



Pathfinder Economic Flash

Promoting Ecosystems to Support Entrepreneurship

There is a strong consensus that entrepreneurship is crucial for driving the innovation and change that is essential for successful development in a highly competitive global economy. It is particularly so for small economies that are more reliant on external demand (exports) to achieve high growth on a sustained basis. Entrepreneurial success is also an important means of achieving equitable and regionally balanced development as it is an important determinant of spreading the benefits of growth to women, youth and other groups who have difficulty in starting and growing businesses.

In Sri Lanka, as in many developing countries, various barriers related to the business environment constrain would-be entrepreneurs. Their options are greatly restricted not only by challenges related to capacity, inputs/technology, financing and market access but also by a lack of connections, status as well as access to resources available to established businesses and elite families. There has been a considerable corpus of research undertaken on developing a holistic approach to promoting entrepreneurship.

Attention is now being focused on multifaceted support for entrepreneurial activity. Policymakers and experts are seeking to build holistic entrepreneurship ecosystems. Up to now, greater progress has been made on implementing targeted initiatives to finance, train/mentor, and connect/network entrepreneurs than there has been on improving the overall business environment. The majority of entrepreneurship development programs have struggled to incorporate the business environment pillar into the overall ecosystem. Sri Lanka has been no exception.

Creating a conducive environment for entrepreneurship growth goes beyond targeted programs to assist promising entrepreneurs. Programs to train/mentor, finance, connect entrepreneurs to each other and markets, and provide them with infrastructure and technology are a necessary but not sufficient condition for creating an ecosystem for entrepreneurial success. The policy framework and regulatory reforms are as important for leveling the playing field and improving conditions for entrepreneurship. They expand the pool of potential entrepreneurs by reducing barriers to entry; building incentives; easing the cost of doing business; and generating competition. Fundamental institutions, such as the rule of law and property rights, shape the context for investment and innovation. There is considerable empirical evidence from around the

world that reforms to the business environment have a strongly positive impact on the creation of new firms. At the global level, a more development-friendly international trading system would also support entrepreneurship in the developing world.

While there is no single template for entrepreneurship development that is applicable across different countries, there are some broad lessons that have been drawn from existing research and practice, (ref: Creating the Environment for Entrepreneurial Success, Smith Richardson Foundation and National Endowment for Democracy).

- 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.

One may conclude that successful entrepreneurship ecosystems are based on a holistic view that not only influences individual entrepreneurs but also generates synergies that boost entrepreneurship as a phenomenon. Knowledge, resources, incentives, rules and opportunities must be developed to stimulate and serve entrepreneurship. It also requires institutions (regulatory framework, rule of law and property rights) which provide incentives and opportunities for entrepreneurs to innovate and take risks. These institutions need to evolve through dialogue, experimentation and the combination of grassroots (including women, youth and excluded social groups/minorities) and high level reform initiatives. It is important to end by reiterating that creating an environment for entrepreneurial success is important for accelerating sustained growth and ensuring that it is inclusive and regionally balanced.

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