

Startups and SMEs are not the same: why the startup model does not fit most entrepreneurship support in Africa

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► **INTRODUCTION**

When Silicon Valley developed its model of entrepreneurship support in the 1990s and 2000s, it was designed for a specific kind of venture: a technology company with the potential to grow exponentially, attract risk capital, and disrupt an existing market. The accelerator, the pitch competition, the investor readiness programme, and the cohort-based incubator were all built around this model. They assume that entrepreneurs are working toward rapid scaling, that their primary funding challenge is convincing investors rather than accessing working capital, and that the most valuable support they can receive is strategic and externally oriented rather than operational and embedded.

Over the past two decades, this model has been imported into entrepreneurship support in low-income countries across Africa and the Middle East, largely unchanged. Development partners and entrepreneurship support organizations (ESOs) have adopted the language, the metrics, and the programme structures of Silicon Valley acceleration and applied them to populations of entrepreneurs whose situations are fundamentally different. The result is a growing misalignment between the kind of support that programmes offer and the kind of support that most entrepreneurs actually need.

The source of this misalignment is a category confusion that is rarely examined directly. The Silicon Valley model was built for startups. But the majority of entrepreneurs receiving support from development partners in low-income countries are not startups. They are innovative SMEs: small and medium-sized enterprises that develop or adopt new products, services, or business models to address local and regional challenges, that grow incrementally rather than exponentially, and that require a fundamentally different kind of support to do so effectively. Treating these entrepreneurs as if they were startups, which is what much current programme design implicitly does, leads to training that does not fit their needs, metrics that do not capture their progress, and resources that do not address their actual constraints.

¹ A This whitepaper is based on a full academic article titled, 'Entrepreneurial support revisited: understanding the different logics and needs of startups and SMEs in Africa', which is currently under review.

This paper makes the case that the distinction between startups and innovative SMEs matters more than the development sector currently recognizes. It explains what the distinction is and why it is so frequently overlooked, it describes what each type of entrepreneur actually needs, and it presents evidence from entrepreneurship support programmes in Burundi, Nigeria, and Palestine showing that programmes aligned with the dominant venture type in their context consistently outperform those that are not. The practical implication is direct: development partners and ESOs that want their programmes to be effective need to understand which kind of entrepreneur they are working with before they decide what kind of support to offer.

Most entrepreneurs receiving support from development partners in Africa are not startups. They are innovative SMEs, and they require a different kind of support.

► **STARTUPS AND INNOVATIVE SMEs: UNDERSTANDING THE DISTINCTION**

The confusion between startups and innovative SMEs is not primarily a semantic problem. It is a conceptual one, and it has practical consequences. The distinction is not about size: a startup may have more employees than a small enterprise, or fewer. It is not about age: an SME may be younger than a startup. The distinction is about the growth logic that the business model makes possible, and this difference shapes everything from the kind of finance a venture needs to the kind of learning that is useful in a training programme.

STARTUP

A newly established, typically tech-driven or digitally enabled business with a scalable and innovative model, operating under uncertainty and aiming for exponential growth.

Growth path: exponential. Revenue grows faster than costs as the user base or market expands, producing snowball or network effects.

INNOVATIVE SME

A small or medium-sized enterprise that develops or adopts new products, services, processes, or business models to create value and address local or regional challenges, capable of linear growth.

Growth path: linear. Each additional unit of output requires additional inputs, which limits the kind of accelerating returns seen in scalable tech models.

A startup, in the strict sense, is built on a model where growth accelerates as scale increases. In practice, this almost always means a software-based product: a platform, an application, a website, or a digital service. A ride-hailing app, a payments platform, an e-commerce marketplace, or an agricultural information service delivered via mobile phone can add new users without proportionally increasing costs. Once the product is built, the marginal cost of serving one more customer approaches zero, and this is precisely what makes exponential growth possible and what makes startups attractive to venture capital. The returns, if the model works, are not linear. An innovative SME, by contrast, produces physical goods or labour-intensive services where each additional unit requires additional inputs: materials, labor, processing capacity, storage, distribution. A food manufacturer, a cosmetics producer, a water technology company selling devices to smallholders, a packaging business serving regional markets, these enterprises can grow substantially, can innovate meaningfully, and can create significant social and economic value. But their growth is linear, and no amount of pitch training or investor readiness coaching will change the underlying logic of their business model.

Many entrepreneurship support programmes across Africa and the Middle East work with entrepreneurs who are developing new products or processes for their local markets: manufacturers, processors, service providers, and technology adopters who are innovating within their sectors without building scalable platforms. These are innovative SMEs. They need access to working capital and growth-stage financing rather than venture capital; they need market linkages and supply chain development rather than pitch competitions; they need operational coaching and process improvement rather than lean methodology and MVP validation. Offering them the startup support model is not simply ineffective. It can actively mislead them about what their business needs and what success looks like.

The reason this confusion persists is partly linguistic and partly institutional. The word startup literally means a starting business, and this is how many people understand it: any business that is relatively new or recently established. Under that reading, a young food processing company and a new mobile payments platform are both startups, even though their growth logics and support needs are entirely different. The specific technical meaning of startup as a venture built for exponential, technology-driven scale has been obscured by this everyday usage, and the development sector has largely failed to correct it. ESOs and development partners use startup language, startup metrics, and startup programme structures because this vocabulary is well developed, widely disseminated, and carries associations of innovation and dynamism that make programmes attractive to funders. The institutional pressure to adopt Silicon Valley framing is real. But the consequence is that many programmes describe themselves as startup support while actually working with entrepreneurs whose needs and growth logics are entirely different, and this gap between self-description and reality produces the misalignment that this paper addresses.

The distinction between startups and innovative SMEs is not about size or age. It is about the growth logic of the business model, and this shapes everything from financing needs to what a training programme should teach.

► **WHAT EACH TYPE NEEDS: A DIFFERENT SUPPORT LOGIC**

Once the distinction between startups and innovative SMEs is understood, the differences in what each type requires from entrepreneurship support become clear across every dimension of the ecosystem. The table below sets out these differences systematically.

Area	Startups	Innovative SMEs
Access to finance	Seed funding, angel investment, venture capital	Working capital loans, equipment grants, development finance, impact investment
Business development	MVP development, lean startup coaching, product-market fit, pitch readiness	Process optimization, product improvement and diversification, marketing strategy
Market access	Early adopters, product validation, innovation challenges, cloud credits, skilled programmers	Client acquisition, product refinement, B2B matchmaking, preferential procurement, supply chain development
Infrastructure	Co-working spaces, cloud infrastructure, prototyping labs	Manufacturing facilities, warehousing, logistics support
Regulatory and policy	IP protection, regulatory sandboxes, mobile money frameworks	Standards certification, tax simplification, preferential procurement, product compliance
Talent and skills	Technical training (coding, UX design), founder development	Workforce training, middle management and operations development
Networks and learning	Peer networks of founders, regional startup communities	Sector-specific associations, SME forums, regional business networks

Several of these differences deserve particular emphasis because they are most frequently overlooked in current programme design. The first concerns finance. The startup financing model is built around equity investment: a venture capitalist or angel investor puts money into a portfolio of typically twenty to fifty startups, accepting that most will fail, on the expectation that one will grow exponentially and generate returns of fifty to a hundred times the original investment. If even one in twenty succeeds at that scale, the entire portfolio turns a profit. This logic requires startups to pursue rapid, aggressive growth and to make themselves visible to investors through pitching, competition entries, and demo days. It is a model designed for ventures where the potential upside is exponential, and it makes no sense for a business with linear growth.

Innovative SMEs need financing of an entirely different kind. Working capital to purchase raw materials, equipment loans to expand production capacity, and grants for early-stage experimentation are the most common needs. In many African contexts, commercial banks view SME business models as too risky or informal to lend to, which is where development finance institutions, guarantee funds, and grant mechanisms become critical. There is also a role for impact investors in this space, though it differs substantially from venture capital. Impact investors may take a small equity stake in an innovative SME, but their goal is not a stock market exit or a hundred-fold return. They are typically looking to support a business with genuine social or environmental impact, offering a loan or a minority stake that the owner can buy back as the business grows, or that may generate a modest return if the business is eventually acquired. This is meaningfully different from the Silicon Valley equity model, and training innovative SME entrepreneurs to pitch to venture capitalists rather than to understand development finance and impact investment mechanisms directs their energy toward pathways that are largely inaccessible to them.

The second difference concerns the path from product to market. Startups, because their product is typically a software platform or application, spend months or sometimes years building before they have anything to sell. During this period they have no revenue; what they need is product validation with early adopters, minimum viable product development, cloud infrastructure, technical talent, and access to innovation challenges that give them visibility and feedback. Once the product is built and the model works, growth can accelerate quickly precisely because the product is digital. Innovative SMEs follow a different trajectory. From the moment they have a product, whether it is a processed food, a packaged cosmetic, or an agricultural input, they can sell it and generate income.

Their challenge is not building a product but finding reliable buyers, refining quality to meet market standards, building the business-to-business relationships that generate consistent orders, accessing preferential procurement from larger buyers or institutions, and developing the supply chain that lets them deliver at scale. These are operational and commercial challenges, and the support that addresses them looks very different from startup product development support.

The third difference concerns regulation and policy. Both startups and innovative SMEs benefit from lower tax burdens in their early years and from a regulatory environment that does not treat small businesses as threats to be controlled. However, the specific regulatory barriers they face are different. For innovative SMEs, the most pressing issues are product certification and quality standards that determine whether they can sell to formal buyers, preferential procurement policies that give small local producers access to institutional markets, and the compliance requirements attached to export or supply chain integration. For startups, the relevant regulatory environment concerns intellectual property protection, regulatory sandboxes that allow digital services to operate before the legal framework has caught up, and frameworks for mobile money and digital payments that make their platforms viable. Designing policy support for one group and offering it to the other produces the same kind of misalignment as designing financial support for one and offering it to the other.

WHAT THE EVIDENCE SHOWS: ALIGNMENT DETERMINES EFFECTIVENESS

Research approach

The evidence presented here draws on a comparative study of entrepreneurship support programmes in Burundi, Nigeria, and Palestine. These three countries were selected because they represent different configurations of the startup and SME landscape and because they present contexts in which the alignment between programme design and dominant venture type varies. Pre- and post-training surveys were administered to approximately 20 entrepreneurs per country, disaggregated by venture type. Qualitative data were collected through semi-structured interviews with 17 ecosystem actors, including ESO managers, trainers, accelerator staff, and entrepreneurs. Training curricula were analyzed to assess how well their content, pacing, and structure matched the needs of startups and innovative SMEs respectively.

The central finding

The central finding is consistent across all three contexts: programmes that are well aligned with the dominant venture type produce the strongest outcomes. This holds regardless of whether the programme is startup-oriented or SME-oriented. What matters is not the direction of the alignment but its presence. A programme designed for innovative SMEs works well in a context where most participants are innovative SMEs. A programme designed for startups works well where most participants are startups. A programme that deliberately serves both venture types, as the Nigerian programme does, can generate strong results across a mixed cohort. The evidence suggests, however, that even within a well-designed mixed programme, startups and SMEs tend to learn differently and benefit most from different elements of the curriculum. Recognising this opens space to further strengthen the specific modules and mentoring structures that serve each group.

Country	Programme focus	Dominant venture type	Outcome
Burundi	SME-focused curriculum: operational skills, business diagnostics, financial planning, supply chain	Innovative SMEs	Strong performance for SMEs across all learning stages. The close fit between programme design and dominant venture type produced the clearest gains of the three contexts.
Palestine	Startup-focused curriculum: lean methodology, pitch training, investment readiness, growth hacking, MVP development	Digitally enabled startups	Stronger outcomes for startups than SMEs, particularly in business model development and market positioning. SME gains were lower across most dimensions, consistent with a programme designed for a different venture logic.
Nigeria	Mixed curriculum: deliberately designed to serve both startups and SMEs, combining innovation and investment readiness modules with compliance, finance, and operations content	Mixed: both startups and SMEs	Strong overall performance across a mixed cohort. Startups achieved stronger gains on transformation and scale-oriented dimensions; SMEs achieved stronger gains on acquisition and operational development.

These patterns are reflected in the voices of the practitioners who delivered the programmes. One programme manager in Palestine described the difference between what startups and SMEs are looking for in terms that capture the essential tension: startups want to be seen and funded, while SMEs want to stay open next month. Another accelerator manager observed that if you teach the same content to all participants, you lose both groups: startups become disengaged when they are required to sit through operational and compliance modules, while SMEs become lost when the content assumes a growth logic that does not match their business reality.

The data support this observation. In Burundi, where the programme was focused exclusively on SMEs and the entrepreneurial context offers little space for startup-type ventures, SMEs performed consistently well across all learning dimensions measured, reflecting a close fit between programme design and the dominant venture type in the context. In Palestine, where the programme was oriented toward digitally enabled startups and the ecosystem supports this profile given structural constraints on physical trade, startups outperformed SMEs in business model development and market positioning. In Nigeria, the programme was deliberately designed to serve both startups and SMEs within a single framework, and it performed well in doing so. The evidence shows that startups achieved stronger gains on the transformation and scale-oriented dimensions of the curriculum, while SMEs achieved stronger gains on the operational and acquisition-related content.

What the evidence from these three contexts makes clear is that the question of whether entrepreneurship support works cannot be answered without first asking: works for whom, and under what conditions? A programme that generates strong outcomes for startups in Palestine may produce weak outcomes for the same participants if transplanted to Burundi without adjustment, because the dominant venture type, the ecosystem structure, and the practical constraints of participants are different. Effectiveness is not a property of a programme design in the abstract; it is a function of the fit between the programme and its context.

Programmes aligned with the dominant venture type in their context consistently outperform those that are not. Effectiveness is a function of fit, not of programme quality in the abstract.

► **IMPLICATIONS FOR PRACTICE**

The implications of these findings are direct and actionable for development partners and ESOs designing or funding entrepreneurship support in Africa.

The first and most important step is diagnosis. Before designing or selecting a programme model, development partners and ESOs need to understand which type of entrepreneur they are working with. This means asking not whether participants are young or innovative or dynamic, but what kind of growth their business model makes possible. Does the venture have a cost structure that allows exponential returns as it scales, or does each additional unit of output require proportional additional inputs? The answer to this question determines which programme model is appropriate, which funding pathways are realistic, and which metrics will actually capture whether the programme is working.

The second implication concerns programme content and structure. ESOs that work primarily with innovative SMEs, should be deliberate about resisting the institutional pressure to adopt startup framing. Training content should address operational efficiency, market access, supply chain development, and access to loan-based financing rather than investor readiness and pitch skills. Mentoring structures should connect entrepreneurs with people who have built similar businesses in similar contexts, not with startup ecosystem actors whose experience and networks are oriented toward a different growth logic. Success metrics should reflect the progress that innovative SMEs actually make: revenue growth, formalization, employment, operational stability, and market expansion, rather than the number of investors engaged or pitch competitions entered.

The third implication concerns the institutional relationship between development partners and ESOs. Many of the misalignments documented in this paper are not the result of ESOs making poor design choices independently. They are the result of ESOs responding to the incentive structures and programme templates that development partners impose. When Terms of Reference are written in startup language, when pitch competitions are included as programme deliverables because they generate visible and photogenic evidence of activity, and when reporting frameworks measure investor engagement rather than revenue growth, ESOs face strong pressure to deliver a startup model even when their participants are innovative SMEs. Changing this requires development partners to examine their own assumptions about what entrepreneurship support should look like and to create space for ESOs to design programmes that fit their participants rather than their funder's template.

Finally, the distinction between startups and innovative SMEs should become a standard part of how programmes are designed and evaluated. This does not require abandoning support for startups; genuine tech-driven ventures in African contexts do exist, do require startup-oriented support, and are underserved in their own way when they are grouped into SME-focused programmes. It requires treating the two as genuinely different categories with different needs, different growth trajectories, and different definitions of success, and designing support structures that reflect these differences rather than flattening them into a single model borrowed from Silicon Valley.

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