

## RVO RESEARCH AGENDA – RESEARCH LINE 1:

# Entrepreneurial Ecosystem Development

### Key points

- \* **Supportive entrepreneurial ecosystems (EEs) are crucial for creating enabling environments for young entrepreneurs to initiate and expand their businesses successfully.** Entrepreneurial Ecosystem Development (EED) has garnered increased attention from foreign aid, academic research, and local governments as a strategy to achieve **SDG 8** related to decent work and economic growth in Low- and Middle-Income Countries (LMICs). EED contributes to job creation and economic growth although there is debate over which stage of entrepreneurship may have the most significant impact on SDG 8 in LMICs (fostering start-ups versus boosting existing entrepreneurs and Micro, Small and Medium Enterprises (MSMEs)).
- \* **Entrepreneurial ecosystems vary per country/region and it is thus key to understand their differences before programme design and implementation.** Factors such as in physical infrastructure, favourable policy, entrepreneurial education, market openness, entrepreneurial finance options, or culture and social norms associated with entrepreneurship impact EEs and the potential success of an entrepreneur. **The maturity of an entrepreneurial ecosystem may also be reflected in the type of actors involved: aid-driven or private sector-driven,** influencing programme effectiveness, inclusiveness and sustainability. **One size fits all ‘copy-paste’ interventions and trainings for entrepreneurs facing widely different challenges may thus be unsuitable.** Each programme region necessitates a tailormade approach based on local dynamics and the nature of the entrepreneurial ecosystem to design its interventions accordingly.
- \* *Practical gaps for OC* emerge related to EED interventions and the nature of EE. First, OC is interested to assess how limited resources can be best dedicated towards EED, e.g. which EED interventions are the most effective, how can impact best be measured and should these be regional or sector focused. Second, it is key to understand how EED interventions should deviate depending on the maturity of the EE as well as impact source (e.g. start-up, opportunity-entrepreneurs, or necessity-driven). Other *research gaps* of interest to OC and beyond include understanding how exactly entrepreneurial ecosystems between LMICs differ and what this implies for EED.

### Introduction

This RVO research line describes the **role and impact of entrepreneurial ecosystems in creating an enabling environment for entrepreneurs** to flourish in low and middle income countries (LMICs) and gaps for research in the Orange Corners (OC) Programme. The research line starts by describing what an entrepreneurial ecosystem (EE) is (**Part 1**) and draws attention to its role in creating an enabling environment for entrepreneurs, including the challenges for women entrepreneurs (**Part 2**). The research line continues with a discussion on how entrepreneurial ecosystems can be intentionally strengthened and the role of aid in this (**Part 3**), (**Part 4**) discusses how EEs differ across countries and

implications for entrepreneurs and training. The research line concludes with concluding remarks and recommendations (**Part 5**). Potential questions for research within RVO Orange Corners programme are suggested throughout the research line.

## Part I: What is an entrepreneurial ecosystem?

The term entrepreneurial ecosystem is relatively new, with research dating back to 10-15 years ago. Entrepreneurial ecosystems are interconnected networks of entrepreneurs, investors, institutions, and supporting organizations, influenced by culture and norms, that foster the development and growth of businesses within a particular region or community.

There is not one concise definition of an entrepreneurial ecosystem and slight variations are used among scholars, such as Stam (2015), who defines EE as *“entrepreneurs [who] create new value, organized by a wide variety of governance modes, enabled and confined within a specific institutional context”*, or Mason and Brown (2014) who consider EE as *“a set of interconnected entrepreneurial actors (both potential and existing), entrepreneurial organisations (e.g. firms, venture capitalists, business angels, banks), institutions (universities, public sector agencies, financial bodies) and entrepreneurial processes (e.g. the business birth rate, numbers of high growth firms, levels of ‘blockbuster entrepreneurship’, number of serial entrepreneurs, degree of sell-out mentality within firms and levels of entrepreneurial ambition) which formally and informally coalesce to connect, mediate and govern the performance within the local entrepreneurial environment”*.

Despite varying definitions all agree that entrepreneurial ecosystems play a crucial role in shaping the environment in which entrepreneurs operate, influencing factors such as (pro) risk culture, access to funding, policy and regulation, mentorship, and market opportunities.

Entrepreneurial ecosystems cannot be adequately understood or evaluated solely on a national level; instead, they vary significantly within a country and should be examined within a region or even a specific sector. This is particularly true in Africa, where the entrepreneurial landscape is diverse and complex. For instance, in Nigeria, the entrepreneurial ecosystem in Lagos, the country's commercial capital, is vastly different from that in Kano, a major city in the north. Lagos boasts a vibrant tech scene with numerous incubators, accelerators, and co-working spaces, while Kano's ecosystem is more focused on traditional industries like agriculture and manufacturing. Similarly, within sectors, the ecosystem for tech startups in Nairobi, Kenya, will differ from that in Accra, Ghana. Understanding these nuances is crucial for policymakers, investors, and entrepreneurs seeking to foster innovation and economic growth.

Entrepreneurial ecosystems are not static; they are dynamic and constantly evolving. They are shaped by a multitude of factors, including government policies, cultural attitudes, access to capital, infrastructure, and the availability of skilled labor. In LMICs, entrepreneurial ecosystems are particularly dynamic, with rapid changes driven by technological advancements, changing consumer preferences, external shocks (e.g. climate change, political or economic instability) and global market trends. For example, the rise of mobile money in East Africa has transformed the financial services sector, creating new opportunities for entrepreneurs. Contrastingly, in South Sudan, ongoing conflict and political instability have hindered economic development and discouraged foreign investment.

This has made it difficult for entrepreneurs to access capital, find skilled labor, and establish reliable supply chains. Understanding the dynamic nature of entrepreneurial ecosystems is essential for policymakers and investors, as it allows them to adapt their strategies to support the growth of startups and small businesses.

**Research questions for the OC programmes:**

→ Is it more efficient to focus EED efforts on a specific sector rather than a whole (regional) entrepreneurial ecosystem? How should EED interventions differ based on the chosen sector?

## Part II: The role of an entrepreneurial ecosystem in creating an enabling environment for entrepreneurs

### 2.1 Entrepreneurial Ecosystem Elements

Entrepreneurial ecosystems may consist of several elements that influence individual entrepreneurs and entrepreneurship depending on the specific definition used. Most definitions consider at least the following elements however: government policy, physical infrastructure, entrepreneurial education, market openness, research and development transfer, entrepreneurial finance, culture and social norms, entrepreneurial support programs, legal and commercial infrastructure (as indicated in Figure 1):

- **Government policy:** Government policies refer to the rules, regulations, and incentives set by the government to influence and guide entrepreneurial activities. For example, favorable policies, such as tax incentives for starting businesses or simplified regulatory processes, can decrease costs and lower barriers to entry and formalization, thereby encouraging entrepreneurship (Stam, 2015).
- **Physical infrastructure:** Physical infrastructure includes the tangible assets and facilities that support entrepreneurial activities, such as transportation networks, communication infrastructure (e.g. phone reception and internet), and co-working spaces (Leendertse et al., 2022). Well-developed infrastructure reduces logistical challenges and enhances connectivity, facilitating the movement of goods, services, and ideas. This can help entrepreneurship to access markets, as well as lower transportation and production costs.
- **Entrepreneurial education:** Entrepreneurial education involves providing knowledge and skills related to entrepreneurship through formal and informal educational programs. Education equips entrepreneurs with the necessary tools, knowledge, and mindset to navigate the challenges of starting and growing a business (Kwong et al., 2022). Entrepreneurial education at formal education facilities such as universities also contributes to building a pipeline of future entrepreneurs and – for those not aspiring to be an entrepreneur – it can help the transition to the job market since important business skills as well as solution-based thinking are thought.
- **Market openness:** Market openness refers to the ease with which businesses can enter and compete in a market. Open markets in low-income countries create opportunities for entrepreneurs to enter and compete, fostering economic growth, innovation, and providing a diverse customer base. Closed or highly regulated markets may limit competition, reducing opportunities for entrepreneurs.
- **Research & development transfer:** The transfer of research and development findings includes insights from academic and research institutions shared with the commercial sector. Collaboration between research institutions and entrepreneurs in low-income

countries facilitates the transfer of knowledge and the use of locally appropriate technologies, enabling innovation and better addressing local challenges (Dameri & Demartini, 2020)

- **Entrepreneurial finance:** Entrepreneurial finance involves the provision of funding to support businesses at various stages of their development. Access to diverse sources of entrepreneurial finance, including microfinance, grants, and impact investment, can fuel the growth of businesses in low-income countries (Leendertse et al., 2022). Other advanced financing options such as venture capital or angel investment are vital for scaling and sustaining startups, but are rather limited in low-income countries.
- **Culture & social norms:** Culture and social norms refer to the shared values, attitudes, and behaviors within a society regarding entrepreneurship. A culture that values risk-taking, innovation, and entrepreneurship can foster a supportive environment, encouraging individuals to pursue entrepreneurial ventures. While societal stigma associated with failure or risk-taking may discourage individuals from engaging in entrepreneurial activities.
- **Entrepreneurial support programs:** Support programs encompass various initiatives, such as mentorship, incubators, and accelerators, aimed at assisting entrepreneurs in their business development. These programs provide guidance, resources, and networking opportunities, helping entrepreneurs navigate challenges and accelerate growth (Li et al., 2020).
- **Legal and commercial infrastructure:** Legal and commercial infrastructure involves the legal frameworks and systems that govern business operations, including contract enforcement and property rights. Clear and effective legal structures provide a stable environment, ensuring property rights and contract enforcement, which is crucial for business operations.



Figure 1: Elements of entrepreneurial ecosystems. Source: Tech Startup School Business Accelerator.

Others highlight the importance of social networks, as part of the entrepreneurial ecosystem, both formal and informal, in facilitating entrepreneurship and innovation. Informal networks, often based on social relationships and community ties, are particularly prevalent in LMICs. These networks can include family, friends, neighbors, and other members of the local community. They provide entrepreneurs with valuable connections to potential customers, suppliers, and investors. Formal networks, on the other hand, are more structured and often involve professional or industry-specific organizations. These networks can include business associations, chambers of commerce, industry groups, and other formal institutions. Both informal and formal networks are essential for entrepreneurs in LMICs. Informal networks provide entrepreneurs with the local knowledge and support needed to navigate the challenges of doing business in the region. Formal networks, on the other hand, offer entrepreneurs access to a broader range of resources and opportunities for growth and expansion (network science center, 2015).

**Research questions for the OC programmes:**

→ How can OC better tap into informal networks to improve their programs and EED interventions?

### Part III: Aid and entrepreneurial ecosystem development

In recent decades, the role of entrepreneurship in foreign aid has gradually gained significance as a catalyst and tool for sustainable economic development, poverty reduction, and job creation (see Box 1). This has led to a gradual shift within foreign aid entrepreneurship policy, from static and centralized approaches working on one dimension of the entrepreneurial ecosystem, to a more dynamic and decentralized approach aimed at intentionally developing long-lasting entrepreneurial ecosystems as well as drawn the attention from academia and local governments towards entrepreneurial ecosystem development.

**Box 1: History of entrepreneurship in foreign aid policy.**

Post-World War II, the Marshall Plan (1948) marked a pivotal moment in foreign aid, aiding European reconstruction and indirectly fostering entrepreneurship. The 1950s and 1960s saw modernization theory influence aid, recognizing entrepreneurship's role in economic development. The 1960s and 1970s, however, witnessed scepticism with the rise of dependency theory, critiquing aid's impact on economic imbalances. The 1980s and 1990s introduced structural adjustment programs, promoting entrepreneurship for economic growth. In the early 2000s, the Millennium Development Goals (MDGs) prioritized poverty reduction, education, and healthcare. Entrepreneurship was recognized as a tool for poverty alleviation, leading aid programs to increasingly support entrepreneurship and microfinance. The adoption of the Sustainable Development Goals in 2015 emphasized inclusive economic growth and sustainable development, further recognizing entrepreneurship's role. Recent years have seen a notable shift towards entrepreneurial ecosystem development and private sector engagement in foreign aid, intentionally improving the business climate for entrepreneurs, MSMEs, and larger businesses.

### 3.1 Thinkers, informers, funders and implementers

The International Labour Organization, (ILO), has classified those concerned with entrepreneurial ecosystem development (EED), into four categories (ILO, 2023):

- **Thinkers** extensively study various aspects of entrepreneurial ecosystem development analyze and enhance current practices. They publish research papers aimed at informing funders, advisors, and implementers, indirectly influencing EED by providing valuable insights. Entities in this category, such as universities, think tanks, and research institutes, focus on research. Some funders and advisors also have in-house research departments.
- **Informers/advisors.** Contrary to thinkers, informers/advisors play a direct role in influencing EED by providing essential support. Informers supply up-to-date data and context-specific guidance to decision-makers. Organizations constructing entrepreneurship indices (e.g., Global Entrepreneurship Index, Global Startup Ecosystem Index) and publishing state-of-the-field reports (e.g., Global Entrepreneurship Monitor, Global Entrepreneurship Report) fall into this category. Advisors, often for-profit consulting firms or universities, are hired by market actors to assist in fulfilling their EED objectives. This assistance may include theoretical training, mentorship, market diagnostic assessment, program design, and measurement support. While some advisors could be considered implementers, the absence of on-the-ground presence differentiates them. At the local level, governments, NGOs, and chambers of commerce may also offer information, advice, or mentorship.
- **Funders** play a crucial role by providing financial support for EED, and should not be confused with investors, who invest in companies within the entrepreneurial ecosystem. Funders encompass foundations, as well as bilateral and multilateral donors such as the World Bank, AfDB, USAID, FCDO, SIDA, SECO, and EU Commission. The Ministry of Foreign Affairs (MoFA) for the Netherlands, including Orange Corners, falls in this category as well. At the local level, governments are significant contributors to EED funding.
- **Implementers** leverage the research from thinkers, guidance from informers/advisors, and funding from funders to enact initiatives within the entrepreneurial ecosystem. These implementers, categorized as institutions either "outside" or "inside" the EE, encompass global NGOs or contractors (e.g. SNV, Hivos), local NGOs, for-profit social enterprises, and various governmental entities. Entrepreneurship support organizations (ESOs), including accelerators, angel networks, co-working spaces, universities, and training providers, are also considered implementers<sup>1</sup>. Notably, the definition of implementer includes any entity or individual intending to influence the EE, distinguishing intentional entrepreneurial ecosystem development (EED) from routine roles. While all EE actors impact development, not all engage in deliberate EED work. Some implementers, like the intention of Orange Corners with this research agenda, may also have a minor research role and overlap with the thinker category.

*EED refers to the process of deliberately strengthening the environment that supports entrepreneurs and their businesses. This includes providing access to capital, talent, markets, and supportive policies. EED actors can include government agencies, investors, donors, and business support organizations, working together to foster innovation and entrepreneurship. The goal is to create an environment that enables entrepreneurs to start, scale, and sustain their businesses, driving economic growth and job creation.*

Orange Corners falls in the category of funders and funds local implementers to execute entrepreneurial support programs through three pillars highlighted in “Introduction and Background: the Orange Corners initiative”. Sometimes Orange Corners works with ‘informers/advisors’ through commissioned assistance services. Although interactions with ‘thinkers’ have mainly focused on knowledge exchange through seminars or bilateral meetings, Orange Corners’ recent research efforts and future research plans – which includes executing parts of the research agenda – shows our ambition to play a more active role in the thinker category.

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<sup>1</sup> Note that categories might overlap. For example Orange Corners is a funder from the perspective of local implementing partners, but is also funded by MoFA, so from the perspective of MoFA it is an implementer.

Effective collaboration among thinkers, informers/advisors, funders, and implementers is vital for successful EED in LMICs. Thinkers should be engaged in collaborative sessions to design and plan EED initiatives with funders, incorporating valuable insights and research findings. Informers/advisors could provide context-specific advice. Thinkers can also play a key role in employing comprehensive diagnostic approaches, integrating various theories, that can support funders in robust diagnostic efforts, before programme design to understand the complexities of the ecosystem before designing interventions. Additionally, informers/advisors can help funders to adopt strategic funding approaches that consider long-term sustainability, avoid crowding out private actors, and support initiatives prioritizing systemic impact as well as guide funders in flexible implementation approaches. Lastly, funders can and should prioritize funding for robust measurement and evaluation processes, encouraging implementers to focus on both short-term outcomes and long-term systemic change. Thinkers can contribute to the development of such measurement frameworks.

### 3.2 Divergent views on the source of impact

While there is consensus among system builders that Entrepreneurial Ecosystem Development leads to job creation and economic growth, there's disagreement about the primary sources of these benefits. The debate revolves around whether they come from individual or emerging 'young' startups, 'opportunity' entrepreneurs or 'small economic units' (ILO, 2023):

- **Start-ups<sup>2</sup> and Young Firms:** The Startup Genome 2022 report suggests that in an ecosystem with 1,000 startups, each contributes an average of \$5.1 million in economic value, rising to \$6.9 million at 2,000 startups. The Kauffman Foundation cites US-based research indicating that job creation and economic growth are primarily driven by start-ups and young firms. However, many aspects essential to startup development are absent in low-income countries, such as (potential for) venture capital, advanced technology due to lack of physical infrastructure, and customer-base able to pay for your products.
- **Opportunity Entrepreneurs:** Some organizations and researchers argue that economic value and job creation result from supporting "opportunity" entrepreneurs, not just increasing the number of start-ups. Opportunity entrepreneurs are those that poses the motivation and capability for significant growth, whereas necessity entrepreneurs may run a business to meet basic needs or manage a small family enterprise without aspirations for expansion. Both terms are commonly employed for target group segmentation by development actors. However, it's important to note that the "necessity" entrepreneur category encompasses individuals who may not run a business purely out of necessity but are not actively seeking substantial growth.
- **Small Economic Units:** A recent ILO study challenges the notion that opportunity entrepreneurs are the main contributors to new job creation. It reveals that self-employed individuals, micro and small businesses (termed "small economic units"), and often classified as necessity-entrepreneurs, contribute around 70% of total employment in 99 low- and middle-income countries. The report highlights that while the contribution of small economic units to worldwide total employment is significant, considerable challenges remains with regards to the widespread informal employment, gender gaps, and with issues related to the productivity and quality of the jobs offered by smaller firms.

OC views both recognizing and appreciating the differences between the "Start-up Corner," "Opportunity Entrepreneur Corner," and "Small Economic Unit Corner" as essential to design more effective, targeted, and inclusive interventions. Aid resources are often limited, so understanding where the bulk of job creation and decent employment takes place within a country or region can help to tailor programs to the right audience. According to (ILO, 2023), most 'funders' focus specifically on either startups and opportunity entrepreneurs. However, when analyzing EE in OC countries, Orange

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<sup>2</sup> A start-up is a typically fast-growing company that seeks to address a market need by developing a viable business model around an innovative product or service, business process or platform, often tech-enabled.

Corners observes that it highly differs per country and per region if the bulk of job creation and economic growth is caused by start-ups, opportunity entrepreneurs or small economic units. In many low-income countries, such as Burundi, Mozambique and South Sudan, the nascent entrepreneurial ecosystem is often unable to support opportunity entrepreneurs, let alone start-ups. In these contexts, job creation seems to come primarily from small economic units. Helping individual entrepreneurs to grow into an MSME or stimulating micro and small businesses to overcome barriers and grow into a medium enterprise, might hold the most potential for job creation and decent employment in these regions. In other countries, such as Ghana and Nigeria, OC observes a more advanced EE which seems capable to support opportunity entrepreneurs and, to some extent, even start-ups. Here more focus might be placed to overcome barriers experienced by startups, such as access to patient and flexible capital.

**Research questions for the OC programmes:**

→ What are the differences in challenges and training needs experienced by different types of entrepreneurs (start-ups, opportunity driven, small economic unit)? What does this imply for Orange Corners' training programs and interventions?

### **3.3 Orange Corners entrepreneurial ecosystem interventions**

At Orange Corners we consider eight domains of change to be of most influence in creating an enabling environment for entrepreneurs, as seen in Figure 2, including policy advocacy, community building, educational sector engagement, fostering a changemaker mindset, incubation & acceleration, financial sector engagement, female empowerment, and private sector engagement. Our EED efforts focus on interventions in each of these domains. The specific interventions highly differ per country and region to align with local needs and challenges.



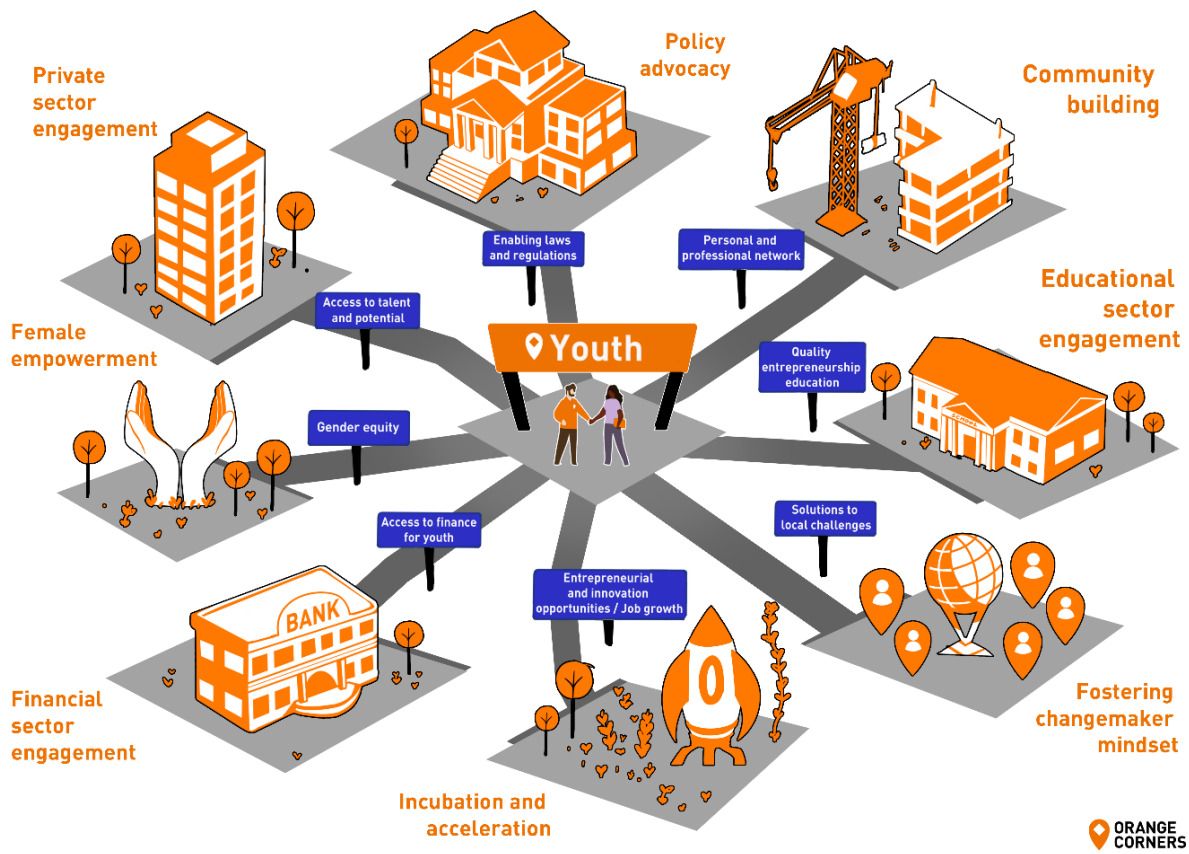


Figure 2: Orange Corners domains of change to create enabling environment for entrepreneurs.

Our main intervention is the **OC incubation and acceleration programme**. Besides this, we have interventions in each area, but most countries adopt only 1-2 interventions per year out of budget constraints. Interventions include Knowledge-2-knowledge programs where Dutch universities help improve entrepreneurial education in local universities, start-up act programs where we collaborate with local government agencies and the private sector to develop favorable start-up regulations, design challenges to inspire youth and the wider community, female empowerment workshops to overcome gender-specific barriers, and we provide platforms for donor interaction or business angel/venture capital attraction.

**Research questions for the OC programmes:**

- Which EED interventions are most effective in creating an enabling environment for youth entrepreneurs to flourish depending on the maturity and the source of impact of the ecosystem?
- How can the long-term impact of EED interventions best be monitored and evaluated?
- What are the negative unintended consequences of EED interventions, and how can these be mitigated?

**Part IV: Implications of differences between entrepreneurial ecosystems for EED**

**Entrepreneurial ecosystems can differ across as well as within countries**, especially where regions may be marginalised and hence more ‘fragile’ in terms of formal support and services (see separate research line on entrepreneurship in fragile contexts) as a result of geography, localised conflict or ethnic composition (e.g. northern Nigeria and Burundi). An entrepreneurial ecosystem's nature, size and shape may thus vary depending on the local conditions (Isenberg, 2010). The context and the variable spaces within which ecosystems are situated determine the role of actors and support systems (Autio et al., 2014; Bhawe and Zahra, 2019). For example, entrepreneurial ecosystems in LMICs differ due to varying factors such as government support, access to capital, and regional industries. North Africa, exemplified by Egypt and Morocco, benefits from growing startups supported by state initiatives. West Africa, led by Nigeria, thrives on a youthful population and a burgeoning tech sector. In East Africa, countries like Kenya and Ethiopia excel in fintech and agritech. Southern Africa, including South Africa, shows a mix of traditional and tech entrepreneurship.

Some LMIC countries are in the early stages of developing their entrepreneurial ecosystems, facing nascent stages characterized by limited infrastructure and support structures. In these nations, such as Burundi, South Sudan, Mali and Iraq, the entrepreneurial landscape is just beginning to take shape. Common challenges like inadequate access to financing, underdeveloped education systems, and a lack of regulatory frameworks, are even more severe here and accompanied by political instability, and often significantly hinder the growth of entrepreneurs. Existing research has investigated such challenges across countries in Africa (e.g., access to finance), but few studies have considered that the root causes leading to the challenges and the specific dynamics and consequences of the challenge, are different per country (Biru et al., 2021; Egere et al., 2022). Knowledge on the country-specific root causes, however, would be critical, as different root causes imply that the ways to solve challenges are also country-specific.

#### **4.1 Ecosystem support and maturity**

The support provided to entrepreneurs also differs greatly depending on the **maturity of the ecosystem**.

The approach to entrepreneurial training often varies between aid-driven and commercially oriented models. In some regions, such as Upper Egypt, Burundi and South Sudan, training programs are heavily influenced by foreign aid agencies, focusing on skill development and capacity building. These programmes may be beneficial in laying the groundwork for entrepreneurs but can sometimes lack sustainability, and struggle to support entrepreneurs into developing a financially sustainable business. Conversely, in more developed entrepreneurial ecosystems, such as Nigeria or South Africa, commercially driven training initiatives, often facilitated by private institutions or industry experts, play a prominent role. These programs may be more attuned to market demands and business realities, offering practical insights crucial for the success of startups, but often only include those that are directly commercially viable, thereby widening the gap between those most in need of decent livelihood support.

### ***Aid and entrepreneurial support organizations (ESOs)***

In aid-driven entrepreneurial ecosystems, foreign and local aid typically define the characteristics of the training, such as training duration, training topics and target audience (Dutt et al., 2016; Haugh, 2020). Often, partnerships with local entrepreneurial support organizations (ESOs) are used to provide the training. The local ESOs often have limited freedom to adjust the training to local needs. This is problematic for several reasons: First, research has shown that “entrepreneurship training which is not well aligned with contextual peculiarities may not optimally yield the desired outcomes” (Olutuase et al., 2020). Additionally, it is a problem that trainings in Africa are often approached from a Western perspective (Sriram et al., 2021), and foreign donors are increasingly directing their private sector development funds towards entrepreneurship programs in LMICs, without the right knowledge to adapt programs to specific contexts and needs. Second, significant inter-country differences exist between the over 60 countries in Africa and the Middle-East. Yet, most studies on entrepreneurship training are based in LMICs, such as Kenya, Ghana, or South Africa, where entrepreneurial ecosystems are much more mature than in LIC<sup>3</sup>s. This implies that even if ESOs had greater freedom to adjust trainings to local needs, they might not be able to find studies and guidance on how to do that. This also links to the point made in 2.2 about the source of impact. It seems that in LICs most job creation and employment is done by small economic units, rather than startups and opportunity-entrepreneurs. Yet few studies actually focus on these countries, and most EED follows approaches from either a Western-perspective aimed at start-ups and opportunity-driven entrepreneurs, which does not align with the reality of most entrepreneurs in LICs, leading to potentially inefficient programs and little contribution to ecosystem development.

***Entrepreneurship Support Organizations (ESOs)***  
*are entities dedicated to providing various forms of assistance, resources, and support to entrepreneurs and startups. These can include incubation and acceleration training, access to finance, network opportunities, market access and product promotion.*

### **Box 2: ILO insights on EED: what is not working?**

**Thinkers.** EE research primarily focuses on academic journal publications. Despite a positive uptick in research interest since 2011, academic EE research predominantly centers on high-income countries and mature ecosystems. While insights from affluent nations are valuable, generalizations won't seamlessly apply to low-income economies, highlighting the need for greater inclusivity and consideration of diverse contexts. The limited dialogue between academic researchers and practitioners in EED, particularly in international development, is a concern, fostering an academic echo chamber with few new insights. A more collaborative and inclusive approach, incorporating practical wisdom from those engaged in EED, could enhance research relevance. Additionally, there seems to be an excessive emphasis on crafting an all-encompassing EE framework. While standardization could facilitate research comparisons, this pursuit is unrealistic and impractical for practitioners. Complex adaptive systems, such as EE, demand a nuanced understanding beyond rigid definitions, acknowledging the dynamic nature of entrepreneurial ecosystems. Integrating this

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<sup>3</sup> A scopus search on academic articles showed that over 50 papers on entrepreneurial ecosystems in Nigeria, Ghana, South-Africa and Kenya have been published, and less than 20 have been published on any of the other 49 African countries.

recognition into academic research can yield more contextually relevant and impactful insights for both researchers and practitioners.

**Informers.** Despite engaging with numerous individuals and reviewing extensive materials from informers and advisors, the only notable self-reflection ILO found pertains to concerns about the potentially high cost of some advisory services provided to national governments for building entrepreneurial ecosystems (EEs). This actor group generally appears confident in their work. However, while these actors claim to inform policy-makers and system builders, their findings often lack the necessary detail to guide policy formulation or intervention design. They fall short in addressing the "why" behind challenges, crucial for informing the "how" of addressing them, and they often overlook insights on the inclusivity of the described EE.

**Funders** and other system builders extensively discussed the challenges within entrepreneurial ecosystem (EE) funding, providing a comprehensive self-reflection on its shortcomings. Key observations include: (i) The collective influence of multiple funders in an ecosystem can be overpowering, crowding out private actors and hindering organic, entrepreneur-led development. And there is also a lack of coordination among funders. (ii) Funding levels, while high in certain ecosystems, are often inadequate for individual EE development efforts. This leads to inefficient and uncertain funding approaches, emphasizing short-term thinking. (iii) Short funding cycles hinder system change, pushing for quick impact even at the expense of sustainability. (iv) Funders lack a deep understanding of ecosystem development, impacting their ability to support system change approaches effectively. And insufficient flexibility is provided by funders for implementers to pivot or adapt following system change principles. (v) Systemic change measurement, including contribution analysis, is not consistently required by funders, leading to a lack of incentive for implementers to measure such change. Funders overly emphasize employment creation outcomes, neglecting value creation beyond venture growth. Quantity-focused metrics, rather than indicators related to entrepreneurial ecosystem actors, dominate funder evaluations. Inclusion and positive environmental impacts receive insufficient attention from funders. **In general, systems change efforts face difficulties securing adequate funding due to misalignment with traditional funder practices and structures. The constraints of short timeframes, restricted funding usage, fragmented funding streams, risk aversion, and pressure to reduce overhead costs further compound these challenges. The mismatch between systems change approaches and established funding practices hinders transformative impact at scale.**

**Implementers.** Implementers might to easily assume that successful ecosystem building models for capital cities can be replicated for other parts of the country, assuming that if it works in the capital, it will also work elsewhere. In some cases implementation is limited in terms of the breadth/variety of activities (and therefore effectiveness) by a narrow understanding of what constitutes an ecosystem. Additionally, several EED efforts seem unsustainable, meaning that once the implementer's engagement ends, so does the activity or change. Lastly, there seem to be few ecosystem efforts focusing on scaling impact.

## 4.2 Gender bias

The extent to which women entrepreneurs can access ecosystem support services varies significantly between more mature and nascent entrepreneurial ecosystems. In more mature ecosystems, efforts have been made to address gender disparities, resulting in increased opportunities for women entrepreneurs. Initiatives such as mentorship programs, networking events, and specialized training courses tailored to the needs of women have gained traction. Additionally, the presence of established women-led entrepreneurial organizations and advocacy groups has contributed to a more inclusive ecosystem.

*Gender bias can be reduced by supporting female entrepreneurs with tailored mentorship programs, networking events, and specialized training courses.*

On the contrary, in nascent entrepreneurial ecosystems, gender disparities often persist, limiting women's access to crucial support services. Deep-rooted cultural norms, lack of awareness, and limited resources can contribute to a less favorable environment for women entrepreneurs. Training programs may not be adequately designed to address the unique challenges faced by women, and networks might not be as accessible or supportive. Access to funding is a critical aspect where gender disparities are often magnified, particularly in less mature ecosystems. Women entrepreneurs may face challenges in securing investment due to biases and access to collateral. In more developed ecosystems, there is often a more structured approach to addressing gender bias in funding, with established mechanisms such as venture capital funds dedicated to supporting women-led startups.

### Box 3: Women's saving groups and associations.

A mix of financial illiteracy, inadequate education, and risk-averse (or absent) credit institutions can constrain innovation capital. In recent decades, the establishment of women's savings/lending groups, often supported by the aid community, has led to a revolution in (poor) women's access to credit, financial literacy and business development at a grassroots level, including in fragile and volatile contexts. This includes Rotating Savings and Credit Associations (ROSCAs), Self Help Groups (SHGs), and Village Savings and Lending Associations (VSLAs). Groups allow members to collectively save, with deposits by individual group members of an agreed sum per week/month. Local savings groups have helped women access interest-free capital generation processes in contexts such as Sudan, DRC, Kenya, Somalia, and Bangladesh, aiding the development of small businesses, and permitting the growth of digital credit cooperatives.

## 4.3 Fragile states

**In fragile contexts, entrepreneurial ecosystems tend to suffer from a lack of supportive infrastructure, services and policy.** Local culture may also shape the beliefs, acceptance and understanding of entrepreneurship, and local practices and customs towards risk-taking. In turbulent Islamic environments such as Sudan, Mali and northern Nigeria, conservative attitudes towards the roles of women in enterprise may be exacerbated where populations may fear social change and there is insecurity. Cultures that normalise enterprise as a part of life are more likely to promote entrepreneurship (Kibler et al., 2014; Spigel, 2015). Such ecosystems support the generation of 'innovative' entrepreneurs permitting *productivity, leadership, and community advancement* (Isenberg, 2010; Feld, 2012; Stam, 2015; Cukier et al., 2016). Note that '*Entrepreneurship in fragile contexts*' is expanded in a research line.

#### Research questions for the OC programmes:

- What are the key dimensions on which entrepreneurial ecosystems differ between regions and what does this imply for entrepreneurial training programs?
- How can entrepreneurial training programs in nascent ecosystems better facilitate gender equity, also after program implementation?
- What steps can aid-driven entrepreneurial ecosystems take to transition to more commercially-driven and financially sustainable modes of operation?
- What steps can aid-driven entrepreneurial support programs, like OC, take to help mature nascent ecosystems?
- To what extent do 'start-up' and 'opportunity'-driven EED approaches work for necessity-driven entrepreneurs as well? How should EED interventions be adapted to facilitate toward 'necessity'-driven entrepreneurs?

## Part V: Concluding remarks and recommendations

The entrepreneurial ecosystem is key in creating an enabling environment where young entrepreneurs can start and grow their business successfully. Recently, **more attention is being paid by both foreign aid, (academic) research and local governments to entrepreneurial ecosystem development (EED) as a means to create decent work and economic growth (SDG 8) in LMICs.** While there is consensus among such actors that EED leads to job creation and economic growth, there is still debate about the specific source of impact. Some argue this stems from startups, others state that opportunity-driven entrepreneurs are most responsible for impact on SDG 8. Both startups and opportunity-entrepreneurs contribute substantial economic value, especially in high-income countries. A recent ILO study, challenges this notion however, **emphasizing the significant role played by self-employed individuals and micro & small enterprises (i.e., small economic units) in economic growth.** Such **small economic units might hold most potential for job creation and economic growth in low-income countries with nascent entrepreneurial ecosystems.**

**Entrepreneurial ecosystems differ greatly between countries and even within countries.** There might be significant differences between ecosystem elements due to varying physical infrastructure, favorable policy, entrepreneurial education, market openness, entrepreneurial finance options or culture and social norms associated with entrepreneurship, that impact the potential success of an entrepreneur. Additionally, the involvement of various organizations within the entrepreneurial ecosystem, such as government agencies, non-profits, and private sector entities, varies in accordance with the maturity of the ecosystem. In less developed entrepreneurial environments, government support and international aid organizations often play a central role in providing funding, infrastructure, and regulatory frameworks. In more mature ecosystems, private sector entities, including venture capital firms and angel investors, become key contributors, driving innovation and growth. **It is absolutely crucial to understand the entrepreneurial ecosystem of the intervention country when designing and implementing interventions.** One size fits all programs that teach similar skills to entrepreneurs facing widely different challenges will not have the desired impact. Each intervention region necessitates a tailor-made approach based on the regional-dynamics. Unfortunately, many donors use similar approaches and interventions in countries with vastly different EEs. Research shows that **EED efforts face difficulties securing adequate funding due to misalignment**

**with traditional donor practices and structures. The constraints of short timeframes, restricted funding usage, fragmented funding streams, risk aversion, and pressure to reduce overhead costs further compound these challenges. The mismatch between systems change approaches and established funding practices hinders transformative impact at scale.**

Some important *practical* gaps for OC emerge related to EED interventions and the nature of EE . First, OC is interested to assess how limited resources can be best dedicated towards EED, e.g. which EED interventions are the most effective, how can impact best be measured and should these be regional or sector focused. Second, it is key to understand how EED interventions should deviate depending on the maturity of the EE as well as impact source (e.g. start-up, opportunity-entrepreneurs, or necessity-driven). Other *research* gaps of interest to OC and beyond include understanding how exactly entrepreneurial ecosystems between LMICs differ and what this implies for EED.

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