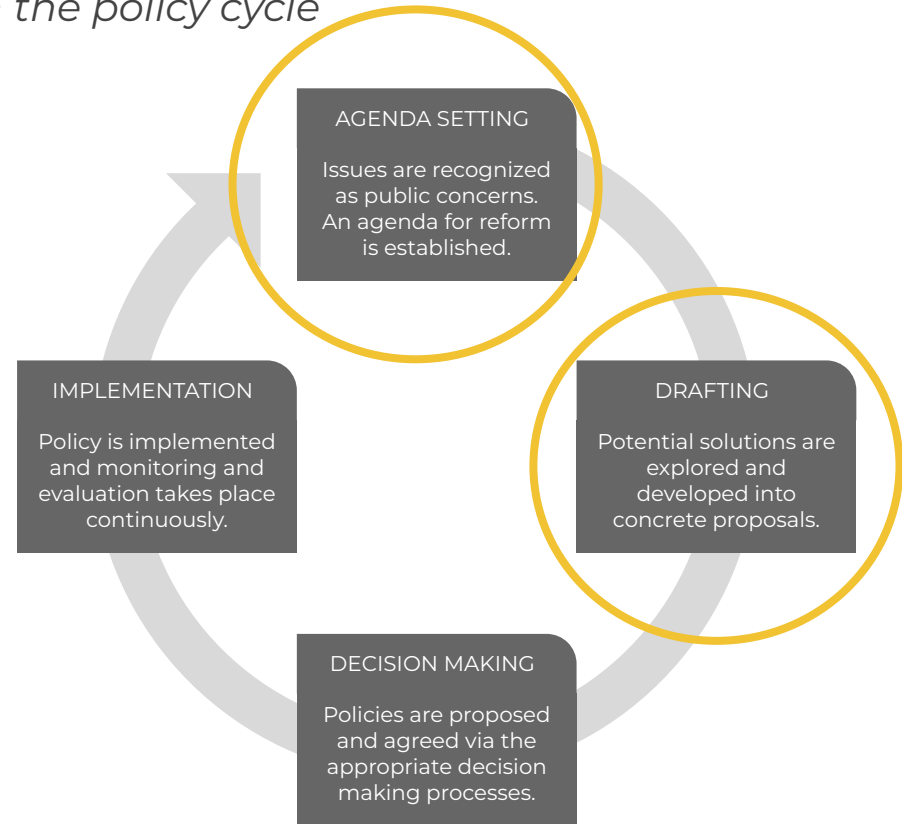
**Entrepreneurial Ecosystem
Partners**



**Academia &
Civil Society Organisations**

Context of the toolkit | *Location on the policy cycle*

- This toolkit provides a menu of instruments and tools that can be adapted to suit local needs and to assess your business ecosystem.
- This means that the toolkit fits best in the **'agenda-setting'** and **'drafting'** phases of a policymaking process, or policy cycle as depicted on the right.
- We depict the policymaking process as a cycle, because making policy is a continuous process without a clear start and end.
- Policymaking is a fluid and iterative process, where policymakers continue to make choices on policy design and implementation based on the impact of previous decisions.

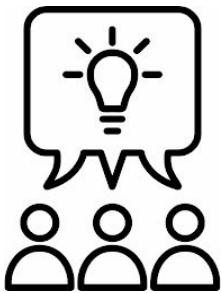


¹ See for a detailed explanation of the Innovation for Policy Process: <https://participedia.net/method/6426>

Context of the toolkit | *Considerations to Note*

- There is no one size-fits-all approach to the selection of policy reforms appropriate for your country.
- The objective of this toolkit is to provide a menu of potential options that can be adapted to suit local needs.
- Policymakers are encouraged to consult with stakeholders within their local ecosystems to determine the appropriate reforms for individual country contexts.

Context of the toolkit | *Types of Content Included in this Document*



Learning

Key concepts on thematic area



Example

Showcases a Country example



Actions

Considerations for implementation



References

Further Reading & Additional Information



TOOLKIT OUTLINE

Overview

Part 1. Introduction and Fundamentals

Part 2. Participatory Ecosystem Assessment

Part 3. Understanding the Legal Side

Part 4. Measuring Success

Part 5. Incentives per Challenge Area

- Finance
 - Market Access
 - Business Support
 - Governance
 - Culture
 - Infrastructure
 - Human Capital
-



Part 1

Part 1 - Introduction and Fundamentals

- 1.1 Introduction: Definitions and Concepts
 - 1.2 The Why: Business Case of Entrepreneurship Policy
 - 1.3 The What: Ecosystem Challenges
 - 1.4 The How: Toolbox of Instruments
-

What will I learn?

Part 1 - Introduction and Fundamentals

In this section, you will learn:

- How we define Entrepreneurship, what we mean by SMEs and what the Entrepreneurial Ecosystem entails;
- Why having Entrepreneurship Policy is important;
- What the key challenges are that entrepreneurs and the entrepreneurial ecosystem face; and
- How you can address those challenges with policy instruments, such as strategic instruments, legislative instruments or concrete incentives.

Introduction



Welcome to Part 1 of this Entrepreneurship Policy Toolkit. If you haven't read the Preface yet, have a look at it first for some more context. Are you ready to dive in straight away? Then feel free to keep reading!

In Part 1 of this toolkit we introduce you to the topic of entrepreneurship policy. We present some fundamental concepts that will help you develop a good understanding of entrepreneurship policy. We start off with some definitions, so that we build our knowledge of entrepreneurship policy on a shared understanding of terms like entrepreneurship, SMEs and Startups.

Having learned those concepts, we go into the *Why, What and How* of entrepreneurship policy. We discuss the business case of entrepreneurship policy, the challenges entrepreneurs and the entrepreneurial ecosystem face and the tools and instruments that you as policymaker have at your disposal to address those challenges.

We wish you the best of luck on your learning journey!

A pair of dark-rimmed glasses is resting on an open book. The book's pages are filled with text, which is slightly out of focus. The glasses are positioned diagonally across the frame, with the left lens in the upper left and the right lens in the lower right. The background is a soft, warm-toned light, suggesting a desk or a study area.

1.1 Introduction: Definitions and concepts



1. What is Entrepreneurship?

This toolkit centers around Entrepreneurship Policy. In order to make effective policy, we first need to gain a common understanding of what we mean by entrepreneurship. Defining entrepreneurship might seem straightforward, but a wide variety of definitions are used in literature.

- For example, the Oxford Dictionary defines entrepreneurship as “The activity of setting up a business or businesses, taking on financial risks in the hope of profit.”¹
- The World Bank, on the other hand, defines entrepreneurship as “The activities of an individual or a group aimed at initiating economic activities in the formal sector under a legal form of business.”²

What these definitions have in common, is that they both focus on the act of formally starting a business. They differ in other respects though. The Oxford definition mentions taking on risks and aiming for profit, while the World Bank’s definition distinguishes between entrepreneurship in the formal and informal sector.

¹ Oxford English Dictionary

² World Bank (2007). *Entrepreneurship and Firm Formation Across Countries*. <https://documents1.worldbank.org/curated/en/904131468315535965/pdf/wps4313.pdf>



1. What is Entrepreneurship?

A third example will help us gain a better understanding of the elements that make up entrepreneurship. This definition was put forward by the Harvard Business School. It defines entrepreneurship as “the pursuit of opportunity beyond resources controlled.”¹

While this definition is concise, it contains a lot of information and, more importantly, brings us a step closer to the definition that will be used in this toolkit.

- First, the Harvard Business School introduces a new element by defining entrepreneurship as: ‘the pursuit of opportunity’. This implies a distinction between necessity (or: subsistence) entrepreneurship and opportunity-based entrepreneurship. Necessity entrepreneurship refers to people who become an entrepreneur out of sheer necessity, to provide for themselves and their family. Opportunity-based entrepreneurship on the other hand, refers to a deliberate choice to start a business based on the perception that a business opportunity exists.
- Second, the rather vague wording ‘beyond resources controlled’ implies that entrepreneurship involves the use of resources of other actors besides the entrepreneurs themselves. This can for example refer to funding, office space or the availability of talent in the country.

¹ <https://hbr.org/2013/01/what-is-entrepreneurship>



1. What is Entrepreneurship?

For the purposes of this toolkit, we construct our definition of entrepreneurship out of four elements that we believe are crucial, bearing in mind the perspective of entrepreneurship policy:

“Entrepreneurship is starting a business in pursuit of opportunity, taking on associated (financial) risks in order to gain a profit.”

1. Starting a business

The formal act of starting and incorporating a business.

2. In pursuit of opportunity

Opportunity entrepreneurship has been shown to have a positive and significant effect on long-term economic development.¹ This type of entrepreneurship should therefore be the focus of entrepreneurship policy.

3. Taking on associated (financial) risks

Entrepreneurs need to be willing to take risks in order to be successful.

4. In order to gain a profit

In a market-economy, entrepreneurship is profit-driven.

¹ Acs (2006). *How Is Entrepreneurship Good for Economic Growth?* <https://doi.org/10.1162/itaa.2006.11.97>



2. What are SMEs?

A second term that we need to look at is SMEs. We have included the act of ‘starting a business’ in our definition of entrepreneurship. But what is a business? Businesses are often referred to as SMEs, an acronym that stands for ‘Small and Medium sized Enterprises’.

You will find that terms like Startups and MSMEs (Micro, Small and Medium sized Enterprises) are also commonly used in literature and legislation. This begs the question how these terms relate to one another?

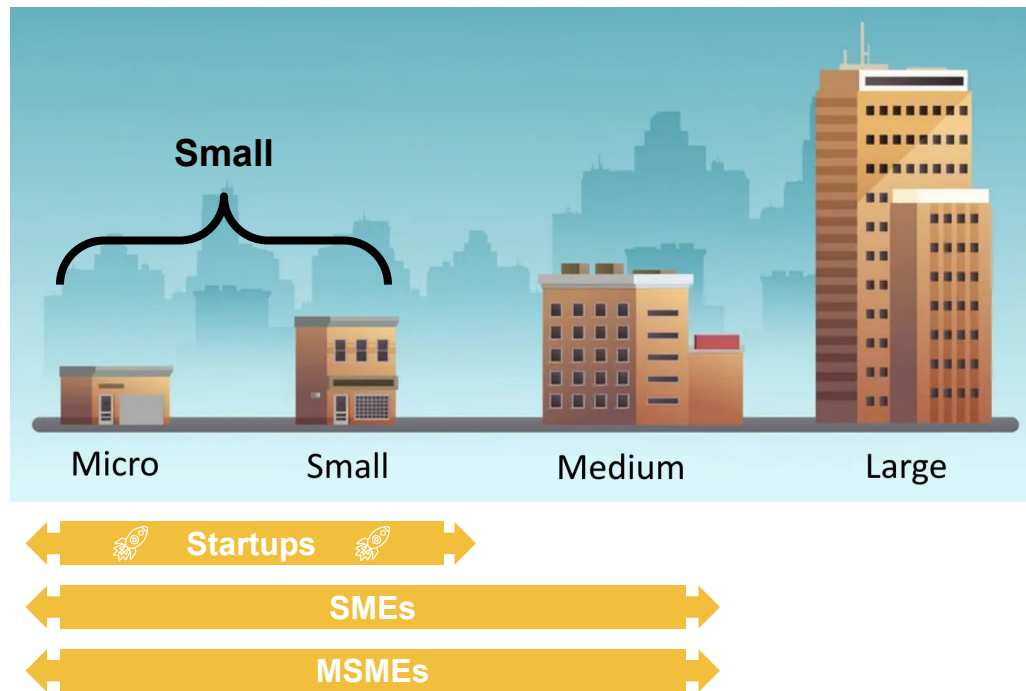
- First off, there is no universally accepted definition of SMEs. Countries’ regulations often set their own definition through a combination of size related (e.g. number of employees) and financial criteria (e.g. annual turnover, assets).
- For example, the SME Act in Algeria uses the following definitions:
 - Micro: between 1 - 9 employees and an annual turnover < 40M Dinar;
 - Small: between 10 - 49 employees and an annual turnover < 400M Dinar;
 - Medium: between 50 - 250 employees and an annual turnover < 4B Dinar.
- Generally speaking, most legislative acts use similar limits (10/50/250) in terms of employees, but the limits on turnover can vary strongly.¹

¹ Innovation for Policy Foundation (2023). *Benchmarking Small Business Acts and Startup Acts in Africa*. <https://ecosystem.build/>



2. What are SMEs?

- When used outside of legislation, there is no real difference between the terms MSMEs and SMEs.
- Both terms cover enterprises up to a certain size. In other words, they define an *upper limit*.
- This is illustrated here on the left. Micro firms are covered by the term SMEs, as they are included in the group 'Small'.
- As stated above, legislation is the exception to this rule. When Micro businesses are defined separately (like in Algeria) and the law refers only to that category, then there is a distinction between Micro and Small.





3. What are Startups?

- The last term that you need to take stock of is startups. Startups are generally defined as “companies in their first stage of operations with the ability to scale and grow rapidly by utilising new technologies.”
- Thus, in addition to size and financial criteria, startups are also characterized by an element of growth potential and innovativeness. We will examine this in detail in Part 3 of the Toolkit.
- We focus mostly on startups in this toolkit, because of their potential impact on economies. However, that does not mean policymakers should not support other types of businesses.
 - ➔ Inclusive business initiatives, for example, are an effective way of supporting underrepresented or disadvantaged groups that face greater barriers to business creation. Similarly, socially responsible entrepreneurial initiatives, which tend to integrate low-income communities in its value chain, are another good example.
 - ➔ Challenges that entrepreneurs face, whether they are running a startup or a different type of business, are relatively similar. They include, but are not limited to, a lack of skills, difficulty in accessing finance, in navigating the regulatory framework and a fear of failure. All these factors and challenges are part of the entrepreneurial ecosystem.

4. What is the Entrepreneurial Ecosystem?



- We have clarified what is meant by entrepreneurship, SMEs and startups in this toolkit. But what is the entrepreneurial ecosystem that the previous slide referred to?
- Let's recall what an ecosystem is. In essence, an ecosystem is a geographic area where plants, animals, and other organisms, as well as the surroundings (i.e. weather, landscapes), *work together* to form a bubble of life.¹
- We adopt the perspective of an ecosystem in entrepreneurship policy, because research has shown that entrepreneurs thrive in collaborative environments. They thrive in environments where multiple factors and stakeholders *work together* to create something bigger.



¹ <https://education.nationalgeographic.org/resource/ecosystem>



4. What is the Entrepreneurial Ecosystem?

- Taking on the perspective of the entrepreneurial ecosystem is one of the critical lessons of entrepreneurship research over the last decades. It was put forward by Isenberg in 2011 and is now widely used when designing entrepreneurship interventions.¹ Crucial to understand here is that the success of startups and SMEs is not dependent on just themselves, but also on the ecosystem that supports them.
- This implies that a successful entrepreneurial ecosystem is not so much about the quantity of entrepreneurs, but has more to do with the quality of the entrepreneurs in your country. Constructive entrepreneurship requires an enabling environment with certain characteristics on the macro- and micro level.²
- Such entrepreneurial ecosystems consist of a wide variety of actors, such as suppliers, competitors, research and academic institutions, consumers, funders, development partners, government agencies and family and friends. Some of these actors are shown in an ecosystem map on the next slide.

¹ Isenberg (2011). *The Entrepreneurship Ecosystem Strategy as a New Paradigm for Economic Policy: Principles for Cultivating Entrepreneurship*. Institute of International and European Affairs.

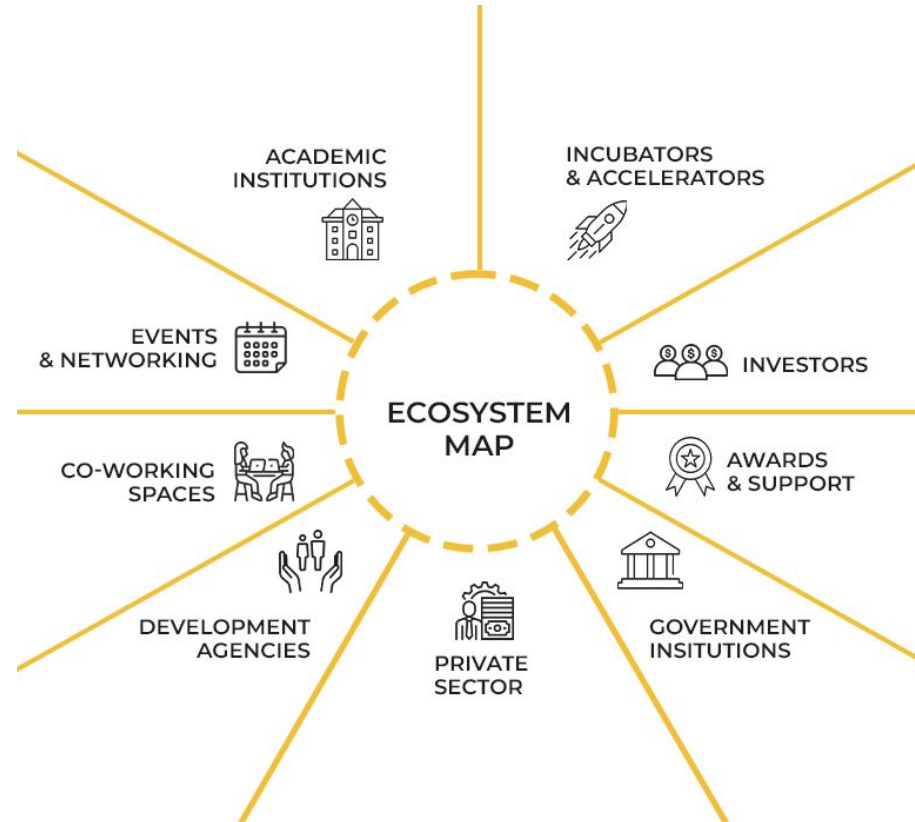
² AfDB (2021). *Africa's Catalysts for a New Era of Economic Prosperity*.

https://www.afdb.org/sites/default/files/2021/06/28/entrepreneurship_in_africa_-_may_2021_abridged_version_06_28.pdf

4. What is the Entrepreneurial Ecosystem?



- The ecosystem map on the right illustrates that an entrepreneurial ecosystem consists of numerous stakeholders and actors along the growth trajectory of a business.
- The map lists actors from the private sector, academia, development partners and government agencies, as well as business development services (incubators, accelerators), awards and events. Every one of these actors and elements is important for the ecosystem as a whole.



4. What is the Entrepreneurial Ecosystem?



The main implication of an ecosystem approach is that challenges and policy interventions, while distinct, are **interdependent and intertwined**: each can impact the other, positively or negatively.

This is what Isenberg meant with the notion of the entrepreneurial ecosystem. The ecosystem consists of a set of individual elements - such as leadership, culture and capital markets - that combine in complex ways. And while each in isolation is conducive to entrepreneurship, they are insufficient to sustain it.

Many entrepreneurship policies go wrong here. Why? Because they address only one or two elements. However, only when they work together, these elements can spur venture creation and growth: **integrating them into one holistic approach is therefore key.**

Tip: When you realize that chain reactions and unintentional consequences are common, you will also come to understand that negative impacts can be mitigated when you consider how challenges and interventions can affect each other!

You will learn how to perform your own participatory ecosystem assessment - the first step of every entrepreneurship policy process - in Part 2 of this Toolkit.





1.2 The Why: Business Case of Entrepreneurship Policy

The Business Case of Entrepreneurship Policy



Theory: from Entrepreneurship to Economic Growth

- Micro, small and medium sized enterprises comprise a majority of small businesses in Africa. It is expected that incremental improvement in their state has the potential to create ripple effects on the national economy.
- As a policymaker, it is important to understand how exactly that positive impact of entrepreneurship on economic development can arise. A basic conceptual understanding of this relationship will make it easier to argue in favor of support for entrepreneurs and the entrepreneurial ecosystem.
- We will borrow a page from an economics textbook to understand this. We will consider, in simplified terms, what economic growth is composed of. When we determine the ingredients of economic growth, then we can also identify via which channel entrepreneurship impacts economic growth.

The Business Case of Entrepreneurship Policy



Theory: from Entrepreneurship to Economic Growth

Economic development is a summation of the work we do with our hands and minds, the work our machines and money do for us and with us, and a measure of how productive we are.

Thus, in simplified terms, economic growth consists of three ingredients: a) our labor, b) our capital and c) a degree of productivity. But, where does entrepreneurship come into play?



The Business Case of Entrepreneurship Policy



Theory: from Entrepreneurship to Economic Growth

- Entrepreneurship does not affect the amount of labour available in our countries; the amount of people (hands and minds) will stay the same no matter how many entrepreneurs we have and no matter how high the quality of entrepreneurship is.
- Entrepreneurship also does not impact the amount of capital (machines, money) available in our economies. It might spur new innovations which lead to new or improved machines (in the long term), but that is not an effect of more capital. Instead, it is an increase in productivity!
- Thus, it is the third ingredient of economic growth, our productivity, where entrepreneurship comes into play. Entrepreneurship leads to higher productivity because, in essence, entrepreneurship comes down to us using our resources more efficiently. Examples of this are:
 - the introduction of new innovations,
 - increased market competition,
 - higher employment,
 - boosts in productivity, and
 - structural changes that lead to more macroeconomic stability.¹

¹ Lundin (2015). *Entrepreneurship and Economic Growth: Evidence from GEM Data*. <https://core.ac.uk/download/pdf/289938532.pdf>



The Business Case of Entrepreneurship Policy

Graphic: from Entrepreneurship to Economic Growth



Example: Jean has worked as a banker for 10 years. In his career he noticed that many customers have to visit the bank to receive their salary. He is convinced that this should not be necessary and that there is a smarter way to do this. He quits his job and finds a software developer. Together they develop a mobile banking application through which employers can transfer salaries directly to their employees. His app is a huge success! Not only does it increase the efficiency of paying salaries, it also saves everyone involved a lot of time. Both these effects lead to higher productivity, which in turn leads to higher economic growth.



The Business Case of Entrepreneurship Policy

Theory: from Entrepreneurship to Economic Growth

- While economic development is an important element in the 'why' of entrepreneurship policy, there is more to it. Entrepreneurship also has an important role to play in achieving the Sustainable Development Goals (SDGs).¹
- For example, entrepreneurship can lead to a reduction in poverty through an increase in financial performance, to greater access to education through efficient market competition, or cleaner access to water through a process that stimulates innovation. Similarly, it can be a driver for equality and equal opportunities, empowering women and enhancing social inclusion.



¹ Apostolopoulos, Nikolaos & Al-Dajani, Haya & Holt, Diane & Jones, Paul & Newbery, Robert. (2018). *Entrepreneurship and the Sustainable Development Goals*. 10.1108/S2040-724620180000008005 (see intro here: <https://books.emeraldinsight.com/resources/pdfs/chapters/9781787563766-TYPE23-NR2.pdf>).



The Business Case of Entrepreneurship Policy

Evidence: from Entrepreneurship to Economic Growth

- While there is widespread perception among scholars and policymakers that entrepreneurship positively impacts productivity growth, it has proven challenging to confirm this in practice.
- Historically, one of the reasons that it has proven difficult to test the relationship between entrepreneurship and economic growth, is the amount of data required. Additionally, testing for a long-term impact is complicated, as positive effects can occur with a delay.
- In recent years, more and more data has become available. As a result of that, the evidence base is growing. For example, a study on *Total factor productivity and the role of entrepreneurship* from 2018, shows that entrepreneurship (as defined by business ownership) has a long-term effect on productivity and thereby on economic growth.¹
- Moreover, given that most available data is from the Global North, evidence verifying the effect of entrepreneurship in the Global South is relatively scarce. We list a number of studies on the next slide that have examined this relationship for countries in the Global South.

¹ Erken, Donselaar & Thurik (2018). *Total factor productivity and the role of entrepreneurship*. J Technol Transf 43, 1493–1521
<https://doi.org/10.1007/s10961-016-9504-5>



The Business Case of Entrepreneurship Policy

Evidence: from Entrepreneurship to Economic Growth

Evidence on the importance of entrepreneurship in the Global South is growing:

- A study covering 12 African countries, including Senegal, Zambia and Ghana, shows that entrepreneurship is instrumental to economic growth.¹
- A study in Nigeria indicated that entrepreneurship is indispensable in achieving sustainable growth as it impacts the economy positively.²
 - Even more striking, data shows that in Nigeria, the technology sector contributed more to the country's overall economic development than the oil and gas sector did between 2010-2019.³
- A study from Rwanda further underscores the positive impact of entrepreneurship, showing that support for firms in the internationally competitive tradable sector can strongly boost local employment.⁴

¹ Adusei (2016). *Does Entrepreneurship Promote Economic Growth in Africa?* African Development Review, Vol. 28, No. 2, 2016, 201–214.
<https://www.researchgate.net/publication/304004397>

² Farayibi, Adesoji (2015). *Entrepreneurship as a Driver of Economic Growth: Evidence from Enterprise Development in Nigeria*. <http://dx.doi.org/10.2139/ssrn.2852865>

³ <https://technext.ng/2021/09/29/ict-contributed-17-9-of-nigerias-gdp-in-q2-2021-higher-than-the-oil-sector/>

⁴ Charpe (2019). *Sectoral employment multipliers in Rwanda: Comparing local multipliers and input-output analysis*.
https://www.ilo.org/africa/countries-covered/rwanda/strengthen/WCMS_723283/lang--en/index.htm



1.3 The What: Ecosystem Challenges

Ecosystem Challenges



The previous section has illustrated why entrepreneurship policy is important. In this section, we move on to the ‘what’ of entrepreneurship policy. What challenges does the entrepreneurial ecosystem face? Let’s have a look at some examples.

- In Kenya, 78.1% of SMEs surveyed in 2021 said they need a loan, but are unable to borrow enough money because of difficulties in obtaining or preparing documents that the lenders need (indicated by 38.8 % of the enterprises); a poor financial situation of the borrowers (20.6 %) or lack of collateral (6.2%).¹
- Similarly, in a survey conducted across 14 African countries among the youth (18-24 yrs), 53% report lack of access to capital as the biggest challenge to starting a business.²
- In South Africa, 1 in 10 entrepreneurs reported exiting at an early stage due to reasons such as lack of profit, problems accessing finance, taxes, bureaucracy, or an incident. Moreover, while 68% of adults in South Africa agree that it is relatively easy to start a business, only 20% have the intention to do so.³

¹ Kenya Bankers Association (KBA) and Japan International Cooperation Agency (2021). *Micro, Small, Medium Enterprises Survey Report*. <https://www.kba.co.ke/downloads/MSMEs-Survey-Report.pdf>

² Ichikowitz Family Foundation (2020). *African Youth Survey 2020 – The Rise of Afro-Optimism*. <https://ichikowitzfoundation.com/wp-content/uploads/2020/02/African-Youth-Survey-2020.pdf>

³ GEM (2022). *Global Entrepreneurship Monitor 2021/2022 Global Report: Opportunity Amid Disruption*. London: GEM. <https://gemconsortium.org/report/gem-20212022-global-report-opportunity-amid-disruption>

Ecosystem Challenges



- Thus, several constraints hamper the growth and success of businesses. Literature assessing entrepreneurial ecosystems, as well as these constraints and challenges, is abundant.
- We have analyzed fourteen of such ecosystem assessment frameworks (see table on the next slide). Specifically, we looked into the challenges that these entrepreneurial ecosystem diagnostic tools cover. We found that, despite wide variation in sources, the evaluative approaches are relatively consistent.
- Key learning is the need for a **multi-dimensional approach to ecosystem assessment**. That means taking into account all the various challenges (e.g. financing of businesses, governance, community support, infrastructure) that can affect entrepreneurship in a region, and how they interact with each other.

Ecosystem Challenges



	Babson	Council of Compet.	GEDI	Rain forest	6+6	GSMA	GEM	WEF	UNCTAD	GII	GCR	Enterprise Surveys	Doing Business	OECD	i4Policy
Finance	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓		✓	✓
Market Access	✓		✓			✓	✓	✓		✓	✓	✓		✓	✓
Business Support	✓	✓	✓		✓	✓								✓	✓
Governance	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Culture	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓			✓	✓
Infrastructure		✓				✓	✓	✓		✓	✓	✓	✓		✓
Human Capital	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓		✓	✓

Babson College - Babson Entrepreneurship Ecosystem Project, **Council on Competitiveness** - Asset Mapping Roadmap, **GEDI** - Global Entrepreneurship and Development Index, **Rainforest** - Innovation Rainforest Blueprint, **6+6** Koltai and Company - Six + Six, **GSMA** - Information and Communication Technology Entrepreneurship, **GEM** - Global Entrepreneurship Monitor, **WEF** - World Economic Forum - Entrepreneurship Ecosystem, **GII** - Global Innovation Index, **GCR** - Global Competition Index, World Economic Forum, Enterprise surveys - World Bank, Doing Business - World Bank, **OECD** - Organisation Economic Co-operation and Development - Entrepreneurship Measurement Framework

Source: The Aspen Institute (2013). *Entrepreneurial Ecosystem Diagnostic Toolkit*.
<https://www.aspeninstitute.org/publications/entrepreneurial-ecosystem-diagnostic-toolkit/>

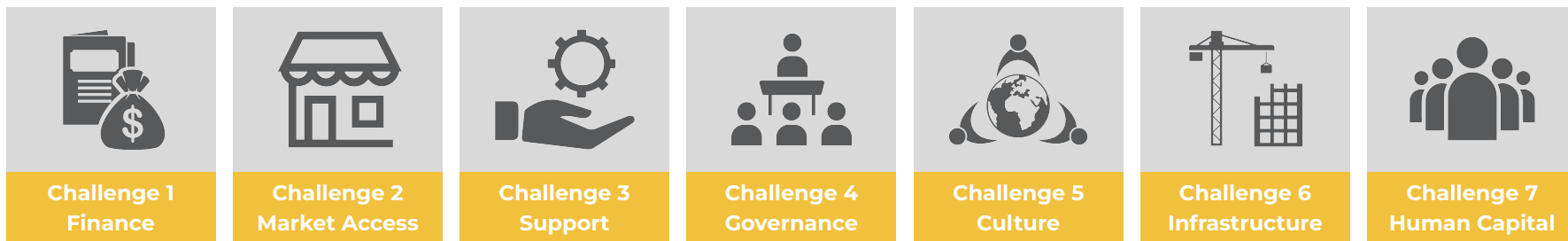
Analysis by the Innovation for Policy Foundation (2023). *Benchmarking Small Business Acts and Startup Acts in Africa*. <https://ecosystem.build/>

Ecosystem Challenges



Based on our analysis of these fourteen ecosystem diagnostic tools, we conclude that 7 challenges are considered the main categories in most of them.¹

These provide us with a well-researched **typology of 7 key challenge areas** faced by entrepreneurs and entrepreneurial ecosystems across the world:



¹ Innovation for Policy Foundation (2023). *Benchmarking Small Business Acts and Startup Acts in Africa*. <https://ecosystem.build/>



Challenge 1: Finance

- Entrepreneurs face a lack of financing options for starting and growing their firm. This includes financing mechanisms such as debt, equity, grants, and blended financing.
- These difficulties are present throughout the journey of the entrepreneur, whether it is in the earliest stages of the business when the entrepreneur needs to test the viability of a business idea (pre-seed), develop a Proof of Concept (PoC) and establish their company, or in later stages when the business requires capital inflow such as private equity and venture capital.





Challenge 2: Market Access

- Entrepreneurs face challenges in acquiring customers and gaining access to distribution channels, suppliers and entrepreneurial networks.
- For example, 30% of entrepreneurs in South Africa rank market access among the most needed opportunities for their business.¹ Easing access to the domestic market can foster competition and economic development.
- Entrepreneurs also face difficulties to expand their business internationally and tap into other markets, to acquire the right equipment and inputs and to compete in public procurement tenders.

¹ National Youth Development Agency (2021). *Entrepreneurship Survey Report 2019/2020*. South Africa. [http://www.nyda.gov.za/Portals/0/downloads/Quarter Two \(2\) Outlook Entrepreneurship Survey.pdf](http://www.nyda.gov.za/Portals/0/downloads/Quarter Two (2) Outlook Entrepreneurship Survey.pdf)





Challenge 3: Support

- Business service providers can be of great help to entrepreneurs, but they are not always well equipped or well informed to assist entrepreneurs. This can prohibit entrepreneurs from scaling their business.
- Examples of business development service providers are incubators, accelerators or innovation hubs.
- In addition, the availability as well as the quality of research and scientific institutions can be a challenge for the entrepreneurial ecosystem. An ecosystem where private sector and academia are well-linked can stimulate productivity and competitiveness.





Challenge 4: Governance

- Unclear laws and regulations, high business costs and a lack of available information can hamper the growth of startups.
- The challenge of governance is wide-ranging. On the one hand, it captures direct financial costs related to business procedures (such as the costs of starting a business, licensing and registration fees and taxes). On the other hand it also covers less tangible costs that entrepreneurs face as a result of unclear and/or rapidly changing laws, regulations and procedures, as well as a lack of clarity of publicly available information.





Challenge 5: Culture

- Culture is who we are, and what shapes our identity. It is a cross-cutting theme in development, that can help enhance support and promote livelihood improvements.
- Culture is the fifth key challenge area because unfavorable societal attitudes toward entrepreneurship, unavailability of role models, a low tolerance of risk and a low level of confidence among entrepreneurs can severely hamper the development of businesses.
- For example, while 76% of young people (18-24) surveyed in 14 African countries would like to start a business in the next five years, only 51% find it easy to accept failures as part of learning.¹



¹ Ichikowitz Family Foundation (2020). *African Youth Survey 2020 - The Rise of Afro-Optimism*
<https://ichikowitzfoundation.com/wp-content/uploads/2020/02/AfricanYouthSurvey2020.pdf>



Challenge 6: Infrastructure

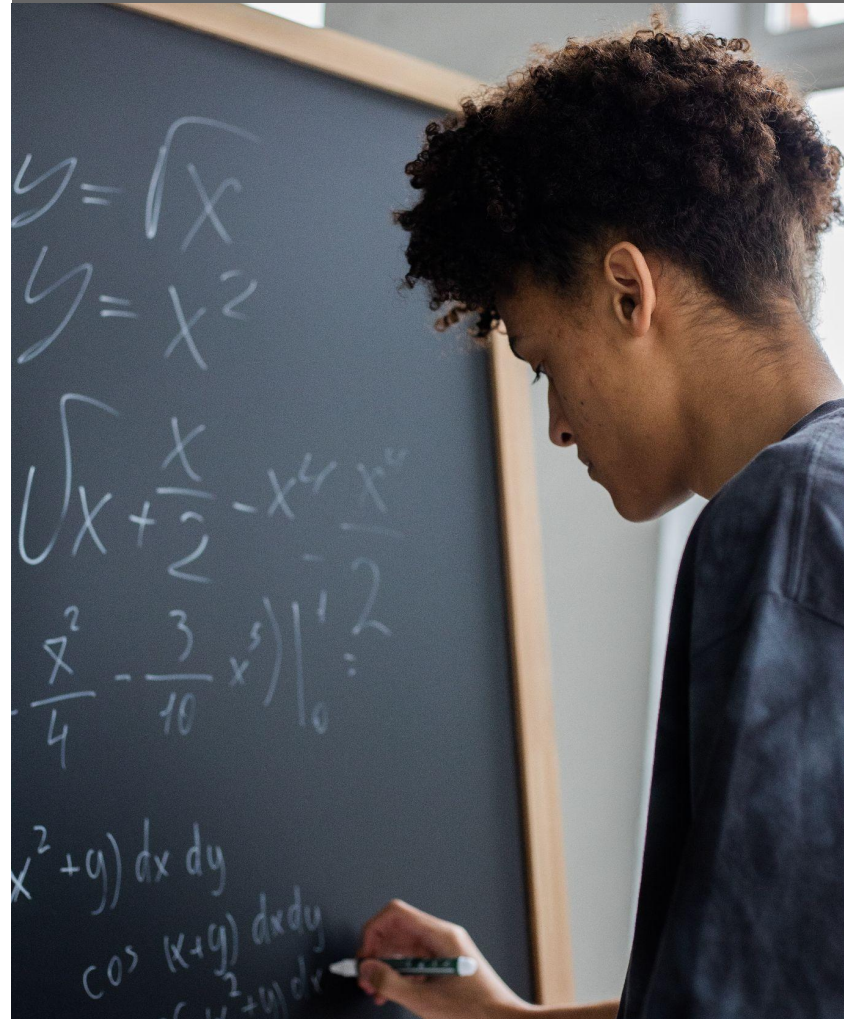
- Entrepreneurs can face a lack of accessible or reliable infrastructure, including electricity, telecom, transportation, and logistics. These put entrepreneurs at a major competitive disadvantage and can halt firm growth.
- It is the responsibility of the government to provide infrastructure that is conducive to entrepreneurship.
- Infrastructure improvements are seldom part of entrepreneurship policies. That is understandable, as this is generally the responsibility of other government departments. However, this does not relieve policymakers from their responsibility to push for stable infrastructure to aid entrepreneurs.





Challenge 7: Human Capital

- The seventh and last challenge area entrepreneurs and the ecosystem face is human capital.
- A lack of skills and aptitudes needed to start and grow firms can be challenging for potential entrepreneurs. Additionally, a lack of skills in the workforce limits their their possibilities to hire the right employees.
- Human capital is directly related to the education system in a country. It has to do with the development of basic entrepreneurial skills, promotion of advanced and specialized STEM (Science, Technology, Engineering and Mathematics) skills as well as business skills.



Ecosystem Challenges



In summary, these 7 key challenge areas are the most important challenges that the entrepreneurial ecosystem and entrepreneurs face. This typology of key challenges is used throughout the toolkit:

- The typology is the basis for the Participatory Ecosystem Assessment (Part 2);
- The typology is the foundation that is used to analyze incentives found in existing entrepreneurship policies on the continent (Part 3);
- The typology is the structure for Part 5 of the Toolkit, where a menu of policy incentives and options is provided per challenge area.





1.4 The How: Toolbox of Instruments



The Toolbox

Governments have various instruments at their disposal to accelerate entrepreneurship and sustainable, equitable development. These instruments in the policymaker's toolbox have a certain hierarchy:

- First, we have strategic instruments. These set high-level objectives for economic development for the medium-to-long term.
- Second, we need legislative instruments, laws, to turn those big dreams presented in visions, strategies, plans or policies into reality.
- And third, laws contain or introduce concrete incentives. Such as subsidy schemes, the launch of new government agencies or the easing of regulations for startups.

Strategic instruments

(Visions, Plans, Strategies, Policies, White/Green Papers)

Legislative instruments

(SBA Acts, SME Acts, Innovation Acts, Startup Acts)

Concrete Incentives

(Fiscal, financial, institutions, etc.)

The Toolbox



Strategic Instruments (1): Vision, Strategy, Plan

- Governments often present broad visions for national development that set high level goals for economic development for the long term (20-40 years). These are subsequently broken down into medium-term strategies that focus on specific goals within a four to five-year period. These strategies are plans that form the basis of policies and laws.
- In practice however, governments may use these terminologies interchangeably given that vision documents contain strategies which in themselves are plans, e.g. Ghana's National Development Plan, known as Vision 2020, Kenya's Vision 2030 Strategy or Senegal's 2035 Vision. Like policies, they do not carry the weight of the law, but instead serve as frameworks from which laws are created.
- SME strategies may be defined within these vision and strategy documents or may be created for specific sectors of interest.

Vision: Nigeria



- ❖ The 2019 Nigeria ICT Innovation and Entrepreneurship Vision (NIIEV) recognizes the role of the public sector in facilitating entrepreneurship, and seeks to address the challenges faced by SMEs in the face of the new digital economy.
- ❖ It was developed by the National Information Technology Development Agency (NITDA), as part of its mandate to support entrepreneurship and commercialization of the country's ICT sector, together with Nigerian entrepreneurs.
- ❖ The NIIEV addresses three thematic areas and contains fourteen specific goals for the sector:
 - Digital Infrastructure - 95% of population to have access to the Internet by 2025.
 - Education Reform, Skills Development And R&D - Digital literacy rates of 75% by 2025.
 - Supporting the ecosystem for innovation and entrepreneurship- ICT to contribute 25% of GDP.



Points of Interest

- The objective of the policy is to foster job creation and an increase in the tax and export base through the promotion of competitive new and existing SMEs, mainly in value added sectors.

Impact in Numbers

- 246 startups and 125 IT hubs and ecosystem builders have been supported.
- More than 500 jobs have been generated through entrepreneurship training programmes.¹

¹ <https://www.vanguardngr.com/2021/08/on-nitda-bill-and-kashifus-integrity/>

The Toolbox



Strategic Instruments (2): Policy

- Oftentimes governments realize the value and the potential of the SME sector to transform their economies but are faced with disjointed and uncoordinated measures administered by various actors in the entrepreneurial ecosystem. Strategic instruments can be used as guideposts to set key priorities for implementation.
- Policies provide a broad outline of goals, methods and principles that governments seek to achieve, but have no legal basis. This sets policies apart from legislative instruments such as Small Business Acts, which are legally enforceable. As such, they create specific procedures, rights and duties and set specific procedures to be followed under penalty of prosecution.
- A policy document may identify new laws needed to achieve the set goals or reference existing institutional and legal frameworks that support it.



Policy: Tanzania



- ❖ The 2003 Tanzanian SME Development Policy (2003) is the earliest policy of the kind. The government followed a participatory approach for its preparation, using zonal workshops and consultations spread out over several years.
- ❖ The policy was holistic in scope and developed to serve as a guideline for stakeholders, while offering strategic directions aligned with the national vision (National Vision 2025).
- ❖ It sets out 7 pillars in support of SME development:
 - Legal and Regulatory Framework,
 - Physical Infrastructure,
 - Business Development Services,
 - Access to Finance,
 - Institutional Framework for SMEs Development,
 - Rural Industrialization,
 - Cross Cutting Issues.



Points of Interest

- Tanzania's SME Development Policy, implemented since 2003, is estimated to have led to a fivefold increase of the number of businesses in 10 years, creating 370,000 jobs.¹

¹ UNIDO (2012). *Tanzania SME Development Policy 2003 - "Ten years after"*.
<https://open.unido.org/api/documents/5403996/download/TANZA>



The Toolbox

Legislative instruments

- Legislative instruments, such as laws, regulations, charters and directives are enforceable and generally backed by threat of sanctions, fines or other disciplinary action. It is this enforceable element that sets legislative instruments apart from the strategic instruments.
- Legislative instruments in the field of entrepreneurship policy can contain regulations on business procedures, set costs associated with starting a business or prescribe licensing fees for instance.
- The type of legislative instruments that we will particularly look at in this toolkit take a more 'supportive' approach, focusing less on sanctions or fines, instead introducing and creating incentives that can help entrepreneurs to flourish and grow their businesses.
- Part 3 of the toolkit will help you understand the legal side of entrepreneurship policy in detail. There we will dive deeper into the realm of Small Business Acts and Startup Acts.



Startup Act: Tunisia



- ❖ The 2018 Tunisian Startup Act had a primary objective of creating an incentive framework for startups that was based on “creativity, innovation and the use of new technologies.”
- ❖ 20 measures include reforms such as:
 - Startup Leave to co-founders with option to return to employer without penalty,
 - Startup Scholarship for co-founders (up to ~USD 1700),
 - Intellectual property registration help for licensing and patents,
 - Multiple tax and finance incentives,
 - Amicable liquidation through Guarantee Funds, exemption from corporate tax.
- ❖ The process was collaborative and participatory. Tunisia’s Startup ecosystem lobbied policymakers on their priorities for the Act in what has been called “bottom-up policy making.”¹
- ❖ A taskforce of 70+ leading actors, worked to simplify over 100+ measures proposed.

¹ <https://carnegieendowment.org/sada/76685>

² Startup Tunisia Annual Report (2020). <https://startup.gov.tn/en/annual-reports>



Points of Interest

Tunisia was the first African country to pass such an Act. One of the primary objectives was to attract investment and make the country a destination of choice for international startups as well as local.

Impact in Numbers

- 818 labels awarded between March 2019 and February 2023.
- 3,222 jobs created by startups by 2020.
- In 2020, 82 startups raised a total of \$8.2 million.²



The Toolbox

Concrete incentives

- Concrete incentives are measures that have generally been announced or introduced in strategic or legislative instruments.
- These incentives can take many shapes or forms. They can be financial in nature, but also regulatory and can relate to all of the 7 key challenge areas.
- Some examples are:
 - Subsidies
 - Grant funding
 - Capacity building
 - International trade missions
 - Public-private partnerships



Concrete incentive: Morocco



- ❖ Morocco's Innov Invest Fund (IIF) is one of the few known to offer pre-seed grants (US\$2 million) to support an entrepreneur or startup to test the viability of his or her business idea. The maximum grant amount per entrepreneur/startup is \$20,000.
- ❖ The Fund, which was created in 2017 and managed by the Caisse Centrale de Garantie (CCG), was established in partnership with local incubators and accelerators and supported by the World Bank and the European Union. These actors are also responsible for evaluation and selection of the entrepreneurs to be financed.¹
- ❖ The World Bank and the Moroccan Ministry of Finance evaluated the IIF in 2022 and, according to Fomento, concluded that "it remains a satisfactory project, which has mobilized \$ 47.3 million in private capital from 15 local and international investors."

¹ <https://www.insme.org/the-innov-invest-fund-in-morocco/>

² <https://www.fomento.eu/en/news/596-the-world-bank-is-satisfied-with-the-achievements-of-the-innov-invest-fund>



Impact in Numbers

- Under the IIF, the CCG has 19 accredited partners with a portfolio of 477 companies.²
- Total funding provided amounts to \$24.7 million as of December 31, 2021.
- Targeted number of supported companies introducing an innovation reached 432, significantly exceeding the goal of 100.

The Toolbox



Questions for reflection

You have learned about the business case for entrepreneurship policy and the existence of a wide scala of policy instruments. Now it is time to consider your own public policy context.

Ask yourself the following questions:

- Have these different types of policy instruments already been introduced in your country?
- Which policy instruments seem to be lacking?
- Given the current policy framework, which would be most effective in addressing your entrepreneurial ecosystem?

→ The answers to these questions will allow you to identify the type of policy instrument you will need to focus on during our work together throughout this toolkit.



WHAT TO EXPECT NEXT...



Now that you have covered the introduction and fundamentals to build your entrepreneurship policy - the real work begins!

In this next section (Part 2) you will begin to explore your own country's entrepreneurial ecosystem, its challenges and how to measure improvements using key performance indicators.

It's a good idea to keep a notebook and pen ready so that you can begin to map out your ecosystem and begin to interrogate which areas need more intervention or policy support.



FURTHER READING

About SME Challenges

- ❑ **World Bank Group (2019). Typology of SMEs**
<https://openknowledge.worldbank.org/handle/10986/33908>

Understanding your Ecosystem

- ❑ **GIZ (2021). Guide to Strengthening Entrepreneurial Ecosystems**
<https://www.giz.de/en/downloads/giz2021-en-entrepreneurial-ecosystems-guide.pdf>
- ❑ **Aspen Institute (2013). Ecosystem Diagnostic Toolkit**
<https://www.aspeninstitute.org/publications/entrepreneurial-ecosystem-diagnostic-toolkit/>

Understanding Entrepreneurship Policy

- ❑ **UNCTAD Entrepreneurship Policy Framework**
<https://unctad.org/topic/enterprise-development/entrepreneurship-policy-hub>

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