

Principles of Entrepreneurship Promotion

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In recent years, the role of entrepreneurs and micro, small and medium-sized enterprises (MSMEs) has steadily gained importance in development cooperation. Being one of the driving forces for job creation, business innovation and green and inclusive growth, development cooperation seeks ways to support entrepreneurs and MSMEs in developing and emerging countries. In a majority of those countries, MSMEs account for a large share of national economic activity. Studies have shown that there is a clear correlation between entrepreneurial activity (opportunity-based entrepreneurship) and economic growth.¹ In the light of this, entrepreneurs and MSMEs play a leading role in meeting the economic dimension of the Sustainable Development Goals (SDGs) launched by the United Nations in 2015.

Entrepreneurship promotion has been part of many private sector development programs for many years. Following the multi-level approach described in the BMZ Sector Strategy Private Sector Development², there are operations aiming to create an **enabling environment** for entrepreneurship and private-sector activity as well as enhancing the **competitiveness and innovation capacity** of entrepreneurs and **direct cooperation** with the local and international private sector.

Some of the longstanding approaches used in this area are focusing on developing the skills of entrepreneurs through trainings: [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. For all these approaches, an international network of trainers has developed over the years and the training material has been constantly updated and revised.

NEW TRENDS AND DEVELOPMENTS

In the past decade, the global economic outlook has been disrupted by various changes. These changes led to new developments in the environment in which entrepreneurs operate. Accordingly, development in cooperation had to cope with these changes and review the support offered to entrepreneurs.

Some of these main trends include:

- **Digitalization**, which enabled opening up new markets, access to knowledge, as well as making new business models feasible (e-commerce, platform economy, shared economy)
- **The emergence of new actors** in the field³: especially large corporations which have shown an increased interest in supporting entrepreneurs, as part of their innovation strategies (or Corporate Social Responsibility)
- **New sources of finance**: such as crowd-funding/investing, increased availability of venture capital, as well as socially conscious investments like impact investment
- **New role models**: especially, but not exclusively, in the tech-enabled sectors many successful, young entrepreneurs can be found
- **A focus on impact**: Many entrepreneurs develop business ideas addressing sustainability challenges (like green and inclusive businesses)
- **An increased number of graduates** from universities or vocational training programs interested in entrepreneurial activities
- **New forms and methods of trainings** like online or blended learning have spread and new methods, such as design thinking, have been applied for entrepreneurship promotion
- **Examples from developed countries** are increasingly used as good-practice examples to be followed in development cooperation (“Silicon XXX”, “made in Germany”)

These new trends have led to two inter-twined results: an increase in the amount of entrepreneurship promotion activities in German development cooperation, as well as an increasing variety of approaches and formats of entrepreneurship promotion. In addition, entrepreneurship activities cannot only be found in private sector development projects, but also in other sectors (health, energy, water, waste, etc.).

THE NEED FOR GUIDING PRINCIPLES OF ENTREPRENEURSHIP PROMOTION

As the number of approaches and instruments in entrepreneurship is increasing, as well as the number of practitioners working on entrepreneurship promotion in development cooperation, the need for a common set of principles that can guide those practitioners in designing and implementing successful measures has also increased. The following section presents a set of guiding principles that support practitioners in designing and implementing successful and efficient entrepreneurship development measures. These principles complement the general principles of private sector development, found in the BMZ Sector Strategy Private Sector Development.

EXAMPLES OF NEW APPROACHES IN GERMAN DEVELOPMENT COOPERATION

INDIA:

Virtual Incubation

StartupWave is a virtual incubation platform created as a market infrastructure for the Indian start-up incubation ecosystem. The platform is co-funded by GIZ, the UK Department for International Development (DFID) and an India-based consultancy focused on Inclusive Business models. The collaborative platform launched in April 2014 aims to 'democratize incubation' and is a one-stop service, providing a blend of virtual and in-person support to take start-ups with inclusive business models from the idea to the investment stage. This platform has been designed in consultation with and being used by incubators, corporates, funds and start-ups.

www.startupwave.co

MOROCCO:

Crowdfunding

In 2018 the Moroccan Ministry of Economy and Finance has published a draft bill on crowdfunding.

KOSOVO:

Green Entrepreneurship Academy

Together with the Borderstep institute, the GIZ Program "Youth, Employment and Skills" in Kosovo, has developed and implemented a training workshop with local trainers. It did not only focus on the basics of entrepreneurship (using approaches such as the Lean Start-up approach and the Business Model Canvas), but supported the 24 participants in developing green business ideas and learn about Green Economy principles.

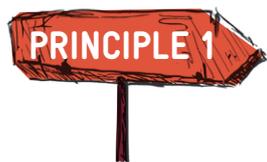
www.borderstep.de/green-entrepreneurship-academy-im-kosovo/

INDIA:

Corporate Start-up Collaboration

GIZ in cooperation with Bosch and Intelcap under the developPPP.de framework has initiated a Strategic Alliance with the objective to connect corporates with incubators and start-ups and especially social enterprises. The joint work under the alliance aims at creating an engagement mechanism, strengthening incubation capacities and creating opportunities for corporates to collaborate with innovative start-ups.

www.giz.de/en/worldwide/42269.html



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.⁴ 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](#)⁵, 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 contacts⁶, 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.⁷

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.

CONTESTED ISSUE: SUPPORT SUBSISTENCE

ENTREPRENEURS OR HIGH-GROWTH START-UPS?

There have been many heated discussions about whether or not development cooperation should solely focus on subsistence or needs-based entrepreneurs, as these mostly belong to the low income and poor segment of the society. This discussion has increased with the new focus of many projects on entrepreneurs with high-growth potential or tech-enabled start-ups. To either choose growth entrepreneurs or rather the necessity entrepreneurs as target group highly depends on an intervention's short- to medium-term objective (be it a clear focus on contributing to growth or the impact on poverty).

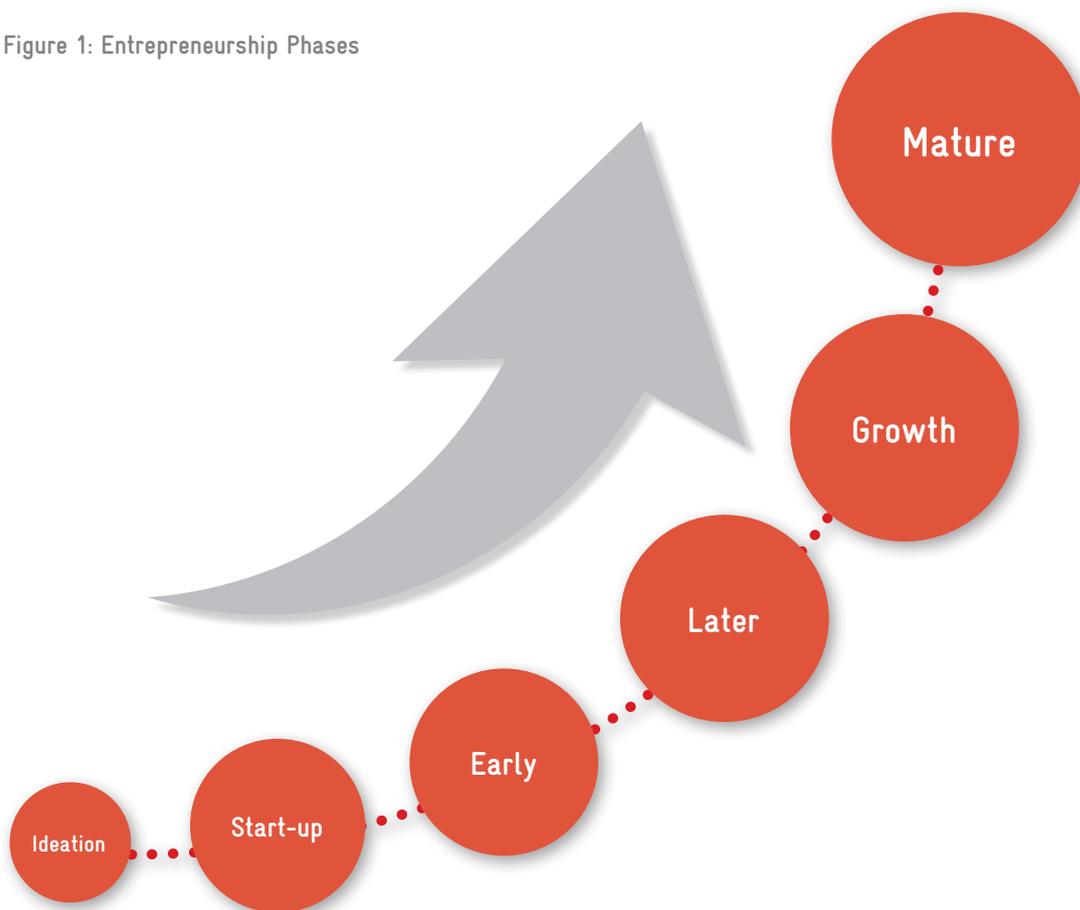
The success for measures targeting only high growth entrepreneurs depends very much on the possibility to identify these type of entrepreneurs in the first place. Methodologies (such as the Lussier 15 model⁸) to identify potential high growth entrepreneurs ex-ante make it possible to narrow down the pool of potential growth firms.⁹ Many of these methodologies might be discriminating against minority groups or more vulnerable groups of society (e.g. migrants or women).

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



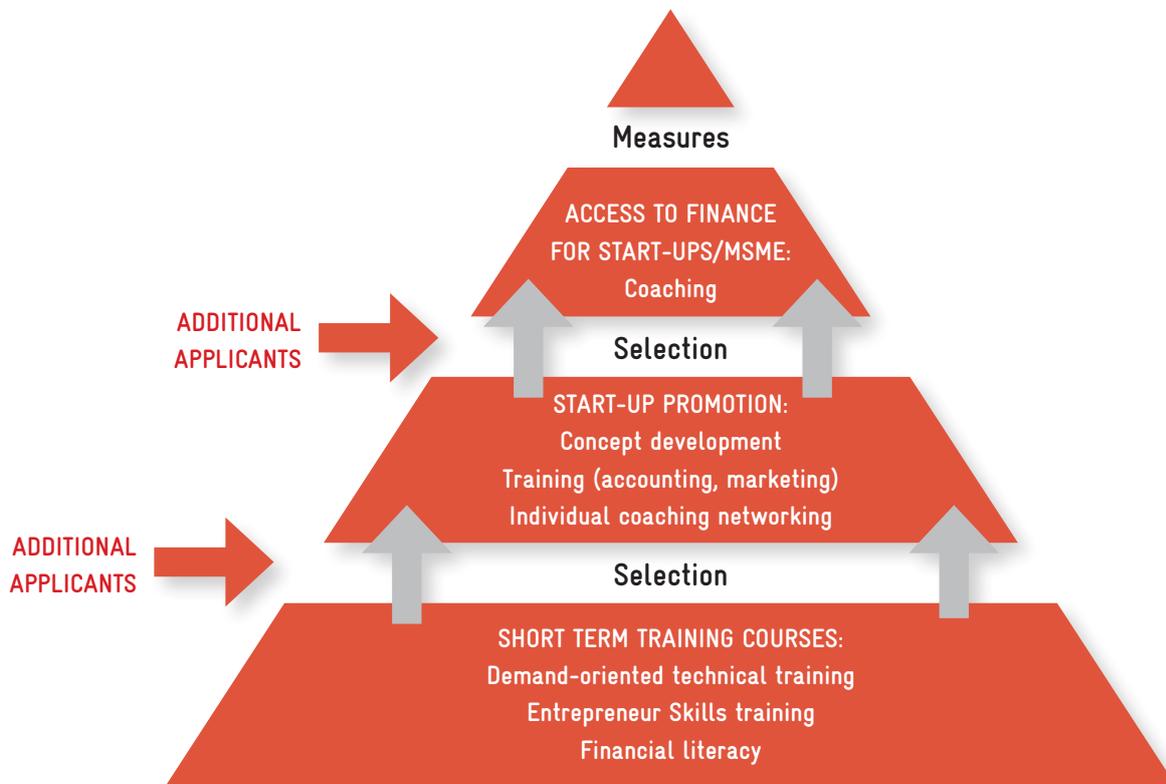
There are various phases which entrepreneurs have to go through, before they can claim to run an established business. Starting with the ideation phase, in which an entrepreneur develops an idea about a scalable product or service to the scaling phase in which the business starts to grow fast. In all 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.

Figure 1: Entrepreneurship Phases



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.

Figure 2: Funnel Model¹⁰



PRINCIPLE 4

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 the 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). At the same time they ensure 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, lengthy procedures or little benefits related to becoming a formal business).

CONTESTED ISSUE:
TARGETED MEASURES FOR GROWTH ENTREPRENEURSHIP OR IMPROVING THE OVERALL FRAMEWORK CONDITIONS?

There is a discussion on whether or not to only target growth entrepreneurs (through targeted interventions like providing early-stage finance) or instead trying to improve the overall framework conditions for all businesses (e.g. by reducing red tape in the process of business registration). This discussion is difficult to conclude, as it is mainly also a decision about political priorities. The Donor Committee for Enterprise Development has published a paper looking at the pros and cons of targeted interventions (focusing on supporting inclusive business models).¹¹ Targeted measures always come with the risk of interfering in markets. There can be good reasons for this, you just need to be aware of the risks associated (see principle 8).

In the past years, there has been a focus on micro-level approaches. Few programs have worked on the macro-level, e.g. supporting a local government in developing an entrepreneurship promotion strategy. In order to ensure the scalability of your project approach, it is important to connect the measures on different levels with each other.

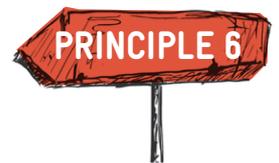
LOOK FOR NEW PARTNERS TO COLLABORATE WITH AND POOL RESOURCES FOR INCREASED EFFICIENCY

Traditional 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 program's efficiency. The possibilities for partnerships with corporates, universities, banks or civil society organizations, should be considered not only in the implementation phase, but already in the design phase of a project. Working with partners might also improve the possibility of ensuring sustainability and scaling the approach at a later stage.



INCLUDING 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 make this 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 process 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 mechanism¹² focusing on entrepreneurship promotion.



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

There are many situations in which it is necessary for GIZ programs to directly support entrepreneurs through trainings, mentoring programs, 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, delivering trainings or organizing events and manage networks. This is a long-standing 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 often consists 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 RELY 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 EXAMPLES 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 during 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 methods such as online trainings or virtual incubation (see example from India, Start-up Wave). In addition, new technologies such 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.



IMPROVE THE CONNECTION BETWEEN ENTREPRENEURSHIP MEASURES AND 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 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 the local ecosystem with other international ones. This applies also to monitoring and benchmarking the entrepreneurial ecosystem (see principle 15, below).



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

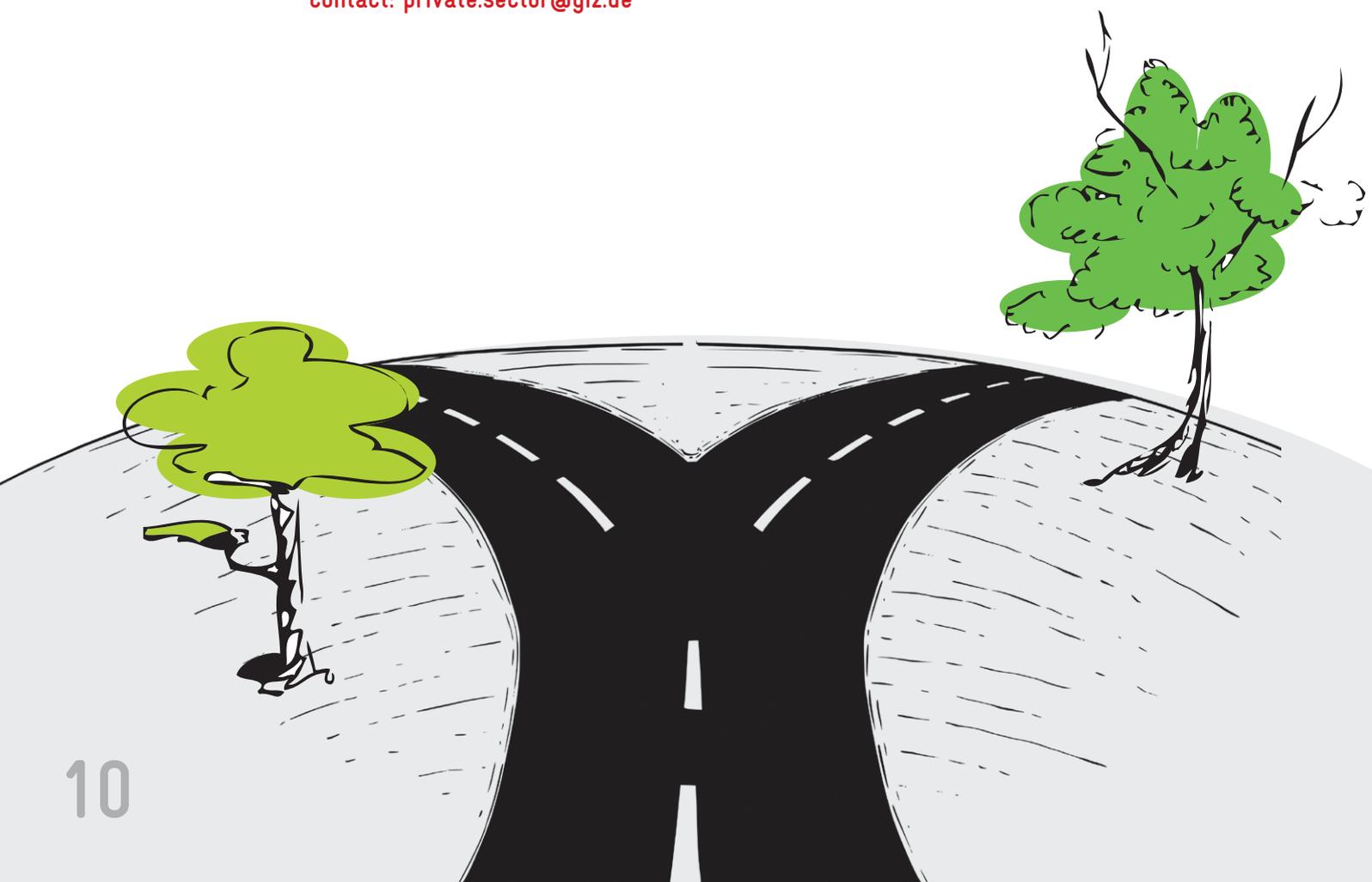
Data on the entrepreneurial ecosystem that also provides the possibility of comparing the ecosystem to that of other locations is a prerequisite for designing successful entrepreneurship projects. One option to benchmark the national ecosystem with that of other countries is building up a national team 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.

For comments, good practice examples or ideas for further principles please contact: private.sector@giz.de



FOOTNOTES

- 1 Ács, Szerb & Lloyd (2017): Global Entrepreneurship Index 2018, page 17
- 2 BMZ (2013): Sector Strategy Private Sector Development, page 7
- 3 WEF (2018): [3 Striking Trends Shaping Start-Ups in the Middle East](#)
- 4 Worldbank (2016): Growth Entrepreneurship in Developing Countries – A Preliminary Literature Review
- 5 GIZ (2018): [Guide on Mapping the Entrepreneurial Ecosystem](#)
- 6 Kauffmann Foundation (2015): [Guidelines for Local and State Government to Promote Entrepreneurship](#)
- 7 Worldbank (2016): Growth Entrepreneurship in Developing Countries – A Preliminary Literature Review
- 8 Lussier (1995): A Nonfinancial Business Success Versus Failure Prediction Model for Young Firms, Journal of Small Business Management, 33(1), 8-20
- 9 Worldbank (2016): Growth Entrepreneurship in Developing Countries – A Preliminary Literature Review
- 10 Kirschner, Horn, Kerck, Akomea & Agezo (2017): Debriefing Appraisal Mission – Programme for Sustainable Economic Development (PSED), Additional Intervention Area: Reintegration and Employment Promotion, Folie 15
- 11 DCED (2016): [How to Create an Enabling Environment for Inclusive Business? Learning from Experience and Debates in Private Sector Development](#)
- 12 For guidance on how to support public-private dialogue mechanisms: [The PPD Handbook: A Toolkit for Business Environment Reformers \(2006\)](#)
- 13 DCED (2001): [Guiding Principles for Donor Intervention in Business Development Services](#)
- 14 [Global Entrepreneurship Monitor](#)

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