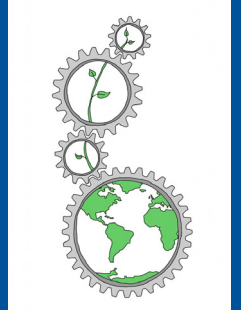


# Creating the Environment for Entrepreneurial Success



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# **Creating the Environment for Entrepreneurial Success**

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## Foreword

*Karen Kerrigan*

*President and CEO, Small Business & Entrepreneurship Council, CIPE Vice Chair*

Around the globe, entrepreneurship is central to innovation, wealth creation, and job growth, as well as to political stability. At its core, entrepreneurship is about new ways of organizing, new methods of production, new goods, new services, and new markets. Entrepreneurship makes markets more competitive, encourages investment, and inspires the job and economic growth that is so vitally important to every nation.

Entrepreneurs themselves are a diverse lot, from street vendors in Cairo's Tahrir Square to the technology titans of Silicon Valley. But regardless of their location, their size, or their industry, the environments in which entrepreneurs operate — the ecosystem — can and does dramatically impact their survival, their growth, and their success. That is why this ecosystem must nurture and support entrepreneurial startup and growth — to ensure that entrepreneurs operate on a level playing field, that their rights are protected, and that the same rules are consistently applied to all.

Some of the components of a supportive entrepreneurship ecosystem include a legal and regulatory framework that encourages certainty, good educational systems, and training opportunities that are responsive to the needs of entrepreneurs as well as the needs of their work force. Importantly, entrepreneurs need access to capital and financing. They need a supportive culture that embraces and celebrates entrepreneurship. A healthy ecosystem encourages individuals to act on entrepreneurial intentions and then supports that action. It provides political space for businesses to advocate for pro-entrepreneurial policies, and upholds the rule of law to ensure businesses operate with the same opportunities and the same set of regulations.

It's amazing what entrepreneurs can do in the marketplace and what they accomplish when they engage in policy. They bring their innovative ideas, passion, and energy to both stages. Supporting the entrepreneurship ecosystem as well as individual entrepreneurs is a central part of making democracy deliver for every entrepreneur and all citizens.

## Introduction

*Kim Eric Bettcher*

*Senior Knowledge Manager, CIPE*

Entrepreneurship drives economic change and innovation while at the same time expanding opportunity and unleashing the initiative of citizens. Entrepreneurs are crucial to building prosperous societies that deliver opportunity to all. In emerging economies around the world, interest in entrepreneurship is currently higher than ever amid burgeoning youth populations and a desire to move up value chains.

Unfortunately, in many developing economies, obstacles in the business environment close off entrepreneurial opportunities to huge swathes of the population. For example, a rural Kenyan entrepreneur must incur the cost of travel to Nairobi to register a business. In Lebanon, 65 percent of small and medium-sized enterprises must pay a bribe to conduct government procedures.<sup>1</sup> Tunisian street vendors, most of whom cannot attain legal status, “live in constant fear of being evicted or harassed by local officials.”<sup>2</sup> Even bankruptcy can be considered a crime in some places.

These barriers add to the usual challenges that entrepreneurs face with regard to capacity, financing, and market access. To be sure, some entrepreneurs prevail in spite of the obstacles. We should celebrate the successful cases that inspire future entrepreneurs. However, most would-be entrepreneurs face restricted options because they lack the connections, status, and resources enjoyed by established businesses and elite families. Women, youth, and non-elite individuals face higher hurdles to growing a business.

Experts, policymakers, and entrepreneurs have now turned their attention toward building entrepreneurship ecosystems. This attention reflects a recognition of the need for multifaceted support for entrepreneurial activity, as well as interactive effects within communities that accelerate efforts of individual entrepreneurs. As lessons in ecosystem

development accumulate, it is becoming clear that initiatives to finance, educate, and connect entrepreneurs are outpacing improvements in the business environment. The majority of entrepreneurship programs struggle to incorporate the business environment pillar into the ecosystem.

This special report, *Creating the Environment for Entrepreneurial Success*, highlights the crucial environmental dimension of entrepreneurship ecosystems. Improving the conditions for entrepreneurship and leveling the playing field goes beyond the effort to help promising entrepreneurs. It expands the pool of potential entrepreneurs, builds incentives for entrepreneurship, eases the costs of doing business, and generates healthy competition. Policy and regulatory reforms should be integrated with comprehensive services to educate, finance, advise, and encourage entrepreneurs.

An international group of experts contributed to the report, reflecting experiences and lessons from developing countries and the United States. The insights and examples shared by these thought leaders will have practical applications, yet the broader theme is to illuminate how these various components interact within the entrepreneurship ecosystem.

Part one of the report gives an overview of why and how environments influence possibilities for entrepreneurial success. Hernando de Soto and Mary Shirley explain how fundamental institutions such as rule of law and property rights shape the context for innovation and investment. Robert Litan argues that an entrepreneurial capitalist system provides the drivers for disruptive innovation and long-run growth. The lessons in building entrepreneurship ecosystems are then spelled out by John D. Sullivan and Anna Nadgrodkiewicz.

The second part of the report delves into approaches for strengthening specific features of ecosystems. Research by Leora Klapper and Douglas Randall demonstrates that reforms to the business environment do have an impact on the creation of new firms – provided that they are of sufficient scale. Drawing on the experience of the Global Entrepreneurship Congress, Jonathan Ortman

describes how growing awareness of entrepreneurship has led to productive discussions on policies for ecosystems. Daniel Cordova examines the potential for financing entrepreneurs in informal as well as formal sectors of the economy, while Lynda de la Viña shares current models for educating entrepreneurs. Finally, John Murphy considers the implications of a global trading environment for entrepreneurship, and Andrew Sherman sums up what this all means for entrepreneurial growth decisions.

Four case studies of actual ecosystems in developing economies round out the report. The authors of the country studies combine their expert diagnosis of strengths and weaknesses in each ecosystem with their recommendations for reform based on their experience as practitioners. These respective priorities and initiatives are outlined by Ryan Evangelista (Philippines), Majdi Hassen (Tunisia), Majid Shabbir (Pakistan), and Robin Sitoula (Nepal).

From the rich set of insights and perspectives featured in this report, several general lessons emerge about effective ways to improve environments for entrepreneurship. While there is no single template available, all stakeholders in entrepreneurship promotion can benefit from these lessons:

- Entrepreneurs fare best in a policy and regulatory environment that keeps barriers low, rewards innovation, and protects private property.
- Entrepreneurs themselves must take a leading role in building ecosystems, by creating entrepreneurial communities and providing input into policy.
- Policymakers should engage in open dialogue with entrepreneurs to find ecosystem solutions that are appropriate to local circumstances.
- The different actors in an entrepreneurship ecosystem should cooperate and network with other stakeholders to make the most of their respective strengths.
- Educators and community leaders must foster a culture that supports entrepreneurial aspirations and celebrates success stories.
- Diversity and access to opportunity should be promoted by empowering women, youth, and informal business owners to pursue entrepreneurial ambitions. ♦

## Endnotes

<sup>1</sup> Reach International survey conducted for the Lebanese Transparency Association, June 2013.

<sup>2</sup> Hernando de Soto, *Foreign Policy*, 16 December 2011.



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# I. Overview of Entrepreneurship Ecosystems

Under what conditions can entrepreneurship thrive? Can entrepreneurs in developing countries innovate and generate wealth just as entrepreneurs in developed countries? What makes a healthy entrepreneurship ecosystem possible?

The principles explained in Part One of the report are central to the emergence of scaleable, sustainable solutions to innovation and growth. In fact, an environment for entrepreneurial success requires more than the core ingredients of technology, infrastructure, and investment. It requires institutions that provide incentives and opportunities for entrepreneurs to create and take risks. These institutions evolve through dialogue, experimentation, and a combination of grassroots and high-level reform initiatives.

## 1. Entrepreneurship and Economic Growth

*Robert Litan*

*Director of Research, Bloomberg Government*

Economies grow through some combination of greater inputs — more educated labor and additional capital — and through advances in technology. Whether it is home grown or imported from abroad, technological advances are useful from an economic point of view only when they are commercialized, applied to make new products, make existing products more efficiently, or deliver new services.

Both established and new firms commercialize these advances, but the historical record makes clear that new firms, without a vested interest in the status quo, are disproportionately responsible for disruptive or radical innovations while established firms tend to focus more on incremental advances. Examples of entrepreneurial advances in the United States include the telegraph, the telephone, the computer, the car, the airplane, much computer software, air conditioning, and Internet search, to name some of the most obvious. This list also, not coincidentally, includes technologies that define modern life and power advances in growth and living standards.

Entrepreneurs are also crucial in developing countries, where they either may be copying and importing advanced country ideas, or developing and commercializing their own “bottom of the pyramid” products and services tailored for the income levels of their countries.

### **Entrepreneurial economies provide opportunities**

Entrepreneurial economies are those driven by individuals who choose entrepreneurship rather than accept a second-class career because they can't find a job. There is an element of culture that is difficult to pin down, but in entrepreneurial economies, striking out on one's own is seen as not only an acceptable career path, but a desirable one, not only for the control it gives to those who

seek it, but for the rich rewards it gives to the most successful.

Entrepreneurial capitalism is the most effective driver of economic growth because it provides opportunities for new firms to innovate and create new markets. The advantage of new firms is their independence. Because founders of companies do not often have a vested interest in the status quo, they are more likely to commercialize the disruptive innovation that is responsible for the lion's share of long-run growth.

Other types of capitalism have different effects. Oligarchic capitalism, where resources and power in the economy are concentrated in the hands of a few, tends not to maximize economic growth but to maximize the welfare of the powerful. State-guided capitalist systems, which channel resources to industries deemed most likely to be successful, can lead to rapid early growth, but are likely to stall as they approach the technological frontier. Big-firm capitalist systems benefit from economies of scale, resources for research and development, and capital to deploy, yet big firms hesitate to invest in new products or services that can make their current profit centers obsolete. We must be careful to properly align incentives in a capitalist system in a way that encourages entrepreneurial solutions.

### **Conditions for encouraging entrepreneurship and innovation**

The basic ingredients for encouraging entrepreneurship and innovation are easier to state than to ensure: basic education for all and access to higher education, increasingly online, for many; a minimum acceptable legal and physical infrastructure, and a culture that encourages entrepreneurial pursuits. There is a virtuous cycle here: entrepreneurial success breeds more success, attracting individuals and capital to entrepreneurial pursuits.

Entrepreneurial economies also require a minimum of infrastructure, both physical and legal,

to be successful. It must be relatively easy to form a business legally, so legitimate businesses are not forced underground. Property and contract rights must be secure, if not formally then at least informally. Likewise, there must be acceptable means of resolving commercial disputes.

Laws protecting property and contracts and their effective enforcement are key, but it is not necessarily the case that they be strictly formal in the Western sense. China has proved that entrepreneurship can flourish with effective informal legal systems, although as economies grow richer, they can benefit from formalizing the legal conditions enabling entrepreneurship. Also, it is key to be able to form a business, legally, easily, quickly, and cheaply.

As for physical infrastructure, roads and transportation are certainly essential, but in our increasingly global, technologically driven economy, communications infrastructure is also

proving to be essential. Even entrepreneurs in the most remote, poverty stricken areas of the world can gain knowledge and access to markets, even the capital they need, if they have a connection to the Internet. Increasingly, that access is mobile. Roughly half of the world's population has a mobile phone and can use it to access the world.

The foregoing conditions for effective entrepreneurship are universal, although there is room for differences across countries, taking account of unique histories, cultural conditions and so forth. But entrepreneurial capitalism is flourishing throughout the globe in very different countries, with different legal regimes: not just in the United States, but in Eastern Europe, parts of Western Europe (the United Kingdom and Ireland), Chile, and Asia (Taiwan, China, Singapore and even Vietnam). Other countries can gain insights from the U.S. experience but they can also increasingly look to other successful role models. ♦

## 2. How do Institutions Facilitate Entrepreneurship?

*Hernando de Soto*

*President, Institute for Liberty and Democracy*

### **Institutions facilitate entrepreneurship**

Entrepreneurship is all about combining things from different resources to create wealth, and institutions are crucial to facilitating that combination. What do I mean by “combining things?” Consider Leonard E. Read’s famous example that to build a simple pencil involves numerous countries, countless individuals, and hundreds of different ingredients: from graphite to the Oregon wood which sandwiches it in, to the copper of Chile and the zinc of Peru and the black nickel of South Africa, which hold the eraser close to the pencil itself, to the lacquer that is on the pencil. The wood requires kilning and dyeing. It must be cut and shaped and glued. Or take a look at your watch, which is likely to involve more than 500 parts, also provided by suppliers from all over the world.

To create the trust to combine all those resources and people to make even the most common objects requires many legal institutions. Good contracts, for example — a clear definition of who has the property rights over the materials, and confirmation that you are not buying from a crook. If you do not have the appropriate legal environment, you will have very poor entrepreneurship. Successful countries have created the rule of law with its property and entrepreneurial rights, which, in turn, have allowed them to combine all sorts of things and people and thereby create wealth.

Wherever I go in the world, entrepreneurship is already there — even in developing countries where most of the people are poor. Whenever I walk on a street in Mexico City or Cairo, for example, I encounter somebody trying to sell something or build a business. People are, by nature, very entrepreneurial — particularly the poor, who typically have no alternative for feeding their families other than going into business for themselves, as street vendors or shantytown entrepreneurs. In some places, there

are well-organized entrepreneurs who have very low transaction costs, who can make decisions quickly, and can combine, recombine, and rethink the components of their business. However, in other places there are entrepreneurs who have absolutely none of the contractual support that is necessary to deal with people far away. And this difference is one major reason why some countries are rich and many more are poor.

In other words, if you lack that rule of law — all those legal devices that allow you to connect to other people, particularly property and business rights — you will be forced to do business on the basis of customary or fabricated agreements between you and your relatives and neighbors. Such arrangements will limit your business activity to a physical area within a circumference of maybe 25 miles. Expanding your markets to areas where you are not personally known is impossible without the identity mechanisms that only the law can provide. So, while urban areas of developing countries are teeming with small, informal enterprises, without the rule of law those entrepreneurs will never pull themselves, or their countries, out of poverty.

In fact, the most important part of the business environment is rules. Everybody has rules, even those who work outside the legal system. They have business practices that their fellow “extralegal” entrepreneurs accept; they have created their own norms to make transactions and protect their assets. But to divide labor to increase productivity, to use their property as collateral to obtain credit, to protect their personal from business assets, to expand their markets or create the kind of economies of scale that generate wealth — to do all the things that entrepreneurs in developed countries take for granted — they need the standards that only legal institutions can provide.

Universal standards are fairly new — only about 120 years old. Greenwich Mean Time, for example, the standard that has allowed us to establish time differences — and business meetings — across the globe, has existed only since 1884. Similarly, 19th Century legal reformers in Europe and the United States began to set the standards for doing business

that put the West on a fast track to economic growth over the next century. As a result of the spread of such standards, the global economy has grown more since the end of World War II than in the previous 2,000 years.

### **Moving toward the rule of law**

In the Third World and in most former Soviet nations, the majority of entrepreneurs are still waiting for their own legal reformers to give them access to those standards — the same ones their elites already have. They are forced to operate in what I call anarchy. This does not mean that they are lawless; they have, in fact, too many systems of rules, different business standards every mile or two.

Policymakers need to promote entrepreneurship by establishing and spreading standards. At the center of the ILD's mission is to create awareness throughout the developing and former Soviet world that entrepreneurship has nothing to do with culture, that the idea that certain groups of people are incapable of entrepreneurship is a myth, that religion is not a factor. Over the past three decades, the ILD has worked in Latin America, Asia, Africa, ex-Soviet Europe, and the Middle East. Our researchers have found that people everywhere want basically the same thing — to protect their property and grow their businesses so that they can move out of poverty. Once policymakers have understood that, we can be on our way.

Think of the migrants that flowed into the United States from Europe, or those coming from the hinterland to cities in Peru. Everybody is going to where there are standards and where there are economies of scale. In the case of Peru, for example, 90 percent of the managers who have industries outside Lima actually live in Lima, because it is more important to be close to the standards and to the lawmakers than it is to be supervising your own factory. The question is, "How does everybody get to participate in this?"

Another problem is that most of the lawmakers who draft the rules do not understand the importance of bringing all their citizens, particularly the poorest among them, into the legal system. Thomas Jefferson understood. So did Washington, Franklin, and Madison. All the attention given to constitutions and to rule making that benefitted all Americans proves that they gave the law a huge amount of importance. That is no longer true among political leaders, in my experience. So, we must start convincing lawmakers that law is important — for everyone. The reason that people behave differently in the Peruvian Amazon than in Lima, for example is not just cultural; they own things, and they have businesses. But discriminatory, burdensome and just plain bad laws force them to operate in the extralegal economy.

### **Mobilizing small entrepreneurs**

In order to get the majority of people in developing countries moving in the same direction, the first thing I've found useful to tell them is that they are "entrepreneurs." In many countries where I go, I find an entrepreneurial class that just does not believe they are entrepreneurs. The wealthy have managed to convince the poor, no matter how talented or enterprising they are, that they are inferior, that they need more education or luck or were born in the wrong ethnic group. Even politicians on the left are inclined to say that indigenous peoples are "different" — and are not interested in participating in the market economy.

Our research has punctured such myths. After a violent conflict in the Peruvian Amazon in 2009 between indigenous communities and the police protecting the interests of private companies with legal concessions to exploit the region's natural resources, the ILD sent a team into the region to determine the causes. We soon found that the local people had their own private property and businesses; they were already in the market, just not the legal one. We also discovered that they had gone to war to protest their lack of legal control over the property rights of their communities.

To demonstrate to indigenous leaders — and Peru — that native peoples were capable of operating in the legal market economy, the ILD brought down indigenous leaders of enterprises in Alaska worth more than \$2 billion each. They arrived in full tribal regalia and said that the key to their success was having property rights, which made it possible for them to turn their tribes into multi-national corporations. “I am an Indian of the Kamloops tribe,” declared Manny Jules, the famous activist for Canada’s aboriginal peoples, “and I am proud of my tradition. But I am not a museum piece. Let me tell you why.” Then, his Peruvian audience started to understand.

As I said, I find entrepreneurs everywhere; but too often they need to be convinced of their status. “I only work from my garage,” a man in a Lima shantytown might tell me. Interesting, so did Steve Jobs. And then he adds, “I did go to university, but I dropped out.” So did Steve Jobs. “Well, he had ideas.” You don’t? “Oh yes, I have ideas.” But he

can’t patent them or get a loan to turn his garage into a real business — or get any of the 18 other things that Steve Jobs did to turn his idea into Apple. This is the kind of process that it takes to prove to ordinary people that even the world’s most successful entrepreneurs are not culturally superior; they just have access to superior legal institutions.

There is no doubt that people can grow from being small-scale, informal entrepreneurs to large-scale entrepreneurs. That is the history of the world. And one cannot foretell where it is going to happen or who is going to do it. Let me offer one final example from my native Peru, where I returned to live 30 years ago. Those who were rich and powerful then are completely different from those who are rich and powerful today. Yes, people grow from struggle to success. I do not know a country where the opposite would be true, provided everyone has access to the legal institutions essential for prosperity and generating wealth. ♦

### 3. Why Institutions Are Essential to Entrepreneurship

*Mary M. Shirley*

*President, Ronald Coase Institute*

An economy that is performing well at one particular point in time may be outperformed in the long-run by an apparent laggard, if that lagging economy proves better able to take advantage of changing circumstances (Schumpeter, 1942). What determines which economy lags or prospers? The answer, according to Schumpeter, is entrepreneurship: the constant creation of new goods, new markets, new methods of production, and new ways of organizing. And what determines whether entrepreneurship flourishes? The answer, I submit, is institutions: institutions that nourish rather than stifle innovation and change, as we can see in the history of the modern market economy.

Today we take it for granted that in developed countries like the United States we can usually buy a car from a dealer, an apple from the supermarket, goods over the Internet, or investments in the stock market without our money being stolen. But when we make these impersonal exchanges we are relying on a host of institutions of relatively recent vintage to protect our interests. For centuries most exchanges were eyeball to eyeball, or else restricted just to people you knew or someone that your family, church, neighborhood, guild, or commercial network knew. Trading with strangers was risky, because strangers could not be trusted and there were no low-cost ways to enforce bargains. Trading over distances and time was even riskier because of the ever-present threats of theft and violence — consider the medieval etchings of the merchant and his goods surrounded by his private army or flotilla. Costly risks limited markets and stifled entrepreneurship. Although the bazaar still exists and networks are still important, the gradual emergence of institutions that reduce transaction costs and protect property rights encouraged impersonal, long-distance trade to flourish.

#### Functions of institutions

What institutions allowed the global market to develop? Some institutions were developed and enforced by traders themselves, including commercial norms, written codes of conduct, and other rules designed to foster good behavior; bills of lading, contracts, and other ways to document deals; and business associations, trade fairs, and similar ways to share information on reputation and certify standards. Business organizations began to have lives, legal status, and reputations that extended beyond those of the individual owners or employees, further reducing the risks of exchange. These institutions and organizations not only protected property, they reduced transaction costs. Transaction costs are the costs of finding a buyer or seller, getting and providing information, striking a bargain, monitoring the terms, enforcing the bargain, and punishing those who cheat. Without institutions to control transaction costs development would be stunted, since when “the costs of making an exchange are greater than the gains which that exchange would bring, that exchange would not take place.” (Coase, 1992, p. 197).

But businesses alone could only do so much. Markets based on impersonal exchange flourished only when institutions began to be enforced by a third party wielding power: the state. The state put teeth into the merchants’ rules of good behavior and then went further, enacting laws that governed commercial behavior, adjudicating contracts, containing civil strife and theft, and protecting property rights and individual rights. The state, with its monopoly over the means of violence and treaties with other states, expanded the safe environment for production and trade.

State enforcement was crucial to the expansion of impersonal exchange, but it also created a conundrum. A state strong enough to protect property, trade, and individuals was also powerful enough to exploit them. Moreover, state actors were interested individuals, motivated to enhance their own and their cronies’ wealth at the expense of others. How could state actors be encouraged to control

their own grasping hands? How could investors know whether to trust the state's commitments?

Again the answer was institutions, specifically institutions to constrain the state's ability to confiscate property or returns (Shirley, 2008). These institutions include elections and other peaceful means of changing government, rights of free assembly and protest, norms of civic behavior, rules of transparency and disclosure, individual and corporate rights to sue the state and to be compensated for seizures, an independent legal system, and independent mass media. They also included federalism, which protects rights when different jurisdictions compete with one another for investment and residents by offering a better business environment and decentralization, when different branches and levels of government act as checks on arbitrary or capricious behavior by other branches or levels.

### **Open access societies**

These constraining institutions — elections, civic rights, legal powers, and federalism -- can be found in some form in almost every country in the world today. You might then ask why businesses and markets in some of those countries are still so weak? The answer is that in most poor countries, these constraining institutions exist in form only. Business, politics, and society are dominated by a few powerful elites who use the power of the state to favor their narrow interests and either overtly exclude the majority of citizens from access to sources of power and wealth or make it too costly for them to try to get access (North, Wallis, and Weingast, 2009). Constraints on the state function effectively in practice only in the few most developed countries, which North, Wallis, and Weingast call "open access societies." As the name implies, open access societies allow relatively free entry into politics, religion, education, and business. Citizens who are not powerful or rich can create different kinds of organizations, from political parties to corporations to social clubs, at relatively low transaction costs. Non-elite property is protected by the state in the same way that elite property is protected. Citizens of open access societies have the

means and motivation to protect their institutions from being captured by elites because they have access to education, media, the franchise, and other tools of civic engagement and voice.

Open access societies are not the norm, however. The vast majority of people live in limited access societies, where only elite groups have the power and the means to create new businesses or other organizations, only elites benefit from the rule of law, and only businesses with ties to the powerful prosper. Entrepreneurs who try to challenge the status quo are co-opted, squelched, or thwarted by the costs of competing with privileged elite-dominated business. This is not to imply that there are no threats to entrepreneurship in open access economies. Unbridled monopoly power, costly and bureaucratic procedures for registering new businesses, excessive protection of intellectual property, and other restrictions on entry can cripple entrepreneurship anywhere. Open access economies have more self-correcting mechanisms that allow two guys in a garage to start a hugely successful business and allow the market to punish the business when it loses its creative edge.

### **The China puzzle**

This history of the development of the modern market economy and open access societies argues that without strong institutions to reduce transaction costs, protect individuals and property, and allow entry by non-elites, markets and entrepreneurship will not flourish and long-run growth will suffer. Yet some observers look at China and conclude the opposite: institutions such as property rights, constraints on the state, and rule of law in general must not matter to business development because China has managed spectacular growth without those very institutions. But that conclusion misreads China's recent history. Under Mao, the state arrested and executed private entrepreneurs. After 1978, the safety of proprietors (if not of property) was comparatively secure; this in turn accelerated business development even though constitutional protection of private property rights was only enacted in 2004 (Huang 2012). Another key ingredient in China's economic growth was



market competition. The transfer of control rights to private actors, even though these rights were not tradable, stimulated productivity and growth because these private actors were subject to the discipline of the market (Coase and Wang, 2012). Moreover, China did have some of the institutions necessary for entrepreneurial development but in different guises. According to Xu (2011), subnational governments played a significant role in law-making and law enforcement. Competition among these local authorities, who were promoted and rewarded based on economic growth, encouraged them to protect private entrepreneurs during the early years of reform as long as the entrepreneur was successful in the competitive market.

Finally, we should not forget that China started from a very low base and therefore part of its accelerated growth has been “catching up.” Zhu estimates that China’s total factor productivity rose from 3 percent of U.S. total factor productivity in 1978 to 13 percent in 2007 (JEP p.121), a dramatic gain but still a long way from par. Many observers question whether China can continue to catch up with open access societies without a more independent judiciary, greater government accountability, and an open market for ideas. Without institutional constraints on the state’s grasping hands, business development will begin to flag; some see signs of this already. In the absence of institutional protections, investors in China increasingly rely on ties to state-owned firms or powerful leaders in the Communist Party, shown by the rise of the so-called princelings into dominant business positions.

I have argued that entrepreneurship will flourish only in economies where institutions reduce transaction costs, protect property and individuals from private theft and state confiscation, and encourage innovation and risk taking. Economies without these institutions may temporarily surge ahead, but, as Schumpeter predicts, will eventually flag. Entrepreneurship is not a luxury good, but a fundamental driver of long-run economic performance. ♦

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## 4. Building Entrepreneurship Ecosystems

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### Introduction

Entrepreneurship is a powerful force that many strive to harness. Countries around the world aspire to make their economies more competitive by boosting entrepreneurship. Yet in most countries entrepreneurs still struggle with the basics of operating and growing their businesses because the attention and resources devoted to entrepreneurship promotion tend to focus on singular interventions, not systemic change.

For entrepreneurs to thrive, there needs to exist a supportive ecosystem of intertwined factors ranging from infrastructure to financial access. Policy frameworks and institutions play a particularly important role in entrepreneurship ecosystems and this article discusses ways of shaping such policies and institutions, focusing on how entrepreneurs can be constructively engaged in dialogue with decision-makers.

Building a truly competitive entrepreneurship ecosystem requires an environment where businesses operate on a level playing field, where their rights are protected, and the same rules apply to all. There is no one-size-fit-all template for building such ecosystems; each country must find its own unique approach to reform. That requires an open, democratic dialogue where policymakers and entrepreneurs come together to discuss barriers and find solutions.

### Building entrepreneurship ecosystems

Any ecosystem involves a number of interconnected key elements that constantly interact and mutually reinforce. An entrepreneurship ecosystem is no different. It encompasses a number of moving parts – components that have to come together to facilitate innovation and growth. While different models exist, the following two

examples illustrate emerging ways of thinking about entrepreneurship ecosystems' structure.

Daniel Isenberg, founder of the Babson Entrepreneurship Ecosystem Project, outlines six key domains of the entrepreneurship ecosystem: conducive culture, enabling policies and leadership, availability of appropriate finance, quality human capital, venture-friendly markets for products, and a range of institutional and infrastructural supports.<sup>1</sup> Isenberg emphasizes that even though any country's entrepreneurship ecosystem can be mapped out using the same domains, each ecosystem remains unique because it is a result of hundreds of elements interacting in complex ways. These factors are based in historically shaped institutions that give different countries unique competitive advantages but also unique sets of challenges to overcome. That is why it is usually ineffective to simply take one country's model of entrepreneurial development and blindly apply it to another.

Therefore, the aspiration to become the next Chile or the next Taiwan does not necessarily mean copying them directly. As Isenberg explains, "many governments take a misguided approach to building entrepreneurship ecosystems. They pursue some unattainable ideal of an ecosystem and look to economies that are completely unlike theirs for best practices."<sup>2</sup> Each country instead must examine its own circumstances, strengths, and weaknesses and design approaches that are rooted in these local realities.

Steven Koltai, who created and ran the Global Entrepreneurship Program for the U.S. Department of State, provides another example of mapping out core components of entrepreneurship ecosystems. His Six + Six Model highlights the six pillars essential to a successful entrepreneurship ecosystem: identify, train, connect & sustain, fund, enable, and celebrate entrepreneurs; and the six participants who must be involved in their implementation: non-governmental organizations (NGOs), corporations, foundations, government, academic institutions, and investors.<sup>3</sup> Similarly to Isenberg's approach, Koltai's model rests on the premise that no single factor alone can spur and sustain entrepreneurship.

Instead, entrepreneurs thrive when multiple sectors and actors work together to create a supportive environment for entrepreneurship.

Koltai points out the interconnectedness of all the elements of the entrepreneurship ecosystem and stresses the need for various actors to work together in order to cultivate entrepreneurs. He also emphasizes that it is a mistake to think of entrepreneurs purely as inventors of new products. In fact, only about 20 percent of entrepreneurs are innovators in that narrow sense. Eighty percent are commercializers who bring new ideas to market.<sup>4</sup> Often there is too much emphasis on “the idea” in entrepreneurship support initiatives. Countries need to consciously build ecosystems that help the different kinds of entrepreneurs succeed.

### Focus on policy reforms

Because all entrepreneurship ecosystems contain multiple and interconnected components, building such ecosystems implies a balanced approach where equal attention is given to key pillars. In practice, that is rarely feasible because all countries face limited resources and all governments possess only finite political capital to spend on reforms. As a result, focus often shifts to the elements of the entrepreneurship ecosystem that are relatively easy to implement such as entrepreneurship training programs or special funds to provide entrepreneurs with seed money. While valuable in their own right, such programs rarely lead to the entrepreneurial take-off of an economy because they do not reach beyond helping individuals and they fail to address the larger underlying factors that stifle entrepreneurship.

Addressing these barriers is at the heart of a public policy and institutional framework conducive to entrepreneurship. Yet even though public policy and institutions are included as key factors in different entrepreneurship ecosystem models, in practice it is frequently the most neglected element. The reason is simple: while it is easy to pay lip service to the need for policies that supports entrepreneurship, it is much more difficult to achieve them.

### Designing Business-Friendly Policies: Recommendations for Policymakers

**Business Entry** – simplify business registration and licensing procedures

**Disclosure** – establish proper disclosure requirements so that information is readily available to consumers and investors

**Information** – provide equal access to government information on regulations, requirements, and financial resources

**Property Rights** – define and ensure strong enforcement of property rights

**Financing** – establish a strong domestic financial system by privatizing state banks and introducing private sector governance principles

**Labor** – establish simple and efficient labor laws; allow wages to be determined by market forces

**Competition** – remove restrictions on competition, eliminate subsidies to inefficient enterprises, open up industries reserved for state-owned enterprises

**Trade** – reduce tariffs and non-tariff barriers, eliminate export-import licenses granted to a select few

**Taxes** – simplify procedures and/or reduce tax rates, which can increase tax revenues through increased compliance

**Price Controls** – remove price controls and let markets determine prices

**Bankruptcy** – establish proper bankruptcy procedures

**Capacity-building** – establish programs that provide entrepreneurs with technological, managerial, and financial skills

*Source: John D. Sullivan, Aleksandr Shkolnikov, “The Prosperity Papers #1: Entrepreneurship” Economic Reform Issue Paper No. 0401, Oct 1, 2004, [www.cipe.org/sites/default/files/publication-docs/IP0401.pdf](http://www.cipe.org/sites/default/files/publication-docs/IP0401.pdf)*

The types of needed policies are broadly agreed upon by development experts and entrepreneurs

alike, and they include protection of private property rights, enforceable contracts, and efficient government administration. What is less obvious is how to tailor these policies to local circumstances. The quality of policy solutions depends greatly on the nature of a given political system. Some argue that authoritarian governments may be better suited to spur entrepreneurship, pointing to rapid economic growth rates of China or South Korea's dictatorial past. History shows, however, that dictators tend to be more concerned with staying in power than with developing entrepreneur-friendly policies. What is more, basic requirements for entrepreneurship such as credit access are often controlled by the government in authoritarian countries and dispensed based on political consideration rather than merit.

In the case of China, much of its economic vitality comes from the entrepreneurial sector. The number of registered private businesses in the country grew by more than 30 percent a year between 2000 and 2009, and enterprises that are not majority-owned by the state account for two-thirds of industrial output and about 75-80 percent of profit in Chinese industry and 90 percent in non-financial services.<sup>5</sup> At the same time, much of this economic activity remains secretive as entrepreneurs fear expropriation and resort to bribing local officials to stay afloat.

Involving broad-based private sector participation in the policymaking process, in a transparent and representative way, is of particular importance to fostering an entrepreneurship climate. Independent chambers of commerce and business associations, if properly and consistently engaged in a policy dialogue with the government, can provide decision-makers with first-hand information on the barriers that entrepreneurs face and with practical solutions to removing them. In CIPE's experience working with hundreds of local partner organizations around the world, such dialogue can bring important improvements to the environments in which entrepreneurs operate.

Montenegro is a good example. In 2001, a group of local business leaders founded the Montenegro

Business Alliance (MBA) with the vision to seek sustainable economic growth reform through legislative and regulatory reform. MBA created a National Business Agenda created through extensive consultations with businesses throughout Montenegro on their top reform priorities and recommendations. MBA then organized forums in all the major cities in Montenegro with business leaders, members of parliament, relevant ministers, local government leaders, the media, and academia to advocate for adopting policy solutions outlined in the agenda.

This was the first time many business people in Montenegro had ever expressed their views publicly and the National Business Agenda was the first document of its kind in all of South-East Europe. As a result of the initial agenda and subsequent ones that MBA has continued to publish, the government accepted many of the proposed solutions. Now Montenegro has the lowest corporate and personal tax rate in Europe (9 percent), the unemployment rate dropped from 30 to 12 percent, the size of the informal economy decreased to 15 percent of GDP, and the country has new, more flexible labor laws, concession laws, lower local taxes, and fewer procedures for registering a business.<sup>6</sup>

Another key consideration in building a policy framework that supports the entrepreneurship ecosystem is focusing not just on passing entrepreneur-friendly laws but also on how they are implemented. Implementation gaps, or the difference between laws on the books and their applications in practice, affect countries across the globe. At the local level, citizens tend to feel the effects of implementation gaps most painfully because when regulations enabling an entrepreneurial environment remain unimplemented, it directly undermines their livelihoods.

In recent years one of the most striking examples of an implementation gap hampering economic prospects has been Egypt. In 2008, Egypt topped the list of reformers in the World Bank's annual *Doing Business* ranking, making improvements in areas such as the minimum capital required to start a business, fees for registering property, and

construction permits.<sup>7</sup> However, many of these laudable reforms remained only on paper while ordinary Egyptians continued to struggle with making a living.

The solution to addressing implementation gaps ultimately is to prevent them from happening in the first place by building sound legal and regulatory frameworks. They need to include mechanisms for cost-benefit analysis of proposed legislation and harmonize different laws to foster implementation. The key pillars of integrity in public governance must also be strengthened.<sup>8</sup>

## Conclusion

Entrepreneurship provides the creative force of economic development. Entrepreneurs lead economic change by creating new goods and services, new firms, and innovative solutions to local — and global — needs. At the same time, entrepreneurship plays a vital role in the development of democracy. It expands opportunity, unleashes individual initiative, and cultivates independent citizens who have a stake in society and democratic governance.

For entrepreneurial ventures to take root and grow, the right environment must be in place. Startups require low barriers at the outset; to achieve scale they require a legal and regulatory framework that rewards entrepreneurial initiative, ensures fair competition, and protects private property rights.

Entrepreneurs embody Friedrich Hayek's idea that harnessing dispersed local knowledge by individuals is crucial to economic and political freedom and citizen-led innovation. While government has a key role to play, too many entrepreneurship promotion efforts resemble failed top-down planning, limited to investments in particular industries, clusters, or incubators. In a sustainable entrepreneurship ecosystem, financial, educational and other supports must be backed by a favorable policy environment. Governments should therefore focus on building the legal and

institutional basis for supporting bottom-up efforts of entrepreneurs.

The private sector can provide invaluable input into the design of policies and reforms as well as their implementation. Through an open, transparent, and democratic dialogue with the government, business organizations in countries around the world can become representative voices of business and key partners in reform. Engagement with the business community can therefore help shape an entrepreneurship ecosystem that is uniquely tailored to local needs and circumstances. Within that ecosystem, given the chance, entrepreneurs will find their way forward and bring economic dynamism to democracy that delivers. ♦

## Endnotes

<sup>1</sup> Daniel Isenberg, "Introducing the Entrepreneurship Ecosystem: Four Defining Characteristics," *Forbes*, May 25, 2011, <http://www.forbes.com/sites/danisenberg/2011/05/25/introducing-the-entrepreneurship-ecosystem-four-defining-characteristics/>.

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<sup>3</sup> Koltai & Company, *The Six + Six Entrepreneurship Ecosystem Model*, <http://koltai.co/about-us>

<sup>4</sup> *World Peace Through Entrepreneurship*: Steven Koltai at TEDxDirigo, published on Nov 23, 2012, <http://www.youtube.com/watch?v=SpH7cBEK0So&feature=youtu.be>.

<sup>5</sup> "Let a Million Flowers Bloom," *The Economist*, May 10, 2011, <http://www.economist.com/node/18330120>.

<sup>6</sup> CIPE Leading Practices: Montenegro Business Alliance, <http://leading-practices.cipe.wikispaces.net/Legislative+and+Regulatory+Reform>.

<sup>7</sup> *Most Improved in Doing Business 2008*, <http://www.doing-business.org/reforms/top-reformers-2008>.

<sup>8</sup> *Improving Public Governance: Closing the Implementation Gap between Law and Practice*, CIPE and Global Integrity, 2012, [http://www.cipe.org/sites/default/files/publication-docs/GI%20CIPE\\_Implementation%20Gap\\_for%20web.pdf](http://www.cipe.org/sites/default/files/publication-docs/GI%20CIPE_Implementation%20Gap_for%20web.pdf).

## 5. CIPE's Approach to Building Environments for Entrepreneurial Success

*John D. Sullivan*

*Executive Director, CIPE*

Entrepreneurs drive change. They provide the ideas, initiative, and leadership to invigorate development and transform society. They are therefore pivotal partners of the Center for International Private Enterprise (CIPE) in the pursuit of its mission: to strengthen democracy around the globe through private enterprise and market-oriented reform.

Where entrepreneurial firms adapt and grow, they transform the structure and functioning of an economy. Indeed entrepreneurship — understood as formation and rapid growth of new firms — represents probably the most important means for developing a vibrant private sector. It is closely linked to the evolution of a market economy. A market economy establishes a level playing field for commerce and opens the way for new entrepreneurs.

As drivers of change, entrepreneurs often assume leadership roles in society. With their initiative, problem-solving ability, and new perspectives, entrepreneurs become a leading constituency for reform. As they raise independent voices, they enhance democratic debate and participatory policymaking.

Still, entrepreneurs need a little help. On their course to invent the future, they encounter institutional voids, political resistance, knowledge gaps, and collective action problems. To help them negotiate these challenges and accelerate momentum for entrepreneurial change, policy leaders and private sector stakeholders should heed the lessons of recent decades of transformation.

### Lessons from 30 Years

CIPE's history has coincided with massive historical trends of privatization, democratization, globalization, the rise of emerging markets,

and institutional change. Without a doubt, entrepreneurship has made dramatic strides that were not conceivable in the preceding era of development. Progress has been highly uneven, though, and by now we have observed important patterns.

Entrepreneurs are present everywhere, but the ones with access to market institutions, rule of law, and economic freedom have a tremendous advantage. These fundamentals — more than any program or technology — help set apart entrepreneurial countries such as the United States, Canada, Chile, and Denmark. Moreover, within developing countries, legal and institutional barriers largely explain why a few entrepreneurs succeed while the majority are stuck in necessity, not growth, entrepreneurship.

Reforms imposed by decree from above are hard to sustain. At times, governments have attempted to unilaterally improve the business environment or invest in entrepreneurial clusters. The result too often is that reforms are cosmetic, not implemented; that benefits of reform are captured by cronies; or that popular backlash unravels the gains. A competitive entrepreneurial system should be constructed through an open policy process.

Entrepreneurship ecosystems cannot be built without input from the private sector. In fact, entrepreneurial ingenuity is not limited to building companies. Entrepreneurs weave networks, solve resource constraints, and fill institutional voids. They themselves can drive reform and educate policymakers about real business needs.

Democracy provides fertile ground for institutional reforms. Democracy allows participants in an ecosystem to voice their perspectives, allows freedom to experiment with new models of economic organization, and provides crucial feedback and accountability in the policy system. These add up to what Douglass North calls adaptive efficiency, the hallmark of innovative societies.

Ultimately, local entrepreneurs and business leaders know best the innovative potential of their communities and how to realize this potential. Their insights and motivation are invaluable in targeting binding constraints to business and designing the

infrastructure of ecosystems. CIPE gives private sector reformers a voice through capacity building, advocacy training, entrepreneurial education, and technical support.

### **How to Catalyze Change**

From advocating for reforms in the legal system to guiding youth on entrepreneurship and leadership, CIPE and its partners strive to ensure entrepreneurs can rely on a supportive environment. CIPE's programs address several fundamental dimensions of entrepreneurship ecosystems.

#### ***Advocate for business environment reforms that lower the barriers to starting, operating, and growing a business***

In Jordan, the Young Entrepreneurs Association championed an amendment to the company's law that reduced minimal capital requirements for limited liability companies. This led to over 1,800 newly registered small and medium-sized enterprises (SMEs).

In Peru, the Institute for Liberty and Democracy introduced solutions to simplify business registration and administrative procedures, and formalize commercial property. From 1991 to 1994, 381,100 businesses were formalized. Newly formalized businesses saved \$692.5 million in red tape and created more than 550,000 legal jobs.<sup>1</sup>

In Egypt, the Federation of Economic Development Associations — which represents over 30,000 SMEs — advocated for repeal of ministerial decrees that disadvantaged small business. So far 84 decrees have been lifted, including restrictions on importing machinery for factories.

#### ***Equip grassroots associations to serve small business needs and advocate for policies supportive of entrepreneurship***

With USAID funding in Russia, CIPE helped launch 17 regional coalitions that counted as members 225 business associations representing firms with an estimated 2.2 million employees.

These associations reported a 30 percent increase in membership over the life of the project. The coalitions conducted 222 advocacy efforts related to 138 legislative changes.

#### ***Educate youth on entrepreneurship, fundamentals of market economies, and civic leadership***

Samriddhi, the Prosperity Foundation in Nepal created the Arthalaya program, an intensive five-day workshop followed by alumni outreach to start 24 entrepreneurship clubs at universities. Over 360 students have graduated since Arthalaya began, and 40 graduates have started their own enterprises. These entrepreneurship programs also transform the way people think about the market economy.

In Peru, Instituto Invertir established *EmprendeAhora*, a civic leadership and entrepreneurship program for university students from rural areas. Since 2008, Invertir has trained over 530 students from 23 regions in Peru who have started more than 130 businesses.

In Afghanistan, CIPE's Tashabos curriculum for entrepreneurship and civics training reaches 50,000 students in 44 schools across four provinces. As of 2012, 748 students either started their own businesses or improved family-owned businesses, creating 1,280 jobs.

#### ***Empower women economically through entrepreneurship and advocacy for women in business***

The Bangladesh Women Chamber of Commerce and Industry (BWCCI) has run a series of successful advocacy campaigns built around its Women's National Business Agenda. BWCCI has eased access to credit for women entrepreneurs by advocating with the Central Bank to provide women with low-cost loans with no collateral requirements.

#### ***Strengthen institutions such as property rights and rule of law to foster entrepreneurship***

The Business Advocacy Network in Armenia —

developed by CIPE and the Association for Foreign Investment and Cooperation — successfully advocated for simplified tax payment procedures, thus reducing opportunities for corruption, as well as a new law on state inspections, which should reduce unnecessary inspections of SMEs and related abuses.

***Reduce economic informality by expanding access to opportunity***

Kenya's new Micro and Small Enterprises Bill establishes a Small Business Authority to regulate small business and associations; creates a small business fund to support innovation and research; and establishes a tribunal to arbitrate commercial disputes. The Kenya Private Sector Alliance was instrumental in drafting the bill, with input from other CIPE partners.

These steps to improve the environment for entrepreneurs are all about facilitating gains from specialized innovation and trade within a market-oriented system. Nobel Laureate Douglass North

has referred to this as the process of building institutions that make possible impersonal exchange. In each developing country, getting the right institutional framework in place will encourage entrepreneurs to invest in knowledge, innovation, and higher productivity. By supporting the evolution of this kind of ecosystem, we are enabling the widest possible opportunities for creative entrepreneurship.<sup>2</sup> ♦

**Endnotes**

<sup>1</sup>Kim Eric Bettcher, Martin Friedl, and Gustavo Marini, "From the Streets to Markets: Formalization of Street Vendors in Metropolitan Lima," *CIPE Reform Case Study* (May 21, 2009). The U.S. Agency for International Development provided principal funding for ILD's programs. CIPE supported ILD's advocacy initiatives with funding from the National Endowment for Democracy.

<sup>2</sup>Douglass C. North, *Institutions, Institutional Change and Economic Performance*. Cambridge University Press, 1990; North, "The Foundations of New Institutional Economics," lecture on CIPE Development Institute, [www.developmentinstitute.org](http://www.developmentinstitute.org)



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## II. Elements of Ecosystems

Ecosystem models derive their power from a holistic view of factors influencing individual entrepreneurs as well as synergies that propel entrepreneurship as a phenomenon. Yet for the system as a whole to function, the component parts must play their proper roles and fit together. Knowledge, resources, motivations, rules, and opportunities each must be developed to serve and stimulate entrepreneurship.

Part Two examines the effects of key elements such as business regulation, financing, education, and the trading environment. It also calls attention to priorities for advancing entrepreneurship in areas such as awareness raising, research, and promotional efforts. The models and lessons described here aid in gap analysis and illustrate a diversity of choices for building ecosystems. Policymakers and entrepreneurship promoters should diagnose entrepreneurial needs carefully and be open to the possibility that competing approaches have merit in different situations.

## 6. Impact of Business Environment Reforms on New Firm Creation

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### 1. Introduction

New firm creation is often touted as an engine of economic growth. Yet policymakers are often left guessing when it comes to deciding how best to use their resources to encourage entrepreneurship. A lack of comparable data on entrepreneurship at the international level has left policymakers guessing on how improvements in the business environment affect entrepreneurship. What's more, the impact of large, macroeconomic trends on new firm creation has not been well understood in the past, resulting in a poor understanding of how to boost entrepreneurship in the wake of an economic downturn.

Since 2005, we have undertaken an effort to collect high-quality, internationally comparable data on new firm creation. Solicited directly from business registries around the world, we clean and compile the data each year into the publicly available World Bank Entrepreneurship Database (WBED). The most recent edition of the WBED, released in October 2012 in conjunction with the World Bank's *Doing Business* project, contained data from 130 economies covering 2004 to 2011.<sup>1</sup>

Not surprisingly, we have found that new firm creation varies enormously across economies and regions. On average, 4.34 new formal companies with limited liability are registered each year per 1,000 working-age adults in high-income economies – we call this measure ‘new firm entry density’.<sup>2</sup> In the developing world the average new firm entry density is 1.27. Put another way, about 20,000 new firms register each year in Belgium — which has an average new firm entry density for high-income

economies in the 2012 sample. By contrast, only about 4,000–5,000 new firms register each year in Belarus, Guatemala, and Tunisia — each of which falls in the middle of the distribution of the new firm entry density for developing economies and has a working-age population similar in size to that in Belgium. Beyond just counting firms, however, the WBED is a powerful tool for investigating trends in new firm creation. In the rest of this article, we will describe two areas — business registration reforms and the global recession — that can be better understood through the lens of good data.

### 2. Business environment reforms

A simple and inexpensive business registration process is frequently heralded as a critically important component of the business environment. Each year, the World Bank's *Doing Business* report shines a spotlight on business registration reforms, attracting the attention of policymakers, private sector leaders, and international institutions. In its annual report, the *Doing Business* team meticulously measures the amount of time, procedures, minimum capital and total cost to register a typical limited liability company in 168 countries. Most countries closely monitor their ranks and many make enormous efforts to improve them.

According to the *Doing Business* 2013 report, the top reformer in *Starting a Business* in 2011/12 was Burundi, which created a one-stop shop at the Burundi Revenue Authority thus reducing the number of procedures required to register a business from 8 to 4, the time required from 13 days to 8, and the total cost from 117 to 18 percent of income per capita. These reforms bumped Burundi from 99th to 28th in the global ranking on *Starting a Business*. But what do these reforms mean in practice? Did Burundi's reforms spur new business registrations? If so, how large was the effect? Could a smaller reform have generated the same impact? Do reforms that simultaneously affect more than one aspect of the registration process — such as by reducing both the cost and the number of procedures — pack an especially large punch?

With these questions in mind, we recently released a Working Paper that seeks to measure the effect of business registration reforms on new firm registrations. Merging the WBED with data from *Doing Business* we classified various business registration reforms according to the year-on-year percentage reduction they represent for an indicator. We then performed regression analysis to determine the effect of each type of reform (for example, a 20 percent reduction in the number of procedures required to register a business), on new firm registrations. Importantly, the analysis looks at variation within economies over time by controlling for time-invariant country characteristics (Klapper and Love, 2011a).

In our sample of 92 economies, we found that registration reforms can significantly boost new firm registrations but generally only if they are large. For example, the analysis suggests that a 20, 30, or 40 percent reduction in registration time does not significantly increase new firm registrations. But the 31 economies that had at least one year-on-year reduction in registration time of 50 percent or more experienced a statistically significant boost in new firm registrations. The results are similar for reductions in registration cost. For procedures, by contrast, even a 20 percent reduction is effective in spurring new firm registrations. Among OECD high-income economies in the sample, a reduction of 50 percent or more in registration cost leads to an increase in new registrations of 19 percent on average, and a reduction of 50 percent or more in registration time to an increase of 30 percent.

The research also finds important complementarities in simultaneous and sequential reforms. The results show that there is something of a tradeoff between the magnitude of reform and the number of reforms. For a single reform to have a significant effect on new firm registrations, it must generally reduce a registration indicator by at least 50 percent. But three sequential or simultaneous reforms at the 30 percent level will, on average, generate a significant increase in new firm registrations. Controlling for the magnitude and number of reforms, the analysis shows that simultaneous (those done in the same year) reforms

generally have a larger effect than sequential reforms (those done in sequential years). The results also show that economies with a relatively weaker business environment need to implement relatively larger reforms in order to have an impact on new firm registrations.

Our findings show that the ease of starting a business is a significant predictor of new business registrations. But it also shows that small reforms generally have no significant effect on new firm registrations. This suggests that “token” reforms, perhaps motivated by political or multilateral pressure to reform, will not have the intended effect on private sector activity. There is also evidence of synergistic effects of reforms. The results should motivate policy makers to undertake larger, more significant, and more comprehensive reforms.

### 3. The crisis

What was the impact of the crisis on new firm registration? With the WBED data we can also answer this relatively straightforward question as well as examine the country-level characteristics that are associated with particularly large drops in firm registrations over the crisis period. Beginning in 2008, new firm creation dropped sharply, though by varying degrees across economies. In general, the speed and intensity with which the crisis affected new firm creation varied by income level and crisis intensity. Economies with higher levels of income (GDP per capita), those with highly developed financial systems (as measured by the ratio of domestic credit to GDP), and those hit the hardest by the crisis experienced earlier and sharper contractions in new firm creation (Klapper and Love 2011b). In Ireland, for example, new firm registrations fell by 29 percent between 2007 and 2009. Indeed, in high-income economies the rate of new firm creation in 2009 was lower than it had been in 2004.

The impact of the financial crisis on new firm creation in much of the developing world followed a different path. Growth in entry density in developing economies stalled in 2008, but about 70 percent of developing economies still had a

higher entry density that year than in 2007. By 2009, however, less than 50 percent of developing economies achieved positive annual growth in entry density. It appears that the crisis hit later and adversely affected new firm creation rates in fewer economies in the developing world than among high-income economies.

While it's still too early for a comprehensive analysis of the rebound in new firm creation following the crisis, data from 2010 and 2011 begin to shed light on the recovery patterns. There was an undeniable turnaround in 2010, with 66 percent of economies in the sample seeing an increase in entry density over 2009. But for the majority of economies, entry density in 2010 remained significantly lower than in 2007. In 2011 only about 60 percent of economies saw a year-on-year improvement in the rate of new firm creation, considerably below the precrisis average of 75 percent.

#### **4. Conclusion**

Our hope is that better firm registration data will lead to sounder analysis and more evidence-based policymaking. We are encouraged to see that practice of continually requesting disaggregated registration statistics has already spurred registries to expand data collection efforts and we hope

to eventually be able to gather data on new firm creation spliced by gender, size, and legal type. Future rounds of data will allow us to further explore the impact of registration reforms as the time-series and country coverage grow larger. We will also be able to further explore the factors that support a robust rebound in formal entrepreneurship in the wake of the global financial crisis. ♦

#### **Endnotes**

<sup>1</sup>The complete dataset, methodology, and related research are available at <http://www.doingbusiness.org/data/exploretopics/entrepreneurship>

<sup>2</sup>As in the World Bank's annual Doing Business report, the units of measurement are private, formal sector companies with limited liability. Due to the exclusion of informal firms and firms without limited liability, the database does not provide comprehensive coverage of firms in the 130 economies surveyed.

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## 7. Policymakers and Grassroots Networks Find They Need Each Other for Smarter Ecosystems

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For a few years now, a global gathering of startup champions, investors and entrepreneurs called the Global Entrepreneurship Congress (GEC) has explored approaches to strengthening entrepreneurship around the world. Last March in Rio de Janeiro, it included dozens of events that turned the gathering into a festival for startups and those that foster them — connecting roughly 2,700 entrepreneurship leaders and supporters from 119 countries. Perhaps the biggest surprise was the turnout for the pre-summit event on public policy. It started to become clear that a new chapter in entrepreneurship has begun. Two worlds have come together driven by a profound awareness of the impact of entrepreneurship. Earnest governments, anxious to work out how to support the right program and pull the right policy levers, are now interacting and even collaborating with grassroots networks and communities that are driving the emergence of smarter ecosystems from the bottom-up. It is this new dynamic in these ecosystems that will support the scaling of new high-growth firms across the planet.

The Policy Summit at that event in Rio de Janeiro marked an unusual addition for a gathering that had started as a grassroots movement. Continuing then throughout the Congress, serial entrepreneurs and investors like Brad Feld, Dave McClure, and Jeff Hoffman shared thoughts with government officials from Israel, Singapore, Italy, Colombia, and beyond. Both sides discussed their perspective on opportunities and problems facing entrepreneurs as they seek to launch and grow new firms.

While they did not agree on everything, they did listen to one another. Feld, an early stage investor and entrepreneur who co-founded TechStars, told

enthusiastic government leaders that the theme of their role in the ecosystem should be “do no harm” and many officials took note, based on entrepreneurs’ experiences, of the policies that they thought would not stand in the way.

From these conversations at the GEC in Rio, it turns out that policymaking to unleash new ventures demands new entrepreneurial thinking of its own. In fact, many top-down “planner types” said they are now engaging in the same iterative processes that many startups go through: experimenting with policies and programs to find out which are most effective at promoting defined objectives for economic growth and job creation. Further, like today’s generation of startup creators, policymakers are looking to the global stage for ideas and expertise, seeking best practices and bridges to other nations that are successfully nurturing entrepreneurship ecosystems. For example, Chile is not only importing entrepreneurial talent to fuel local startup communities through Start-Up Chile, it is now also importing capacity to help connect universities and industry, as explained by Conrad von Igel, executive director of InnovaChile, during the GEC Policy Summit.

In Rio de Janeiro, all startup ecosystem players shared a common platform for the first time. This shift in the frontier of the entrepreneurship field should be celebrated. It has not come easy, but rather through the aggregate efforts of thousands of entrepreneurship champions around the world over the past few years. The Kauffman Foundation hosted the first Global Entrepreneurship Congress in Kansas City in 2009 precisely to support the grassroots startup champions behind the Global Entrepreneurship Week movement.

Global Entrepreneurship Week (GEW) is the largest entrepreneurship festival in the world, where 20,000 events and activities attract 7.5 million attendees during a one-week period each November in more than 135 countries. At GEW competitions, global collaborations of creative minds turn ideas into real-life ventures: Startup Open identifies the most promising new startups from over 60 countries; the Cleantech Open Global Ideas Competition

finds the best new green firms in 22 countries; and Startup Weekend boot camps churn out hundreds of founder teams to launch new ventures in more than 100 cities. Thousands of small gatherings are held in classrooms or under village trees, in addition to larger-scale events in football stadiums and convention centers. One can hear speeches by heads of state, talks by entrepreneurs, and thousands of pitches from ordinary people with ideas and drive who are raring to go. The most potent vision of GEW is simple: the enormous promise of today's nascent entrepreneurs for innovating right through the world's toughest problems. These entrepreneurs have more than commercial consequence. People once dismissed in past eras as "dreamers trying to change the world" are today's creative thinkers who, with the support of their peers, are using the marketplace to make their mark.

Yet much more has been accomplished through the synergies formed at each successive GEC. For the second edition of GEW in November 2009, several top government leaders extended their support. Each subsequent year has brought fresh assessments of entrepreneurship promotion efforts, new opportunities for collaboration, better-targeted programs through discussion of best practices, and even new data for better-informed policies. That is the legacy of the Global Entrepreneurship Week initiative and the annual Congress.

The growth in awareness has been central to the blossoming of the field of entrepreneurship among government and the grassroots. As these efforts continue, they bring clarity to the field of entrepreneurship, fostering productive discussions that reveal additional strengths — as well as weaknesses — in entrepreneurship ecosystems that yield important insights for more targeted and better coordinated efforts from both sides.

However, there is still a paucity of data to support decision-making. Now, the disciplined work of testing and selecting effective interventions — policies and programs that have beneficial impact — must begin. This calls for better and continuously updated data as well as rigorous analysis and evaluation. The Kauffman Foundation announced in October 2013 the creation of the Global Entrepreneurship Research Network (GERN) to take on this important task. Through this network, the World Bank and other major research organizations will align their efforts to: establish better and more uniform data collection; develop a repository of research and evaluations; and translate those findings and insights into better policies and programs to support entrepreneurs. GERN will help connect all stakeholders in the entrepreneurship ecosystem, those involved in top-down policy efforts as well as the bottom-up startup communities, to fight side-by-side in the battle to gain sober insights into efforts so that all sides can fine-tune initiatives strategically.

More data analysis done to truly understand entrepreneurial growth can only result in better policymaking. Now all eyes are on the next global gathering of leaders in this space that is scheduled to take place in Moscow from March 17-21, 2014. More than 140 nations are expected to participate — this time with an opening day dedicated to the policymakers who are anxious to be better helpers to their entrepreneur-led startup communities. Not only will the GERN meet there in Moscow, but a new coalition of startup-savvy policy advisors who make up a group called 'Startup Nations' will gather to discuss promising approaches and listen to early conclusions from the researchers. This all contributes to building better startup and scale-up ecosystems at all levels to best support those who bring new ideas to life. ♦

## 8. Enhancing Formal and Informal Entrepreneurship in Developing Countries

*Daniel Cordova*

*President, Invertir Institute*

Businesses in developing countries follow a different evolution than new businesses in developed countries. Even formal businesses in developing countries have to deal with numerous challenges: poor infrastructure, high interest rates or limited access to loans, a weak service sector, high legal costs, and a small local market. These conditions, all related to the transaction costs concept of the New Institutional Economics, affect the competitiveness of emerging business. The informal sector faces these factors as well as additional challenges.

Developing countries have a larger number of informal businesses than developed countries. In the majority of these countries, more than one third of small businesses face at least one of the following situations: they do not pay revenue taxes or sales taxes, do not have a legal payroll, or are located in facilities that are not legally registered.

Given these relatively challenging environments and high levels of informality, why are entrepreneurship and small business growing in developing countries? How can we think about policies to reduce transaction costs and foster entrepreneurship given that entrepreneurship is the most effective way to reduce poverty and generate wealth?

### **Informal businesses and microfinance**

When researchers discovered the scale and the unmet potential of informal entrepreneurship in poor countries, they started to look for policies that help reduce transaction costs. The initial focus was on property rights in real estate. Several studies measured the “dead capital” held by entrepreneurs in unregistered land and hypothesized that if their land was formally registered and recognized by the state, they could use it as collateral to access loans.

This approach generated a very positive wave of reforms to physically register property. Nevertheless, property reforms had limited impact on access to credit. Meanwhile, several non-governmental organizations (NGOs) in developing countries of Asia and South America began a new approach based on microfinance.

At the beginning, microfinance was conceived only as a way to help poor people overcome their day-to-day needs. NGOs started making loans at high interest rates to their beneficiaries and discovered that a commercial relationship had advantages over a donor–recipient relationship. Commercial loans proved better at sustaining business development in an informal, emerging business environment. Little by little, something that started out as a not-for-profit activity became a business in itself. Subsequently the model was adopted by regional banks and finally by private banks. Countries like Peru (number one in microfinance according to the World Bank) count now more than \$8 billion in microfinance loans (average of \$500 each). Hundreds of thousands of entrepreneurs starting from a very poor financial situation have succeeded in their ventures relying on microfinance.

How did commercial loans become a powerful tool to enhance entrepreneurship in the informal sector without any collateral? The microfinance institutions developed new techniques, unknown in the developed world, to evaluate credit based on positive cash flow and the reputation of their clients. In this way, the spontaneous order of the market generated a more efficient solution than a top-down government-driven solution. This does not mean that land property rights are unimportant. The larger point is that cash flow in an informal property right structure is more important for small loans than “dead capital” without a viable business plan. However, in the long term, entrepreneurs will gain access to cheaper loans if they are able to provide a properly registered land guarantee.

Last but not least, we must point out that in countries like Peru, microfinance received critical support from the Bank Regulation Agency, when it modified its regulations to incorporate the

microfinance cash flow-driven logic and reduce the weight of collateral for loan evaluations.

### **Formal businesses and entrepreneurship promotion**

In Latin America we find both the informal entrepreneurs and the “modern entrepreneurs,” who tend to start as formal as possible. The modern entrepreneurs normally have similar features:

a. They start with their own friends-and-family equity.

b. It takes them several years to have access to banks loans.

c. They have on average a better education and contacts in the wealthiest part of the population.

d. They have the alternative of formal employment. In fact, most start their business in parallel to a formal job and only go for full-time entrepreneurship once the venture is ongoing and profitable.

Given these facts and our knowledge of entrepreneurship promotion in developed countries, we can find ways to enhance “modern entrepreneurship” in developing countries:

a. Angel investors networks are a good way to help modern entrepreneurs who are looking for equity and do not have friends and family with money. These networks can evolve into small and medium-sized enterprise (SME) investment banking. Venture capital funds also help dynamic SMEs to grow.

b. Financial techniques like factoring (credit against receivables) can be a highly effective solution for financing modern entrepreneurship. All kinds of systems for reducing creditors’ risk have been tested in Europe and the United States. Government financial institutions in developing

countries could benefit from technical assistance on these solutions to reduce the gap in access to credit.

c. Creating networks between large companies and emerging entrepreneurs should be part of any public policy to enhance entrepreneurship. Trust and contacts are crucial for achieving success in business.

d. Corporate entrepreneurship is relatively new but is now included in several programs looking to enhance innovation within corporate structures.

Some organizations in developing countries, like CORFO in Chile, have been very successful in implementing these kinds of programs. The best programs are focused and incorporate a competitive process for selecting beneficiaries.

### **Conclusion: from informal to “modern” business**

Informal businesses must grow based on new markets and microfinance until they reach a level where the costs of formality become lower than the costs of informality. During the informal phase of their evolution, businesses can pay high interest rates for microfinance (given their high cost of credit evaluation) because they are sufficiently profitable. They normally are creating markets at the “bottom of the pyramid.” Nevertheless, when markets are consolidated, competition reduces profitability and informality becomes impossible. At that moment, it is worth becoming formal.

The process of formalization takes time, but it comes with economic development. Microfinance will remain important for a while in countries like Peru. Some day, however, microfinance institutions will create more equity-based financial products to maintain their presence in new financial markets, and traditional microfinance will be reduced to marginal markets. ♦



## 9. Key Models of Effective Entrepreneurship Education

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Since the 1970s, U.S. productivity and employment growth has become reliant on the development of new ventures, particularly in emerging technology industries. New businesses are equally crucial for the sustained economic development of the world's emerging regions. In developing economies, the Aspen Network of Development Entrepreneurs (ANDE) estimates that 86 percent of new jobs are created by small/growing businesses. In both developed and emerging economies, a culture that encourages risk taking and creativity and a supportive educational and policy structure are essential to entrepreneurial growth and prosperity.

Reflecting this economic transformation, U.S. universities, in turn, have initiated the development of various approaches to entrepreneurship education as a new academic discipline. The emergence of entrepreneurship as a university discipline is significant since colleges and universities are where young people from throughout the world converge to learn and shape their destinies. Judith Cone from the Kauffman Foundation states that the campus is, "where all fields can intersect and cross-pollinate- ... and where all sectors of the real-world economy are represented. Private firms and investors, government agencies, and nonprofits all come to campus to sponsor research, to breed and recruit talent, to search for new ideas". These academic ideas and models for entrepreneurship study and support can ultimately impact the models and policy approaches towards entrepreneurship throughout the emerging world.

Although entrepreneurship is considered a relatively new discipline in U.S. higher education, it is now an accepted paradigm that designing and

creating a new enterprise is significantly different than managing an established concern. Peter Drucker stated in his 1985 book *Innovation and Entrepreneurship*, "Entrepreneurship is 'risky' mainly because so few of the so-called entrepreneurs know what they are doing. They lack the methodology." Higher education has embraced the idea of entrepreneurship education and of teaching the skills necessary for conceiving and starting an enterprise as compared to managing an on-going business concern.

Today, according to the Kauffman Foundation, approximately 1300 colleges and universities in the United States now offer a course in entrepreneurship. Many of these universities have developed innovative and collaborative models for entrepreneurship education that include: non-degree programs and certificates; degree programs; centers; student living environments that create an organic and full entrepreneurship ecosystem and international partners and outreach. Each of these models has subsets of exploration such as technology, social, and global entrepreneurship. Below, we describe examples of some of the above models.

### Model Entrepreneurship Programs

**Center Based Model:** Technology entrepreneurship programs focus on the collaboration among business, engineering, and science schools within a university. They include certificate programs in entrepreneurship for graduate science students in addition to undergraduate and graduate degree programs in entrepreneurship typically offered through the business school. A university usually designates an entrepreneurship center to manage this collaboration. For example, at the University of Texas at San Antonio, the Center for Innovation and Technology Entrepreneurship (CITE) brings together the College of Business and the College of Engineering in order to foster the growth of new technology-based ventures. CITE offers a combination of education, experiences, resources and support, which materialize in the form of courses and seminars, hands-on activities, projects, internships and the \$100k Student Technology Venture Competition. This biannual

competition provides hands-on experience in business development for teams of senior students from the Colleges of Business and Engineering. The engineering students develop the technology and construct a prototype while the business students evaluate the commercial potential and create a business plan. All teams are assisted by faculty and community mentors. Uniquely among undergraduate competitions, the program requires a complete working prototype and is therefore more than a business plan competition. Since the creation of CITE in 2006, 580 students comprising 91 teams have participated in the competition, culminating in 78 final team presentations.

***The Entrepreneurship Eco-System Model:*** An innovative model created by Baylor University offers an individualized entrepreneurship curriculum supported by the Entrepreneurship Living-Learning Program (ENT-LLC). Baylor created a housing option specifically for students with a common interest in innovation and entrepreneurship in order to help them “to more fully develop their entrepreneurial capabilities by offering mentoring between upperclassmen and freshmen, accessibility of faculty, discussion groups, lab support and opportunities to work with practicing entrepreneurs.” The Baylor Angel Network (BAN), a student-run investor network, provides early-stage capital to entrepreneurs with developed business plans.

***The Externally Based Model:*** The Rice Alliance for Technology and Entrepreneurship is devoted to the support of technology commercialization, entrepreneurship education, and the launch of technology companies. In this model, business plan competitions form the center of gravity where entrepreneurship education and external funding intersect. The model was formed in 2001 as a strategic alliance of three schools — the George R. Brown School of Engineering, the Wiess School of Natural Sciences and the Jesse H. Jones Graduate School of Business — along with the participation of executive and roundtable advisory boards; sponsors representing national venture capital funds and venture angel networks; and technology, legal, and banking consulting groups. The Alliance

programs culminate in a business plan competition which brings together collegiate entrepreneurs to compete in front of 250 judges for over \$1.3 million in enterprise funding. Of the 354 past competitors, 199 teams went on to launch their companies after competing at the Rice Business Plan Competition. Of these companies, 128 have been successful and are in business today (or had successful exits). RBPC alumni companies have raised more than \$460 million in early-stage funding.

***The Comprehensive Model:*** The most widely recognized entrepreneurship model is found at Babson College. All aspects of Babson’s ecosystem are focused on entrepreneurship education from degree programs to dedicated centers to experiential learning. The Arthur M. Blank Center for Entrepreneurship “focuses on expanding the practice of Entrepreneurship of All Kinds™ through innovative curricular programs and global collaborative research initiatives that inspire and inform Entrepreneurial Thought and Action®”. The Center includes the John E. and Alice L. Butler Venture Accelerator, an institution composed of over a dozen student-run entrepreneurship organizations and forums. These “support and advance student entrepreneurial businesses in each phase of their startup venture, from opportunity exploration and pursuit with an action plan to the ultimate launch.”

***Global Models:*** Some universities have expanded their domestic entrepreneurship programs to include a global component. Some have developed partnerships with overseas universities while others have developed in-country programs. Babson, for example, has developed the Babson-Rwanda Entrepreneurship Program to strengthen the country’s entrepreneurial environment. Also, the Babson Entrepreneurial Leadership Academies educate entrepreneurial leaders by bringing volunteer teams of students, staff, faculty, alumni, parents, and friends to various countries. These one-week programs train about 100 high school students in each country.

Another global example is University of Texas at San Antonio’s (UTSA) Center for Global

Entrepreneurship, which seeks to meet the educational and career needs of emerging market entrepreneurs and those who support them via program collaborations, student exchanges, short programs, and research. The Center focuses on improving the prospects for growth-oriented, globally competitive entrepreneurship in emerging and transitional markets through practice-oriented graduate management education and research. The Institute for Economic Development at UTSA created the Small Business Development Center (SBDC) Expansion Initiative with a USAID Mexico TIES project between UTSA and the Universidad Autónoma de Guadalajara. Today UTSA has conducted 11 SBDC Counselor & Director Certificate Training Programs that have trained over 1,300 professionals from all over Mexico. As a result of this project, 108 Mexican SBDCs were formed and the Mexican Association of SBDCs (AMCDPE) was organized. Since its inception, the expansion has included El Salvador, Central America, Caribbean nations, and next the South American nations of Colombia and Peru. In April of 2012, President Obama announced the creation of The Small Business Network of the Americas initiative, which builds upon UTSA's work to extend the SBDC Network across the Western Hemisphere. The goal of the Expansion Initiative is to create a network of sustainable and successful small business assistance networks based on the US Small Business Development Center model. UTSA provides expert guidance for each country on small to medium-sized enterprises (SME) policy development, trains future SBDC professionals, hosts observational visits to San Antonio, develops accreditation standards, creates associations of SBDCs and conducts operational improvement visits.

In summary, U.S. academic institutions have developed various models for delivering entrepreneurship education. Although some of these models overlap and educational innovations constantly emerge, each has a distinctive focus that contributes to the continued growth and maturation of entrepreneurship as a major discipline in American higher education and

whose impact contributes directly to economic productivity and employment. The future impact of these educational enterprises both domestically and internationally requires: knowledge sharing and networking; development of early career aspirations; metrics and evaluation; research and aggregated analysis of impacts; domestic and emerging economy entrepreneurial experiences; advocacy to key domestic and international constituencies — investors, governments, multi/bilateral organizations, and the media; and funding. ♦

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## 10. Entrepreneurship and Trade: Recommendations for Policymakers

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Around the globe, policymakers have no higher priority than job creation. In the Middle East, where a desire for economic inclusion sparked uprisings across the region, progress is contingent upon people finding means to support their families. Even the United States is a case in point: More than 7 percent of the U.S. workforce is unemployed – a figure that soars to 15 percent when one includes those who have stopped looking for jobs and the millions of part-time workers who want to work full time. Stubborn indices of joblessness plague both developed and developing countries worldwide.

For policymakers in search of solutions, a focus on entrepreneurship and small business makes excellent sense. Small and medium-sized enterprises (SMEs) are the principal drivers of U.S. job growth, generating about two thirds of net new jobs, according to the U.S. Small Business Administration. Similar dynamics hold true in many other countries.

A focus on trade is a second obvious ingredient for job-creation success. The opportunity to tap dynamic foreign markets has magnetic appeal. Even for a large economy like the United States, foreign markets represent 80 percent of the world's purchasing power, 92 percent of its economic growth, and 95 percent of its consumers.

But too often, policymakers fail to make the connection between entrepreneurship and international trade. In the United States, entrepreneurs and their firms have played a big role in the boom in trade over the past few years. SMEs continued to expand their share of U.S. merchandise exports to a 33 percent in 2011. Still, this is just the tip of the iceberg. A record 302,000 U.S. companies exported in 2011, and 97 percent of them were small and medium-sized companies – but that's just one in every 100 U.S. SMEs.

### Opening International Markets

While many believe free-trade agreements and other trade liberalization initiatives principally benefit large multinationals, the truth could hardly be more different. Faced with steep tariffs or licensing requirements in a promising foreign market, a multinational corporation can often establish a local affiliate to get past trade barriers or hire lawyers to navigate regulatory red tape. Small businesses have no such luxury. In the view of the U.S. Chamber, eliminating foreign barriers to U.S. exports should be the principal focus of the U.S. government's efforts to harness trade in the creation of jobs — for both large firms and entrepreneurial startups.

Consider how the kinds of barriers addressed by free-trade agreements impact entrepreneurs and smaller firms — and how these agreements can open the door to success:

- Non-tariff barriers are especially harmful to smaller companies because they add to the fixed costs of doing business. A \$10,000 permit is a nuisance for a big firm; it can be a show-stopper for a smaller one.
- With the establishment of clear intellectual property rules, trade agreements protect the innovation and creative content captured in many exports; without them, entrepreneurs run the risk of seeing their innovations ripped off, with no redress available.
- By opening government procurement markets and ensuring transparency in bidding, trade agreements give international entrepreneurs expanded access to lucrative opportunities. These contracts for roads, schools, and clinics are often too small for multinationals to perform profitably, but they are just the kinds of contracts that smaller construction companies, distance learning companies, and medical equipment companies can fulfill beautifully.

### Seizing Trade Opportunities

Market-opening trade agreements are vital to the long-term success of companies both large and small.

However, export promotion also plays a useful role — particularly in the case of SMEs.

In a sign that SMEs may just need a little help, a World Bank study (*Exports Promotion Agencies: What Works and What Doesn't*) found that each one dollar increase in export promotion expenditures brought a 40-fold increase in exports among smaller firms. The gains were especially large for countries that spend less than the average. As it happens, the United States spends just one-sixth of the international average helping its small businesses to export.

Given the limited resources available to support small and medium-sized exporters, some U.S. states and even private companies have created innovative and effective programs. It's worth taking a careful look at these programs, some of which could be replicated elsewhere with good results.

For example, the Massachusetts Export Center has created a program entitled "Compliance Alliance" in an effort to encourage additional international business. This program helps companies learn to export through seminars and networking events, and ensures they are complying with regulations. Between 2010 and 2011, Massachusetts Export Center clients increased their export sales by over 27 percent, compared to an increase of just 5 percent for Massachusetts' export performance during the same time period. In 2011, its clients reported \$240 million in export sales as a direct result of its assistance.

The Nevada Commission on Economic Development has created a no-cost program for the state called the International Trade Representatives Program. Under this program, independent voluntary representatives are selected to run international offices on behalf of the state. They receive payments from clients who are interested in these markets and work as salesmen on commission. To date, this program is now functioning in six countries, and this has been the first time that any U.S. state has created an international representative at no cost to the state. Several other states that have

had their funding cut or eliminated are emulating this concept with some success.

One successful manufacturing exporter, York Wire and Cable in York, Pennsylvania, has touted the positive impact of Market Access Grants (MAGs) in Pennsylvania. These grants are designed to help small and mid-sized Pennsylvania companies increase export sales. Export-ready companies in good standing are eligible for up to \$5,000 to explore new markets through trade shows, trade missions, and by internationalizing web sites. York Wire and Cable has taken advantage of three MAGs, boosting the contribution of its exports to total sales to 17 percent.

Similarly, Enterprise Florida, a division of the Florida Governor's office, is promoting state exports through funding, programming, and partnerships. For example, its Target Sector Trade Grants are reimbursement grants given to companies to participate in trade shows and exhibitions in key sectors.

Florida has also created a "Train the Trainer" series that teaches business executives how to navigate the international marketplace in order to feel comfortable exporting. It also offers export counseling to Florida manufacturers, export intermediaries, and services companies. Under this program, international marketing professionals evaluate the market readiness of current and potential exporters and help select target markets for a company's particular products and services, as well as identify baseline legal, tax, and logistics requirements.

### **Leveraging Scarce Resources**

Successful entrepreneurs understand the value of networking, and this holds true in international trade as well. Many successful small business exporters are members of the Department of Commerce's District Export Councils (DECs). The DECs are organizations of leaders from the local business community whose knowledge of international business provides a source of professional advice for local firms. For more than

30 years, DECs have served the U.S. business community by helping companies in their local communities export, thus promoting economic growth and creating new and higher-paying jobs for their communities.

Closely affiliated with the U.S. Commercial Service's U.S. Export Assistance Centers, the 56 DECs combine the energies of more than 1,500 exporters and private and public export service providers throughout the United States. DEC members volunteer their time to sponsor and

participate in numerous trade promotion activities and to supply specialized expertise to SMEs that are interested in exporting.

In sum, policymakers should think globally as they consider how to foster a business environment in which entrepreneurship and small business can flourish. Tearing down the barriers that shut out exports is vital for firms of all sizes, but so are the export promotion programs that build bridges for small businesses to reach new markets. ♦

## 11. Effects of the Ecosystem on Business Growth Decisions

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Companies of all types and sizes want their companies to grow in one way or another — whether in terms of growth of revenues, profits, number of employees or customers, market share, or number of locations. Not everyone has aspirations to build the next Roman Empire, but everyone wants to see progress from one year to the next, even if just in the amount of money that they can take home to their families.

Given the rapidly moving changes in the global marketplace, the challenge for the small entrepreneurial company is how and when to grow. In facing this challenge, entrepreneurs must consider questions such as: What strategies should be used to facilitate growth? Will the growth strategy present new risks or vulnerabilities? Are market conditions ripe, and is capital available to fuel growth? Compounding these questions in many emerging markets around the world is the lack of a supportive environment that promotes growth. Too often, entrepreneurs are prevented from expanding their small businesses because their country lacks the necessary ecosystem.

The challenges associated with building a company beyond the start-up and initial growth phases certainly take a toll on many entrepreneurs. Growth means hiring new employees, who will look to top management for leadership. Growth means increasing decentralization of management systems, which may create internal dissension over company goals and the allocation of resources. Growth also means additional capital will be required, creating new responsibilities to shareholders, investors and institutional lenders. Thus, growth brings with it a variety of changes in the structure, needs, and objectives of a small business.

Before a business owner can prepare a company for sustainable, profitable growth, he or she must analyze the strengths and weaknesses of its operational

foundation. This includes an across the board review of organizational performance as well as the economic climate in which the company operates. To successfully complete such an evaluation, an entrepreneur must have an understanding of market principles, business management best practices, and marketing strategies. While a business degree is not necessary to start a business, to achieve growth entrepreneurs must have access to education, coaching, and advice that will equip them with the skills to successfully manage through periods of growth.

An assessment of the operating climate begins with legal and regulatory analysis. From a legal perspective, the more things change, the more they seem to stay the same. Owners of entrepreneurial companies across the globe continue to worry about issues that plagued them at the turn of the last century, such as a multitude of labor and employment laws, minimum wage standards, regulatory compliance and red tape, personal injury and workmen's compensation claims, and product liability litigation. Even as these issues may never be entirely resolved, new legal, financial and organizational issues have begun to emerge involving protection of intellectual property, doing business in the global village, transacting business via the Internet and the renewed focus on satisfying (and keeping) the customer. Cross-border competition and rapid technological advancements are creating new business management models, such as geographically-dispersed work forces, flattened organizational structures and strategic partnering among customers, vendors, suppliers, and even competitors. The virtual workplace brings still more challenges in the areas of protection of privacy, confidentiality and copyright laws. To cope with all this, entrepreneurs must be able to rely on a strong rule of law and a predictable regulatory regime.

An efficient regulatory system that keeps barriers low is vital to ensuring businesses maintain momentum, and thus are able to raise additional rounds of capital as well as attract and retain talented employees. When, for instance, registering or obtaining a permit requires multiple trips to several locations, business owners become bogged down in the administrative process. The system must



provide for efficient and cost-effective procedures to establish entities that limit personal liability (corporations, limited partnerships, etc.). Without such structures, entrepreneurs are hesitant to shoulder all of the risk that comes with growing a business. Anti-trust laws help to keep competition open to new entrants and fair. Entrepreneurs must also have exit options available, such as through mergers and acquisitions or initial public offerings, and bankruptcy provisions that do not unduly penalize risk-taking.

A supportive environment for entrepreneurial risk-taking begins with a culture that embraces and

rewards individual achievement and success stories, and that does not stigmatize failure. Accessible capital and private equity markets that provide risk capital are imperative for entrepreneurial growth. Tax incentives and pension management rules can also allow for innovation and entrepreneurial risk. Finally, corporate governance provides for appropriate management of risks and protects minority investors and stakeholders.

### **Setting the Stage for Growth**

Effective and durable growth management involves: (1) understanding why the company wants

### **What Are the Variables That Need to Be in Place to Support an Entrepreneurship Ecosystem?**

- An overall democratic society and governmental structure
- Accessible and stable capital markets; private equity markets; low interest rates in debt markets
- Tolerance for risk
- Enforceable rule of law; effective court system
- Reliable and fair intellectual property law
- A culture that embraces and rewards successful individuals
- Business entities that can be formed efficiently and cost-effectively, which limit personal liability (limited liability corporations, limited partnerships, etc.) and foster fair governance
- Flexible labor and employment laws (which allow for hiring and firing) and reasonable enforcement of covenants not to compete
- Strong educational systems and excellence in universities
- Bankruptcy laws (which allow for failure without undue penalty or stigma)
- Technological resources and internet access that level the playing field, expedite start-ups, and open up access for smaller companies to global markets and trade
- Access to mentors, coaches, professional advisors, mentoring programs, etc.
- Research and development partnerships between government and private business as well as between universities and private business
- Low tax and regulatory barriers
- Vehicles such as mergers and acquisitions, initial public offerings, employee stock ownership plans, etc. that provide exit strategies for successful entrepreneurs
- Estate planning and wealth transfer laws and systems that allow for wealth preservation, asset protection, succession planning, and management transition
- Antitrust laws that encourage competitive but fair markets

### Specific Legal Variables Which Facilitate Entrepreneurship and a Growth Oriented Ecosystem

- Court systems that allow for enforcement of contracts and obligations (including cost-effective alternative dispute resolution systems)
- Tax incentives that encourage innovation and investment in smaller companies
- Pension management rules that allow for risk capital
- Intellectual property laws that protect the rights of innovative entrepreneurs and allow for licensing and franchising
- Corporate governance that creates fiduciary duties for leaders and protects reasonable decision-making by the board without dilution of the rights of minority investors
- Securities laws that ensure public and private offerings are made with full disclosure and decisions are made by informed investors
- Bankruptcy processes that protect creditors and encourage risk-taking via orderly resolution of failures

or needs to grow; (2) clearly defining the objectives that growth will achieve or problems that growth will solve; (3) the management's understanding of the challenges and risks that rapid growth will pose to the company, especially if the growth process is not well managed; (4) understanding the various phases of growth the company will experience as it evolves towards maturity; and (5) implementing a growth management process that is responsive to and reflective of the company's current stage of growth.

Any entrepreneur contemplating growth should start with these key questions:

**Costs and revenues.** Are revenues rising or falling? How about profit margins? Which divisions or departments stand out and why? Is there strong positive cash flow?

**Personnel.** Do certain employees show exceptional skills or produce outstanding results? Where in the company is the strongest management, organization and planning? Is there the talent on staff to handle anticipated growth?

**Operations.** Are there areas that seem to be trouble-free, functioning with little supervision but always delivering results? How do the managers in

these areas achieve consistent results?

**Philosophy or mission.** Does the mission statement define the essence of the business exactly so it is clear which activities fit the company's goals and which don't? Are resources diluted by engaging in activities outside the mission? Have core values been embraced by employees?

**The market.** Is market share—the company's percentage of estimated total business available—increasing or decreasing? Is marketing strategy based on careful research or on instinct and hunches? Is the customer or client base shrinking?

**The competition.** Where do competitors pose the largest threat? Which part of the business is most vulnerable to competition and which is least vulnerable? Are some parts of the market becoming crowded with competitors?

**Economic climate.** Are changes in economic conditions—interest rates, inflation, housing starts, industry earnings—likely to affect the company? Can changes in the marketplace be anticipated, or is the company often surprised by new developments? ♦

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## III. Emerging Ecosystems

It takes committed champions and dynamic partners to marshal the players and pieces of ecosystems together. Each of the authors in Part Three has been immersed in the work of cultivating young ecosystems. They possess the knowledge and experience required to analyze entrepreneurial conditions in their country and identify priorities for reform.

Familiar themes run through these brief country studies, beginning with the imperative of unleashing entrepreneurship as a means to expand access to opportunity. There is wide agreement among the authors on the need to engage youth, improve policy and administration, foster networking and education, and provide financing. Each country, however, is distinguished by creative initiatives, such as the entrepreneur clubs in Nepal, the entrepreneurship tents in Tunisia, the Go Negosyo communities in the Philippines, and the Young Entrepreneurs Forum of the Islamabad Chamber. They may provide inspiration for other adaptations and experiments.

## 12. Entrepreneurship in the Philippines: Opportunities and challenges for inclusive growth<sup>1</sup>

*Ryan Patrick G. Evangelista*

*Executive Director, Universal Access to Competitiveness and Trade*

Addressing widespread poverty is the single most important policy challenge facing the Philippines. Not only is poverty high when benchmarked against countries in Asia, but also the rate of poverty reduction has been slow. While the Philippine economy has grown at an average of 6 percent for the last five consecutive quarters (since 2012), poverty incidence remains above 20 percent of the population. The critical challenge is to spread the payback of this huge economic turnaround among the people, especially the poorest of the poor. They should feel the benefits of the growing Philippine economy.

Entrepreneurship can provide the solution by creating wealth, jobs, and social empowerment. If we are to address the issue of poverty with some degree of success, history tells us we have no choice but to actively encourage entrepreneurial ventures.

### Entrepreneurship in the Philippines

In the Philippines, entrepreneurship is viewed as important to empowering the poor, enhancing production, and as an impetus to innovation. The 1987 Philippine Constitution recognizes entrepreneurship as an engine of economic growth. Article XII Section 1 highlights the role of private enterprises in supporting equitable distribution of income and wealth, sustaining production of goods and services and expanding productivity, therefore raising the quality of life.

The Philippine Development Plan (PDP) further reinforces the thrust on entrepreneurship through trade and investment to achieve the government's goal of economic development and job creation. Based on the plan, measures for macro-economic stability, employment, trade and investment, agribusiness, power-sector reforms, infrastructure, competition, science and technology, and anti-corruption are being

pursued to strengthen Philippines's competitiveness and contribute to job creation.

In 2011, there were approximately 830,000 business enterprises in the Philippines. Of these, 99.6 percent are classified as micro, small, and medium-sized enterprises (MSME) which are responsible for 38 percent of total job growth.

### Enterprise development and competitiveness

Enterprise development in the context of competitiveness not only entails the ability to produce products that can be accepted globally but also the level of support given to enterprises to help them produce, innovate, and gain market access.

While relatively mature and free, enterprise development in the Philippines is beset with critical challenges. These challenges are found within the context of pillars identified by the United Nations Development Programme in its report *Unleashing Entrepreneurship*: rule of law, physical and social infrastructure, domestic macro environment, and global macro environment; a level playing field, access to financing, and access to skill development and knowledge.

If the challenges remain unresolved, gaps in enterprise development have the potential to thwart the country's competitiveness and ability to effectively function within global production networks.

### Rule of Law

Rule of law, which encompasses regulatory structures, policy environment, and enforcement of regulations, is one of the more important dimensions in assessing the competitiveness of Philippine enterprises. According to the World Bank's 2013 Doing Business Survey, the Philippines ranks 138 of 185 economies with regards to the ease of doing business. Except for the indicator "trading across borders" where the Philippines fared in the top third of the rankings (#53), the country sits at the bottom third in all other enterprise development indicators such as starting a business (#161), dealing with construction permits (#100), registering property (#122), getting credit (#129), protecting

investors (#128), paying taxes (#143), enforcing contracts (#111), and resolving insolvency (#165). Along these lines, it can be clearly noted that the Philippines' regulatory environment for enterprise development is still weak and needs further reform, harmonization and standardization.

Taking the case of business start-ups for instance, when entrepreneurs draw up a business plan and try to get under way, the first hurdle they face is complying with the procedures required to incorporate and register the new firm before they can legally operate. The Philippines requires at least 15 procedures and takes some 30 or more days to start a business. Malaysia requires nine procedures and 24 days while Taiwan requires eight procedures and 48 days. The rest of the Southeast Asian region averaged 8.7 procedures and 46.8 days to start a business.

### **Access to credit**

Another important dimension is access to financing. While specific laws such as the MSME Magna Carta and Barangay Micro Business Enterprises (BMBE) development specifically mandate financing for enterprises, obtaining said funds is a different story. Most lending portfolios require collateral accompanied by tedious documentation and other technical requirements that are difficult for MSMEs to comply with.

An enterprise survey conducted by the Universal Access to Competitiveness and Trade (U-ACT) in 2008 revealed that access to capital and financing are two of the most problematic issues for enterprises, primarily MSMEs. Seventy-two percent of the total respondents, or nearly three out of four, observed that investment and/or capital are currently difficult to obtain. On the other hand, five out of 10 surveyed MSMEs regarded access to and cost of credit as problematic, in relation to their businesses. In fact, 14 percent strongly stressed that credit availability and cost pose a serious problem to the operation of their businesses.

### **Internationalization and global production networks**

The rapid integration of economies and globalization of markets has influenced the evolution of entrepreneurship over the years. Thus, from the traditional concept of supporting the various factors of production, entrepreneurship now entails the capacity to see an opportunity, come up with an idea, and organize the capital, knowledge, partners and managerial skill needed to develop and sustain business activities through internationalized value chains.

Taking advantage of liberalized trading environments is an emerging challenge for Philippine enterprises. This is compounded by the reality of limited opportunities for productivity and innovation. The World Economic Forum (WEF) Global Competitiveness Index identified infrastructure, labor market efficiency, innovation, technological readiness, intellectual property protection, R&D spending by private companies, and availability of scientists as key areas in business and enterprise development where the Philippines is lagging.

Enterprises need to be supported by strong social and physical infrastructure, which include among others, labor productivity, laboratories, business incubators, business planning, marketing and branding, and conformance to international standards. All these should be linked to the supply chain while at the same time economic clusters found in local economies need to be developed to allow specialization and product complementarity.

### **Role of enterprise networks**

In addressing the above mentioned challenges, there is a need to rally behind national advocacy to push entrepreneurship to the next level. This means nurturing micro-entrepreneurs from purely "survival" into "opportunity and innovation driven" enterprise owners. This puts a premium on the role of enterprise organizations such as chambers of commerce, industry associations and dedicated enterprise networks.

The OECD Working Party on SMEs and Entrepreneurship in its 2009 study on “Barriers and Drivers to SMEs Internationalization” undertaken by Kocker and Buhl points out that institutionalization of networks/social ties and supply chains is a key driver of SME international competitiveness. The study noted “the importance of network/social ties and supply chain links in triggering an SME’s first internationalization step and extending internationalization processes.”<sup>2</sup>

In the Philippines, apart from institutions like chambers of commerce and industry clubs, entrepreneurship advocacy is mainstreamed by the creation of enterprise networks like the Philippine Center for Entrepreneurship (PCE). PCE’s concrete goal is to spawn the creation of so-called “Go Negosyo Communities” everywhere. These are communities where the academic, business and government sectors are drawn into a triangle of almost seamless collaboration. In such an ecosystem, there is constant networking, mentoring and cooperation among professors, entrepreneurs, industry experts and venture capitalists, with the government providing support through a viable policy infrastructure. Every “Go Negosyo” community is distinguished by its ability to produce a continuous stream of start-up ventures.

PCE also seeks to embed strong entrepreneurship lessons into the school curriculum. If the goal is to develop a culture of enterprise and cultivate tomorrow’s competitive entrepreneurs, they must start at a young age. Primary and secondary

schools can teach the values and develop the mindsets of an entrepreneur. At the college level, enterprise networks are looking at how to assist in the area of curriculum enhancement, providing manuals, training the teachers, and involving real entrepreneurs in the learning process.

### **Nurturing the entrepreneurship paradigm**

Entrepreneurship is more than just an economic term — it is a way of thinking. Creating jobs, empowering people, and giving individuals access to better lives for themselves and their children is a wonderful gift. Today, it has become a dynamic, developing part of the economy promoting inclusive growth. Entrepreneurship is a way of inspiring creative individuals to pursue opportunities despite its risks.

In closing, the challenge for countries like the Philippines is to accelerate both the political and economic leadership that can muster social reforms through entrepreneurship. Entrepreneurs have the power to achieve great things. Entrepreneurs will emerge as the well-oiled wheels that will keep the economy going and the society efficiently running.



### **Endnotes**

<sup>1</sup> With research inputs from Marlon Mina and Jin Hyuk Kim of Universal Access to Competitiveness and Trade (U-ACT)

<sup>2</sup> OECD (2009), “Top Barriers and Drivers to SME Internationalization”, Report by the OECD Working Party on SMEs and Entrepreneurship, OECD, p. 13.

## 13. The Entrepreneurship Ecosystem in Tunisia

*Majdi Hassen*

*Executive Director, Institut Arabe des Chefs d'Entreprises*

In Tunisia, where the 2012 unemployment rate is 18 percent overall, and 34 percent of the unemployed are young university graduates, entrepreneurship is a vital issue. In the wake of the revolution of January 14, 2011, tremendous social pressure has been placed on the new government to create jobs.

However, an unwieldy bureaucracy and public budget constraints make it nearly impossible for the public sector to offer new opportunities. Meanwhile, economic crises have shrunk demand in local and international markets, discouraging the private sector from recruiting new talent. In this context, one of the best ways to create jobs is to promote entrepreneurship. To do this in Tunisia, we need to upgrade the entrepreneurship ecosystem to create a more efficient and demand-driven approach.

There are a number of important key elements that require immediate attention if the ecosystem is to be strengthened:

**Education:** Some changes are being introduced within universities, such as new modules on the culture of entrepreneurship, business plans, and opportunity identification. These modules are taught not only in business schools but also to students in different fields. Other changes include:

- Pedagogical tools for entrepreneurship developed with the help of international organizations.
- Training of trainers organized by several universities.
- Incubators and entrepreneurial centers within universities, intended to create spin offs.
- Encouraging student associations to develop an entrepreneurial spirit or culture. These organizations, which promote events like social entrepreneurship project idea competitions, can receive funding from the business community.

These efforts are an admirable start, but fall short because students continue to resist the idea of entrepreneurship, especially in the interior regions of the country. There must also be a focus on primary and secondary education in order to promote a cultural change. Youth should be exposed to the opportunities of creating a business in place of the mentality that all jobs come from the public sector.

**Administration:** Public agencies are important actors in the entrepreneurship ecosystem. They deliver approvals, authorization, tax benefit/exemption, access to training, and investment incentives. Administrative reform is urgently needed because the bureaucracy is actually one of the barriers to entrepreneurship.

Industrial projects in many cases require numerous approvals and authorizations from different ministries which delay project implementation. This is compounded by the fact that the role of regional administration is still very limited.

While the new investment code has yet to pass a vote, the current code contains numerous impediments to entrepreneurial activity.

**Finance:** Currently, entrepreneurs receive 90 percent of their start up funding from public and private banks (excluding money from friends and family). Lending can be a long, difficult process and results in high interest rates: about 9 percent. In the case of financing from BTS, one of the largest providers of loans to new entrepreneurs, the maximum is 100.000 Dinars (about \$62,000). While new financial tools such as angel investing, venture capital, and spin-off investing are being developed, reforms are needed to expand access to these tools for startups and small and medium-sized enterprises (SMEs).

**Innovation policy:** Currently 10 universities have technology transfer offices (TTO); however, the offices have not sparked business creation with the targeted innovations and technology. While technology clusters have been established, they are not sufficiently active to create an attractive environment for startups (only three TTO are

effectively working in Tunisia). The innovation policy must start with the upgrading of research inside universities and then give startups the support needed in terms of copyrighting, funding, marketing etc. Importantly, universities must have autonomy in managing their budgets.

With only 10 patents a year registered outside the country by Tunisian entrepreneurs, we cannot have a growing economy. There must be greater effort to strengthen research performance. Tunisia already has a dynamic research center that focuses on basic research. Instead, researchers should focus on applied research. Incremental innovation is not sufficient, however, as we must also drive disruptive innovation.

### **IACE Initiatives**

L'Institut Arabe des Chefs D'Enterprise (IACE) has contributed to the development of these key areas in a number of ways. In 2008, IACE launched the Young Entrepreneurs Center, which aims to diffuse an entrepreneurial culture throughout the Tunisian population and especially among young adults. In addition to acting as the host for Global Entrepreneurship Week in the country, the Young Entrepreneurs Center conducts barometer surveys and publishes studies on entrepreneurship. Working with Georgetown University and American University, IACE also organized the Partners for Tunisian Economic Development program in 2012. This effort, which covered 10 poor regions in Tunisia, identified business opportunities and helped entrepreneurs develop business plans.

In March 2013, IACE launched the Entrepreneurship Tent, an open space that provides entrepreneurs with a discussion forum, information and orientation, and support through the process of business creation. The Tent also aims to advocate on behalf of entrepreneurs for changes to administrative and regulatory policies. The Entrepreneurship Tent brings representatives of

government offices, banks and other organizations to meet people in towns and villages. This one-to-one approach reduces the need for entrepreneurs to make long, unnecessary trips while improving communication and granting better visibility to entrepreneurs.

During a workshop organized by IACE in January 2013, it was determined that 73 percent of Tunisians (including young adults) have entrepreneurial intentions. This rate has grown since the January 14, 2011 revolution because of the institution of new governance in Tunisia. However, 46 percent of those potential entrepreneurs do not continue because of administrative and financial barriers. These results are very significant for the future of the country since the development of Tunisia is correlated with the capacity to create new enterprises. The main recommendation from the workshop was that upgrading of administrative processes is urgently needed especially with regard to supporting organizations and business centers.

The challenge in Tunisia for the coming years is to have a strategic vision of what kind of development is needed and in which sectors. There must also be a focus on developing the entrepreneurship ecosystem: to guide the education system toward entrepreneurship, to make administration more flexible and client oriented, to facilitate innovation at active clusters, and to create a diversified and efficient financial system.

IACE will continue to contribute to the reconfiguration of this ecosystem by developing awareness of the difficulties and barriers that entrepreneurs face. Additionally, IACE will propose reforms on the legal text and the investment code (the IACE proposition was given on Enterprise Day — December 2012). Finally, we will help give entrepreneurs the support they need by connecting them with established business people, financiers, and potential entrepreneurs who can provide mentoring, coaching, training, and consulting. ♦



## 14. Supporting Youth Entrepreneurship in Pakistan

*Majid Shabbir*

*Secretary General, Islamabad Chamber of Commerce & Industry*

In a country of around 190 million people, 60 percent are below the age of 25 years. This might of human capital can be converted into a highly productive resource by improving the quality of education, imparting management training, developing skills and providing opportunities to participate in the mainstream economy more effectively.

Every year public and private colleges and universities churn out a large number of graduates in both technical and management disciplines. In the absence of proper career counseling, however, most of them face great difficulties in finding the right opportunities in the marketplace. The mismatch of talent and opportunities is not only producing more unemployed and frustrated youth, but also causing severe damage to the social fabric of Pakistani society. These young people can only use their strength and abilities if Pakistan can offer conducive work environment.

In order to help youth realize their potential and create an environment conducive to their success, the Islamabad Chamber of Commerce and Industry (ICCI) has supported youth entrepreneurship on multiple fronts. The chamber has advised youth on career options, engaged them in policy discussion, created channels for youth leadership in chamber activities, and promoted the culture and spirit of entrepreneurship.

### Career options and barriers

In 2007, ICCI took the initiative by engaging youth in a consultative process. Funded by CIPE, ICCI's objectives were to understand youth views about the job market and to look at possibilities for diverting their thinking towards entrepreneurial careers. Focus groups with stakeholders revealed that

if a platform to guide youth on business opportunities existed and mentorship were accessible, they might start considering entrepreneurial careers as alternatives. ICCI learned that Pakistani youth have excellent business ideas, but lack implementation strategy as well as knowledge about laws, rules, and regulations for starting a business.

In brainstorming sessions, students identified lack of funding for start-ups as one of the biggest barriers to entrepreneurship development in the country. They were of the view that by landing a job, they would be able to start earning immediately, whereas starting a business takes much more time and risk before profits are realized. They identified social pressure, particularly from parents who have funded their education for years, and expect them to provide financial support to the family. Having said this, due to a reduction in job opportunities a large number of young people, both men and women, showed interest in experimenting with entrepreneurial careers.

To build youth understanding of the policy process and the dynamics of doing business in Pakistan, ICCI signed a memorandum of understanding with universities. From time to time, the chamber invited students to various policy dialogues and seminars. These were mainly focused on entrepreneurship and policies that are key stumbling blocks to promoting an entrepreneurial culture in Pakistan. Since Pakistan's Independence in 1947, successive governments have focused on the development of large-scale industries to the neglect of policies to promote entrepreneurship and small business.

### Advocacy and awareness

The chamber picked the Draft National Youth Policy as a key policy reform initiative. The chamber identified four components in the draft policy that required improvement: entrepreneurship, microfinance, skills development, and internships. ICCI engaged policymakers, young business professionals, people from academia, and students in an intense consultative process. This initiative greatly helped in changing the mindset of the

public sector, which started to realize that youth should be provided opportunities by creating an entrepreneurship ecosystem in Pakistan.

With greater involvement of youth in the Chamber and increasing interest in the advocacy campaign, a group of young business professionals created a Young Entrepreneurs Forum (YEF) which until now has been the key driving force in promoting entrepreneurship culture. More and more young people are joining this forum and YEF has created a strong network of national and international stakeholder organizations to promote the cause of entrepreneurship in Pakistan. YEF representatives are also part of the managing committee, sub-committees, and are now becoming young leaders of the Chamber. We also shared with them the democratic system in business associations such as election processes, the role of managing committees, and other leadership positions.

Through mentorship programs, YEF members are invited by universities and youth organizations to offer lectures that inculcate a spirit of entrepreneurship in youth. YEF has also supported universities in introducing entrepreneurship as a subject and encouraged students to take internships in the private sector to get a feel for the business environment. This initiative has increased the number of business plan competitions and now a few universities have established incubation centers on their campuses. In the near future, ICCI is also planning to establish an incubation and skill development center at its recently constructed Export Display Center.

In 2012, YEF organized a major youth conference on the theme of “Inspiring a New Wave of Entrepreneurship.” The main focus of the conference was to promote the culture and spirit of entrepreneurship amongst the young individuals of the country. The conference highlighted the main challenges and opportunities youth face when it comes to venturing into entrepreneurship. The aim was to initiate a wave of entrepreneurial development that not only encourages potential entrepreneurs through technical assistance,

mentoring and capacity building, but ultimately contributes to the overall economy by creating job opportunities, and revenues for businesses as well as the government. Then-U.S. Secretary of State Hillary Clinton spoke at the conference, about how entrepreneurship can promote economic growth, peace and prosperity.

In partnership with CIPE, YEF of ICCI has held two events in conjunction with Global Entrepreneurship Week. Other partners in these events were the Kauffman Foundation and Junior Chamber International. The students underlined the need to develop a better entrepreneurial culture by making entrepreneurship an integral part of educational curriculum. They were of the view that private sector support in mentorship programs at college and university levels could greatly help in promoting an entrepreneurial culture in the country.

Students also discussed several challenges they expected to face while starting a business. They demanded that the government consider creating business development centers for incubation and mentorship of students to help aspiring entrepreneurs. They said that government support is needed to promote a culture of entrepreneurship and universities should introduce entrepreneurship subjects. Participants suggested that chambers of commerce should provide platforms to help students along in their entrepreneurial career.

In order to understand how corruption impedes the start-up process, YEF undertook an initiative to conduct an anti-corruption survey. The survey report “Unpacking Corruption” presents opinions of the business community on the perceptions, manifestations, causes, effects, and remedies of corruption in Pakistan. This document will become part of an advocacy campaign by YEF to improve the Pakistani business environment by addressing needed reforms. An important message of the report is that corruption is viewed as a governance issue, which includes poor law enforcement, archaic regulations, and a weak internal compliance system.

Thus the survey calls for improving both public administration and corporate governance.

YEF has organized the Indo-Pak Young Entrepreneurs Bilateral. This bilateral mission is one of the building blocks for creating awareness about entrepreneurial opportunities by highlighting success stories in the region and channeling the potential in the required direction. The initiative was aimed at providing a suitable platform, to the representatives of the youth population that accounts for over 60 percent of both nations, to bring together change makers and young entrepreneurs to interact, promote an ongoing linkage, discuss, deliberate and share ideas on building bridges and propose suitable recommendations for the consideration of Pak-India leadership as a way forward.

### **Youth entrepreneurship and leadership within ICCI**

Taking these recommendations to heart, ICCI created an entrepreneurship Development Center at the chamber in 2011. This center works as an information resource center for university graduates setting up businesses and plays an active role in promoting entrepreneurship in the region.

With the passage of time, YEF has gained widespread recognition as the body representing young entrepreneurs in Islamabad. In 2013, a delegation of young and aspiring entrepreneurs, led by the YEF participated in the Commonwealth Asia Alliance of Young Entrepreneurs Summit in Mumbai. The group was a cross representation of entrepreneurs from all over Pakistan with delegates from Punjab, Khyber Pukhtunkhwa, and Sindh. The focus of the summit was to share best practices and prepare recommendations for improving “access to finance” for young entrepreneurs. The flag of the Commonwealth was handed over to Pakistan to host the next summit in Islamabad, Pakistan, in June.

The chairman of YEF participated in U.S. President Barack Obama’s Presidential Summit on Entrepreneurship, as a participant from Pakistan.

The summit highlighted the importance of social and economic entrepreneurship as well as strengthening mutually beneficial relationships with entrepreneurs in Muslim-majority countries and Muslim communities around the world.

ICCI was the first business association in Pakistan to recognize the importance of building a second level of leadership and that young entrepreneurs could be encouraged to fulfill this role. YEF has now become a role model for other chambers in the country to follow. There are currently several chambers that have formed youth committees, signed memorandums of understanding with universities, and are engaging youth with many of their programs, providing them opportunities to take leadership positions in the chamber.

In 2009 in recognition of ICCI’s efforts towards entrepreneurship development, the Ministry of Youth Affairs conferred the Jinnah Youth Award and a cash prize on International Youth Day.

Concerted efforts by various stakeholders, particularly CIPE, ICCI, and Global Entrepreneurship Week have now made entrepreneurship a buzz word. Many organizations, both from the government and private sector, are supporting entrepreneurial initiatives in the country. The discussion generated by ICCI is showing some excellent results through policy reforms and awareness on the subject.

ICCI was the only chamber in Pakistan that qualified in the competition in the 8th World Chambers Congress, held in Doha, Qatar in 2013. The ICCI project on entrepreneurship was selected out of 65 innovative projects pitched by 42 countries and was among the finalist in the category of “Best youth entrepreneurship project.” ♦

## 15. Fostering Entrepreneurship in Nepal Through Cooperation

*Robin Sitoula*

*Executive Director,*

*Samriddhi, The Prosperity Foundation*

Since its inception in 2006, Samriddhi, The Prosperity Foundation ([www.samriddhi.org](http://www.samriddhi.org)) has focused on fostering entrepreneurship as a way of realizing Nepal's prosperity. For Nepal, which has gone through a long period of armed conflict, one quarter of its population lives in absolute poverty and depends heavily on foreign aid for basic services to citizens. For these people, entrepreneurship offers a sustainable way to work through its problems. Like any country, Nepal has its own unique environment for entrepreneurs and hence the efforts required to foster entrepreneurship vary accordingly. The insecurity and chaos of recent political regimes present particular challenges to developing entrepreneurship. Additionally, because the social fabric in the past has segregated jobs based on caste and gender and profit is generally perceived as a dirty word, initiatives to foster entrepreneurship require intervention from multiple sectors.

Recognizing these conditions, some of the key areas to consider in improving the entrepreneurial environment in Nepal are these: implementing conducive government policies, building awareness and inspiration among young people, increasing education and business skills, creating networks and opportunities, providing start-up incubation, and ensuring access to capital. This task requires a multi-dimensional focus, which is not always within the capacity of a single organization and its programs. Therefore, in addition to their own interventions, it is important for organizations to identify and cooperate with partners that have competitive strengths in particular aspects of an entrepreneurship ecosystem. This cooperative approach of identifying essential components and specific groups that add value to the ecosystem is a more productive, efficient, and sustainable method of fostering entrepreneurship.

The entrepreneurial climate largely depends on the kind of policies in place and the enforcement of these policies. Studies like the World Bank's *Doing Business Report* or the Fraser Institute's *Economic Freedom of the World Report* offer valuable insight into these conditions. While having entrepreneur-friendly policies is vital, the enforcement of these policies and reduction of the implementation gap is equally imperative. With a focus on economic policy and the business environment, Samriddhi works with several partners including the Federation of Nepalese Chambers of Commerce and Industry ([www.fncci.org](http://www.fncci.org)), Nepal Business Initiative ([www.nbinepal.org](http://www.nbinepal.org)), Society of Economic Journalists of Nepal ([www.sejon.com.np](http://www.sejon.com.np)), local chambers across the country and other business associations to advocate for policy change. Through efforts such as the annual Nepal Economic Growth Agenda report and nationwide grassroots campaigns like "Gari Khana Deu" at [www.livablenepal.org](http://www.livablenepal.org) (roughly translated as "let me earn my living") Samriddhi, together with its partners, intends to create a conducive policy regime where freedom of enterprise, safety of life and property, competition, and improved employee-employer relations are achieved.

Another important aspect of fostering entrepreneurship in Nepal involves creating an awareness of the opportunities and benefits of being an entrepreneur, which plays an important role in building up an entrepreneurial culture. In a risky and unstable country like Nepal, people tend to look for jobs or leave the country rather than engage in pursuing a dream. Many times, people do not even see entrepreneurship as an option. Samriddhi's Entrepreneurs for Nepal ([www.e4nepal.com](http://www.e4nepal.com)) and Birwa Ventures ([www.birwa.net](http://www.birwa.net)), run by a partner organization, collaborate to organize events that share stories and lessons of successful entrepreneurs. These are held on a regular basis every last Thursday of the month where hundreds of youth and aspiring entrepreneurs benefit. Every year, more than 25 organizations and businesses celebrate the spirit of entrepreneurship during Global Entrepreneurship Week to recognize successful entrepreneurs for their hard work and innovative approaches. Efforts like these inspire more people to be entrepreneurs.

Rotary Club, Change Fusion Nepal ([www.changefusionnepal.org](http://www.changefusionnepal.org)), Nepal Business Initiative, Radio Sagarmatha, and Samriddhi collaborate to produce weekly radio programs on entrepreneurship called “agi badun (Let’s move forward)” which serves as an awareness and policy change medium. Change Fusion, together with several partners, organizes the annual Surya Asha Social Entrepreneurship Award that recognizes upcoming and successful social entrepreneurs.

While programs to inspire entrepreneurship have been important, aspiring entrepreneurs need education and training in order to build their dreams. Arthālaya, Samriddhi’s school of economics and entrepreneurship, trains hundreds of university students in concepts and approaches to entrepreneurship. The unique setting for this six-day residential program not only explains what entrepreneurship, markets, and policies are but also offers the participants an opportunity to actually work like a real-time entrepreneur. This experimental market lab approach to education and training has already helped almost one hundred students to begin their entrepreneurial journey. Some universities have started offering elective courses in entrepreneurship as a part of their degree program. King’s College ([www.kingscollege.edu.np](http://www.kingscollege.edu.np)) has recently started offering a master’s degree in entrepreneurship. Change Fusion Nepal offers training to aspiring social entrepreneurs while Entrepreneurs for Nepal conducts boot camps that detail the practical operational side of enterprise.

Samriddhi and its partners also work together to create areas where entrepreneurs and youth can network and share ideas. Nepal Business Initiative organizes a periodic event called IDO that focuses on innovation, dialogue and opportunities. Similarly, the events held on the last Thursday of each month serve as platforms for networking and exploring opportunities. Entrepreneurs for Nepal manages a Facebook group ([www.facebook.com/groups/e4nepal](http://www.facebook.com/groups/e4nepal)) that connects almost 20,000 members with like-minded people. These efforts contribute towards creating networks necessary for entrepreneurial activity and make it easier for aspiring youth to find opportunities.

Biruwa Ventures ([www.biruwa.net](http://www.biruwa.net)) has established an incubation center with advisory services that aspiring entrepreneurs utilize for a small fee. This allows them to gear up their business and operate for a short period until they become better established. Change Fusion Nepal has similar incubators that focus on social enterprises. These are just some of the initiatives that have started addressing the need for incubation services.

In addition, Biruwa Ventures and Change Fusion offer startup capital programs for businesses and social enterprises respectively. The Youth Action Fund administered by Change Fusion has helped several social entrepreneurs with startup. Samriddhi’s corporate partners like Brihat Investments, World Link, and F1 Soft have been offering start up funding to deserving youth with entrepreneurial ideas as corporate social initiatives. Nepal Young Entrepreneurs Forum, Confederation of National Industries Youth Forums, and Entrepreneurs Organization have a programmatic focus on startup capital for innovative business ideas. BEED Investment has made efforts to link proven ideas with scale up funding. Two corporate banks of Nepal, Mega Bank and Laxmi Bank, have started providing entrepreneurs with scale up capital without requiring collateral. These initiatives have helped several aspiring entrepreneurs to embark on their journeys to achieve their dreams.

Entrepreneurs for Nepal and Biruwa Ventures have jointly started mentorship programs and sounding boards for needy entrepreneurs. Brihat Investments, World Link, F1 Soft, Prisma Advertising, and several other corporate houses have been offering mentorships to young entrepreneurs in respective business sectors. These efforts provide much needed role models and pave the way for more opportunities in the future.

These are some examples of several cooperative efforts aiming to create an entrepreneurial society in Nepal. While these efforts only address selected issues and a small part of demand, they have definitely offered hope for a model that can be expanded and replicated to create an entrepreneurial culture in Nepal. ♦



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## **IV. Democracy That Delivers for Entrepreneurs: Conference Panel Synopses**

**April 9-10, 2013**

To discuss how to build strong, inclusive entrepreneurship ecosystems, more than 100 business, entrepreneurship, and policy experts met in Chicago on April 9-10, 2013, for an international conference on Democracy that Delivers for Entrepreneurs. The CIPE conference focused on crucial issues confronting those trying to build the institutional environment for fostering entrepreneurship, ranging from education to finance to public policy to the role of cities, communities, donors, corporations, and foundations. The cross-disciplinary discussion highlighted the need for an integrated approach to ecosystem building as well as the potential for learning across national and functional boundaries.

# Democracy that Delivers for Entrepreneurs Agenda

## Day One Panel Topics

- **Building an entrepreneurship ecosystem**  
Objective: Highlight government transparency, accountability, market institutions, and economic freedom needed for a business environment supportive of entrepreneurship.
- **Focus on successful entrepreneurs**  
Objective: Discuss success stories of different types of entrepreneurs in the context of the need for institutional environment and support.
- **Developing young leaders through entrepreneurship education**  
Objective: Discuss effective approaches to spreading the understanding of democratic values of entrepreneurial ways of thinking.
- **Policy solutions and advocacy approaches to fostering entrepreneurship**  
Objective: Explore the types of policies that strengthen entrepreneurship and emphasize how small business participation in policy making through associations can shape entrepreneurial environments.

## Day Two Panel Topics

- **Building entrepreneurial cities and communities**  
Objective: Discuss examples of cooperation between the public and private sectors to create local environments supportive of entrepreneurs.
- **Financing and investment in entrepreneur initiatives**  
Objective: Focus on what investors want, what barriers entrepreneurs face, and opportunities and challenges in emerging markets.
- **How can donors, corporations, and foundations support entrepreneurship?**  
Objective: Explore synergies between different approaches, relating back to CIPE's work around the world



## Building Entrepreneurship ecosystems

*Jean Rogers, Michael Hershman, Amy Wilkinson, Aurelio Concheso*

When it comes to creating the ecosystem for fostering entrepreneurship, there are a number of important factors to consider. Cultural norms and education systems have a major effect on the entrepreneurial drive of individuals while the legal and regulatory system can create barriers to starting a business. The financial environment is also an important aspect to consider since without sufficient capital, new ventures struggle to thrive.

As Jean Rogers noted, in markets similar to the United States, entrepreneurial endeavors are inculcated from the beginning: young children open lemonade stands, teenagers will keep neighbors' lawns. Building on this idea, Michael Hershman put forth that entrepreneurs are bred, not born. While the entrepreneurial spirit may be inherent in many people, the idea is not universal. Hershman continued that teachers are vitally important to opening young peoples' minds to the idea of entrepreneurship.

Even when an entrepreneurial spirit exists, a supportive legal and regulatory environment is needed to foster the development of entrepreneurial activity. A strong rule of law is required to ensure clear rules drive a free and inclusive market economy. However, as Aurelio Concheso noted, it is important to be sure that the rule of law does not protect those already ensconced in the system.

Perhaps the most important thing to consider when constructing an entrepreneurship ecosystem is the value of local partnerships. Amy Wilkinson suggested that emulating Silicon Valley in emerging markets is not the best course of action. Every environment has its own set of local laws, customs and realities that will affect success. In order to develop a supportive and sustainable ecosystem, solutions must grow out of the local context.

## Focus on Successful Entrepreneurs

*Glenn Tilton, F.K. Day, Betsy Shields, Dean DeBiase*

As individuals who have the benefit of experience, successful entrepreneurs can provide valuable insight regarding aspects of a supportive entrepreneurial environment. Having run the gauntlet of starting their own companies, these individuals can inform us what tools and approaches worked for them and what resources they wish they had at their disposal during startup.

One point that all panelists agreed on was that areas such as the Chicagoland Entrepreneurial Center's 1871 space are places where valuable knowledge sharing can occur. F.K. Day, president of SRAM Corporation, noted that a lot of his early mistakes could have been avoided if they had a way to tap into the knowledge of other entrepreneurs. Physical hubs like 1871 are great at facilitating such exchanges.

It is important to remember though that ecosystems are not simply physical locations. As Dean DeBiase stated, entrepreneurs need what he termed "adult supervision" in the form of mentors who can help guide them along their paths. These mentors, however, must realize that entrepreneurs need to chart their own courses. Providing wisdom is important, but so is allowing entrepreneurs to find the path that fits them best.

Also necessary is a support structure that can remain mission focused. While processes can allow for greater efficiency, government agencies and other organizations striving to support entrepreneurs can easily become highly bureaucratized. Day suggests that civic organizations should avoid becoming function focused as this drains the passions and effectiveness of personnel.

According to Betsy Shields, education is vital to helping entrepreneurs be successful, but not necessarily education aimed at entrepreneurs themselves. Instead, education aimed at the general population can ensure the citizenry understands the importance of entrepreneurial activity. In turn they

will hold officials and companies accountable for maintaining an entrepreneurial environment.

## Developing Young Leaders through Entrepreneurship Education

*Lynda de la Viña, Linda Darragh, Robin Sitoula, Rami Shamma, JD Bindenagel*

As Rami Shamma from Lebanon's Development of People and Nature Association (DPNA) commented, "None of the underdeveloped countries can actually become sustainable or achieve change if there is no good educational system in them." This is absolutely true when it comes to fostering entrepreneurship among youth in emerging markets. Whether it is equipping youth with technical skills or providing them with theoretical knowledge, strong educational systems are an essential component of any entrepreneurship ecosystem.

Entrepreneurship education can take on multiple forms ranging from classroom sessions on technical aspects of starting a business to providing mentoring opportunities for young entrepreneurs. The purpose is not only to build talent, but to ignite an entrepreneurial spark. In a number of emerging markets entrepreneurship is not commonly viewed as an avenue to success. Youth are either ambivalent towards the idea or parents discourage such ambitions because of the uncertainty entrepreneurship brings. As JD Bindenagel indicated, education plays an important part in mitigating the inherent risk of operating in these underdeveloped regions. He also suggests education programs can be used to fill institutional voids. If a country's ecosystem is lacking a strong financial industry, education can be crafted to create an entrepreneurial population of bankers and investors.

It is important to remember that practical experience is just as important as a theoretical education. Linda Darragh from the Kellogg Business School pointed out that simply teaching people how to draft a business plan and expecting them to be successful is not enough. Students need

on the ground experience developing ideas that will solve problems for consumers. Perhaps Robin Sitoula, the director of Samriddhi, The Prosperity Foundation in Nepal, summed it up best when he said, "When people actually participate in markets...they get to realize the importance of the values of democracy, property rights, and the rule of law. On the other side, they also understand the value of creating profit and building enterprises."

## Policy Solutions and Advocacy Approaches to Fostering Entrepreneurship

*Karen Kerrigan, Woodie Neiss, Jehan Ara, Betty Maina*

Around the world entrepreneurs face challenges that result from government policies regarding the economy. Government policies towards infrastructure, tax codes, finance, energy supply, transport systems, and business licensing are only a few of the elements that affect the ability of entrepreneurs to operate and succeed. Supportive entrepreneurship ecosystems provide entrepreneurship friendly policies and effective channels for redressing these issues when they become barriers to conducting business.

Government policies should focus on making it easier to start an enterprise and conduct business. It is also vital that policies facilitate participation of entrepreneurs in markets such as government procurement and international trade. With regards to financial policy, Woodie Neiss suggests it is important to operate with a degree of risk. The collapse of the financial markets has resulted in lending institutions operating in a more conservative nature, but refusing to support entrepreneurs will choke the entire ecosystem and result in lower job growth.

Effective strategies for engaging government to create conducive policies is to use language that is outside of politics. For example, access to capital is not about securing funding, it's about creating jobs and growing the economy. Of course different

tactics are necessary at different times, however according to Betty Maina a more enduring approach is to foster relationships with the technical staff. It is important to have support from the president or a minister, but it is more important to know those that draft legislation, memos, statements, and speeches. The media is also a strong tool. There is nothing politicians fear more than statements in the press. People do read and the media provides an effective way to engage a large percentage of the population.

## Building Entrepreneurial Cities and Communities

*Ken Sparks, Dr. Jesus Estanislao, Congressman Bob Dold, Derek Lindblom*

Entrepreneurship is widely regarded as the driver of economic growth and job creation. For this reason, a major question on the minds of many local officials and reformers is how to make their city more entrepreneurial. As with everything, local context is important and different locations will have different approaches. However according to Congressman Bob Dold, there are several common factors that will help attract and develop entrepreneurs: access to capital, developed infrastructure, educational institutions, and a regulatory environment that is fair and not overly burdensome.

While all of these elements are necessary to foster a more entrepreneurial environment, Dr. Jesus Estanislao argues that education is by far the most crucial component. It is vital to start at day one to build the abilities of students and also instill an entrepreneurial culture. Derek Lindblom adds that universities are vital to developing entrepreneurship since they produce ideas, act as research and development institutions, and provide technical skills.

When it comes to the actual task of building an entrepreneurial city there are a number of things to keep in mind. First of all, citizen engagement is crucial. If success is to be achieved, local reformers must tap into the citizens' ideas about

the community in which they would like to live. As Congressman Dold said, "The biggest impact comes from citizens, not lobbyists." Public-private dialogues and partnerships are an effective way to make sure everyone is on the same page and all stakeholders have a role in building the city. It is also important to make sure that development is not limited to a specific location within the city, but provided to all. For example, access to capital must be made available to underserved neighborhoods. Most importantly, it is not sufficient to simply make commitments when planning for the future. There must also be a reporting system that ensures accountability and tracks progress. Only then will results be seen.

## Financing and Investment in Entrepreneur Initiatives

*Kevin Willer, Daniel Cordova, Jim O'Connor, Osama Mourad*

Contributing to the entrepreneurship ecosystem by developing infrastructure and lowering barriers to participation is undoubtedly important, but as Kevin Willer stated, "without capital, stuff doesn't get going." Entrepreneurs around the world, especially those in the informal sector, constantly face the challenge of how to obtain capital in order to start and grow their businesses.

Financing models in developed countries do not always meet the needs of entrepreneurs in emerging markets. Start-ups in developing countries are often unable to meet collateral requirements or cash flow standards that are the base of traditional banking. Before they can access these sources of funding entrepreneurs require funding through other channels such as venture capitalists or angel investors.

The problem as described by Osama Mourad is that such methods are not truly understood by small entrepreneurs in emerging markets. According to Mourad, 'venture capitalist' and 'angel investor' are terms that are commonly used interchangeably in the Arab world and there is little understanding

regarding the intricacies of these different sources of capital. On the investor side, those who are looking to become angel investors do not have support mechanisms to help them operate in an efficient manner. Jim O'Connor suggests developing groups that amalgamate the experience and knowledge of angel investors can have a huge impact.

Daniel Cordova believes that microfinance plays a huge role in supporting start-ups and priming them for later rounds of funding. Of course microfinance can only take entrepreneurs so far, but the process builds trust and credibility and helps put business owners in a position to pursue more traditional forms of funding. Cordova indicates that the emergence of microfinance is the main driver of entrepreneurship in Peru. Importantly, this "revolution" was locally driven. Mourad argues that emerging markets must develop self-confidence and develop methods of using their own capital to transform their economies.

## **How Can Donors, Corporations, and Foundations Support Entrepreneurship?**

*Jeff Ubois, Mark Marich, Randall Tavierne*

Talking about building strong entrepreneurship ecosystems is one thing, but actors are required to develop and execute programs that will result in change. Other than certain elements of civil society that advocate for policy reform, corporations, donors and foundations have a large role to play in supporting entrepreneurs.

As Mark Marich indicates, the largest services foundations provide are training and education.

Many entrepreneurs in emerging markets simply don't have the technical knowhow to start and operate their own business. However the effort cannot stop there. Donors and charitable organizations must design programs to tackle other issues affecting entrepreneurs such as access to markets. Marich argues that there is no structures one size fits all solution in different environments. This work must be tailored to local needs and focused on overcoming challenges entrepreneurs face in their respective markets.

Corporations have much more to offer than simple donations through CSR programs. When large companies devote time and people as well as money all sides benefit. Employees not only transfer skills and knowledge to entrepreneurs, but they gain an entrepreneurial mind set in the process which can be beneficial to their operations. Randall Tavierne suggests that one effective method of supporting entrepreneurs is by partnering with market innovators to overcome challenges. In this setting, corporations get the solutions they need and entrepreneurs find buyers for their services.

In general, the focus should not be on strengthening any one element of the ecosystem. Instead, efforts should aim to build connections between the different players within the environment. Connections to the market, financiers, educators, and mentors are all crucial for success. In these efforts, entrepreneurs should be allowed to take the lead. After all, they are the ones who know best what they need. Donors, foundations and corporations must be willing to act in a supportive role and tailor their work to entrepreneurs' needs.

## About the Authors

### Karen Kerrigan

Karen Kerrigan has developed positive relationships with individuals in media, government, policy and advocacy organizations, and the private sector that have led to key reforms and initiatives to help America's entrepreneurial sector. In 1994, Kerrigan founded the Small Business & Entrepreneurship Council, a prominent and respected advocacy and research organization with more than 70,000 members. She is president and CEO of Women Entrepreneurs Inc., a non-profit business association that helps women business owners succeed through education, networking, and advocacy. Kerrigan regularly testifies before Congress on issues that impact America's entrepreneurial sector. She meets often with delegations from around the world that wish to learn about public policy recommendations that will enhance and sustain entrepreneurial activity. Her commentary, analysis, and written work have appeared in many of the nation's leading newspapers. Follow her on Twitter @KarenKerrigan.

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Robert E. Litan is the Director of Research at Bloomberg Government, where he oversees a team of analysts providing analyses of the business impact of federal government decisions. He was formerly Vice President of Research and Policy at the Kauffman Foundation in Kansas City and a Senior Fellow in Economic Studies at the Brookings Institution, where his research included topics in regulation, financial institutions, telecommunications, entrepreneurship and general economic policy. During his career, Dr. Litan has authored or co-authored over 20 books, edited another fourteen, and authored or co-authored over 200 articles in journals, magazines, and newspapers on a broad range of public policy issues. His latest books include *The Need for Speed: A Telecommunications Policy Framework for the 21st Century* (Brookings Institution Press, 2013), with Hal Singer, and *Better Capitalism*, (Yale University Press, 2101)), with Carl Schramm. Dr. Litan has served in several

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### Hernando de Soto

Hernando de Soto is currently President of the ILD - headquartered in Lima, Peru - considered by *The Economist* as one of the two most important think tanks in the world. Time magazine chose him as one of the five leading Latin American innovators of the century in its special May 1999 issue "Leaders for the New Millennium", and included him among the 100 most influential people in the world in 2004. In its 85th anniversary edition, Forbes named de Soto as one of 15 innovators "who will reinvent your future." In January 2000, *Entwicklung und Zusammenarbeit*, the German development magazine, described de Soto as one of the most important development theoreticians of the last millennium. In recent years, de Soto and his colleagues at the ILD have been involved in designing and implementing capital formation programs to legally empower the poor in Africa, Asia, Latin America, the Middle East, and former Soviet nations. More than 30 heads of state have invited him to discuss carrying out ILD institutional reform programs to fight poverty and legal exclusion in their countries. Follow him on Twitter @ReadingSignals.

### Mary Shirley

Mary Shirley is a founder and the President of the Ronald Coase Institute. She has a PhD in economics and has worked for over 30 years in development, including over 20 years as a research manager in the World Bank. She is the author of numerous scholarly articles and books on institutional issues in economic development, including *Institutions and Development* (republished in paperback in

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Anna Nadgrodkiewicz is the Director of Multiregional Programs at CIPE where she manages a portfolio of multiregional projects. Previously, Anna served as a Program Officer and Senior Program Officer at CIPE, where she led the Global department, overseeing a portfolio of international projects focused on strengthening democratic governance, advocacy, corporate governance, anti-corruption, youth entrepreneurship and corporate citizenship. Her previous assignments include PMR Consulting and Kaiser Associates. Anna holds a MA in German and European Studies from Georgetown University and BA in International Studies, Economics and German from the Indiana University of Pennsylvania. She is a regular contributor to TrustLaw Blog and the CIPE Development Blog writing on topics related to entrepreneurship, corporate governance, anti-corruption, property rights, and markets among others.

### **John D. Sullivan**

John D. Sullivan is the executive director at CIPE, an affiliate of the U.S. Chamber of Commerce. As associate director of the Democracy Program, Sullivan helped to establish both CIPE and the National Endowment for Democracy in 1983. After serving as CIPE program director, he became executive director in 1991. Under

his leadership CIPE developed a number of innovative approaches that link democratic development to market reforms: combating corruption, promoting corporate governance, building business associations, supporting the informal sector, and programs to assist women and youth entrepreneurs. Sullivan serves on the Advisory Board for the Ira M. Millstein Center for Global Markets and Corporate Ownership at the Columbia University Law School, is a member of the UN Global Compact Working Group on the Tenth Principle and the OECD MENA Investment Task Force, and serves as the Vice Chair of the Development Task Force of the Business Advisory Committee to the OECD. He received his Ph.D. in political science from the University of Pittsburgh and is the author of numerous publications on the transition to democracy, corporate governance, and market-oriented democratic development. Sullivan is an adjunct faculty member at George Mason University Graduate School of Public Policy.

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### **Jonathan Ortman**

Leading the development of Global Entrepreneurship Week on behalf of the Ewing Marion Kauffman Foundation, Jonathan Ortman has worked to align more than 135 countries to inspire, connect, mentor and engage the next generation of entrepreneurs. In doing so, he has helped assemble an informal coalition of 7,906 organizations dedicated to stimulating entrepreneurial activity. Ortman brings a wealth of experience to the project, serving as a senior fellow at the Kauffman Foundation. Principally, he advises the Foundation on its global footprint and its interface with policymakers through the Policy Dialogue on Entrepreneurship (hosted at [www.entrepreneurship.org](http://www.entrepreneurship.org)), a public policy initiative to focus attention on the importance of entrepreneurship to the economy and society. Based in Washington, DC, Ortman serves as an interface between new research and initiatives to advance entrepreneurship at the Foundation and the questions and concerns that arise from policymakers in the nation's capital. Previously, Ortman served as executive director of the Columbia Institute for Political Research, concentrating on health care economic policy. Currently, he also serves as president of the Public Forum Institute, an independent not-for-profit organization that enjoys strong bi-partisan congressional support in fostering public discourse on major issues of the day. Jonathan writes a weekly column on the Policy Forum blog at [entrepreneurship.org](http://entrepreneurship.org). His Global Entrepreneurship Week posts can be found at [www.unleashingideas.org/blog/tags/ortmans](http://www.unleashingideas.org/blog/tags/ortmans).

### **Daniel Cordova**

Daniel Cordova is President of Instituto Invertir and past Dean of the Business School at Universidad del Pacífico. Formerly the CEO of the Sociedad Comercio Exterior del Perú (Peruvian Foreign Commerce Society, Comexperú), Founding President of the Asociación para el

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Recognized by her peers, she received the 2011 Federation of Business Disciplines Outstanding Educator Award from the Southwestern Society of Economists. In 2005, she was named one of the 100 Most Influential Hispanics in the U.S. by Hispanic Business magazine and has received the Ford Salute to Education Award. The first Mexican-American woman at the secretarial level of the U.S. Treasury in the Clinton administration, de la Viña served as deputy assistant secretary for Economic Policy from 1998-2001. Following her role at the Treasury, she was senior policy analyst at the U.S.-Mexico Chamber of Commerce. She then rejoined academia and was named full professor and associate dean of the School of Professional Studies where she led the Graduate Division of Business and Management and was Chair of the Department of Finance and International Business at Johns Hopkins University. She was Dean of the College of Business at University of Texas at San Antonio from 2005-2012. She has co-founded several companies including Operational Technologies Corporation (OpTech) and Pronucleotein Biotechnologies in San Antonio, TX. Dr. de la Viña received her master's and doctorate in economics from Rice

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John G. Murphy is vice president of International Affairs at the U.S. Chamber of Commerce. He is responsible for representing the Chamber before the administration, Congress, and foreign officials as he directs advocacy efforts to open international markets for U.S. exports and investment. Since joining the Chamber in 1999, Murphy directed its successful campaigns to win congressional passage of trade agreements with a dozen nations, including, most recently, Colombia, Panama, and South Korea. He plays a key role in the Chamber's work on such international business priorities as regulatory cooperation, international investment, trade facilitation, and the work of the World Trade Organization.

### **Andrew Sherman**

A senior partner at Jones Day, Andrew Sherman focuses his practice on issues affecting business growth for companies at all stages, including developing strategies to leverage intellectual property and technology assets, as well as international corporate transactional and franchising matters. He has served as a legal and strategic advisor to dozens of Fortune 500 companies and hundreds of emerging growth companies. He has represented U.S. and international clients from early stage, rapidly growing start-ups, to closely held franchisors and middle market companies, to multibillion dollar international conglomerates. He also counsels on issues such as franchising, licensing, joint ventures, strategic alliances, capital formation, distribution channels, technology development, and mergers and acquisitions. Andrew has written 24 books on the legal and strategic aspects of business growth, franchising, capital formation, and the leveraging of intellectual property. He also has published many articles on similar topics and is a frequent keynote speaker at business conferences, seminars, and webinars. He has appeared as a guest commentator

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### **Ryan Evangelista**

Ryan Evangelista has nearly 15 years of experience in working for the Philippine Chamber of Commerce and Industry (PCCI) where he last served as deputy secretary general for policy, advocacy and research and founding executive director of Universal Access to Competitiveness and Trade (U-ACT), PCCI's think tank. During his tenure, he worked on projects related to multi-stakeholder participation in international trade policy and negotiations, ASEAN economic integration, MSME development, competition policy, property rights, and local economic development. He also served as a consultant for the UN-International Trade Centre (ITC-Geneva), ASEAN Secretariat, Canadian International Development Agency (CIDA), Economic Research Institute for ASEAN and East Asia (ERIA) and CIPE. Ryan obtained his Master of Arts in International Relations from the Fletcher School of Law and Diplomacy, Tufts University, in Medford, Massachusetts, and a Bachelor of Science in Business Economics from De La Salle University-Dasmarias where he was honored as an outstanding alumnus in 2009. In February 2013, he was recognized as one of Manila's 40 most influential international development leaders under the age of 40 in "Manila's 40 under 40 International Development Leaders Recognition" presented by Devex and Chevron. In 2011, he was selected as one of the 20 emerging leaders of the Australia-ASEAN Emerging Leaders Forum in Kuala Lumpur, Malaysia.

### **Majdi Hassen**



Dr. Majdi Hassen is the Executive Director of IACE, L'Institut Arabe des Chefs d'Entreprise (The Arab Institute of Business Managers). The Institute promotes the good governance in enterprises and offers business managers training courses and seminars. The efforts of the Institute also focus on studies and research on the transformation of the Tunisian economy and the role of the private sector. Dr. Hassen is an assistant professor at the University of Tunis as well as a consultant for various organizations. He has authored numerous research papers on entrepreneurship and corporate governance, and conducted many research projects in those fields. Mr. Hassen holds a Ph.D. in Finance. He is also a certified trainer with UNDP in entrepreneurship and with IFC in corporate governance.

### **Majid Shabbir**

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In 2012, he created the anti-corruption survey report "Un-Packing Corruption" to gauge the opinion of the business community on corruption perceptions, manifestations, causes, effect and remedies in the business environment of Pakistan. As a consultant, Shabbir has helped the Women Chamber of Commerce & Industry Peshawar in its advocacy campaign on "Entrepreneurship Development Policy for the Women of Khyber Pakhtoonkhwa" and provided legal assistance in creating the Pakistan Afghanistan Joint Chamber of Commerce & Industry (PAJCCI). He has also volunteered as a Moderator for the Business Support Organization Forum ([www.bsoforum.com](http://www.bsoforum.com)).

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