STAKEHOLDER GUIDE FOR DONORS AND PHILANTHROPIES

KEY TAKEAWAYS FOR DONORS AND PHILANTHROPIES

Donors and philanthropies play a key role in ecosystem building, often providing the funding for support programs and other organizations to serve entrepreneurs. The six principles developed by Endeavor Insight are relevant for donors and philanthropies, as they indicate that **resources should be allocated to initiatives that prioritize founders' needs and encourage self-propelling ecosystem development.**

Selecting which support programs and initiatives to back is an important and consequential decision that donors and philanthropies make. An effective strategy is to **select the programs that are entrepreneur-led.** Charlotte Ducrot, former Global Manager of the Swiss Entrepreneurship Program at Swisscontact, explains, "Our approach in selecting organizations is to pick the 'winners': we support organizations that are led by entrepreneurs for entrepreneurs, who would probably succeed without us, but our aim is to accelerate their development." For example, as the **Argidius Foundation's SCALE framework** describes, having experienced entrepreneurs as board members is an effective way to include their perspectives.

Photo credit: Endeavor

Based on Endeavor Insight's interviews with program officers, the idea of a bottom-up approach resonates with donors and philanthropies across sectors and geographies. This approach entails not having preconceived notions when working in an ecosystem and taking the time to listen to the needs of founders. Interviewees explained that they use discussions with entrepreneurs for needs assessments and program design, and that they would like investors and financial institutions to also have more open conversations with founders. In these conversations, decision makers should follow the lead of local entrepreneurs. As Chris Jurgens, a Director on the Reimagining Capitalism team at the Omidyar Network, explains, **"The more actions that can be anchored in local demand as opposed to a donor push, the better.** That certainly increases the chance of success and sustainability."

Donors and philanthropies interviewed for this project recognize that a founder-first approach leads to a **strong network of connections among entrepreneurs, allowing for opportunities to replicate success.** Marnix Mulder, the Market Development Director at Triple Jump, adds, "We intend to create a ripple effect by celebrating entrepreneurship, putting successful entrepreneurs on a pedestal, and creating hubs and investment banks where people can flock together. Through that, we aim for an entrepreneurial snowball effect from which you may then have more entrepreneurs and start attracting other types of financiers."

This effect, also known as **the multiplier effect**, occurs when successful entrepreneurial companies contribute to the scaling up of the next generation of founders, whether through previous employment, mentorship, investment, or serial entrepreneurship.

Ultimately, **donors should consider the end goal of supporting entrepreneurial ecosystems**. For an ecosystem to become self-propelling, it needs to progress from receiving external support that promotes scale to having an initial wave—and subsequent waves—of successful founders who reinvest locally. As Ducrot remarks, "Our programs are born to die, so they have a limited time frame, and we really want to do things in a sustainable way." This mindset goes together with measuring impact according to the success of the entrepreneurs and the broader economy, rather than the success of the donor or support program itself.

Photo credit: Hannah Cohen

ACTION PLAN FOR SUPPORTING NASCENT ECOSYSTEMS

Endeavor Insight's six principles for self-propelling ecosystem development may not apply to all entrepreneurial ecosystems, particularly those that are still nascent.* According to [ANDE's 2021 publication on cultivating entrepreneurial ecosystems](), this may also be called the "activation stage" or "birth phase", in which there are large resource gaps and limited founder success. **What can decision makers do to contribute to ecosystem development before high-impact growth ventures proliferate and successful founders emerge to reinvest in the community?** This guide outlines effective actions that donors and philanthropies can take in nascent ecosystems.

To evaluate whether or not an ecosystem is still in the early stage, decision makers can **benchmark their market to others by assessing indicators** such as the number of companies that have raised Series A rounds or higher, number of exits, or prevalence of angel investors. Macroeconomic factors such as balance of trade, reliance on foreign investment, remittances, and GDP per capita can also be considered. If an entrepreneurial ecosystem is nascent, there are still several actions that can be taken to prepare it for self-propelling growth. In particular, donors and philanthropies should consider the following five steps.

1. Assess the existing ecosystem.

Donors and philanthropies can start by assessing the ecosystem to **understand the existing entrepreneurial strengths and weaknesses**. This would entail identifying the existing entrepreneurial firms, support organizations, investors, industry associations, and other relevant stakeholders in the ecosystem. Conducting a social network analysis of the existing relationships among these different actors can offer insights on how well-connected the community is and where greater action and expertise are needed. For example, Endeavor Insight's **network map of the Guatemalan light manufacturing sector** revealed a low level of connectivity between founders of entrepreneurial companies in 2018.

2. Encourage potential angel investors and mentors.

At the nascent stage, ecosystems are unlikely to have a robust network of local angel investors or mentors with relevant entrepreneurial experience. Donors and philanthropies can help build awareness by **educating local business leaders** on the importance and mechanics of angel investment, and **convening workshops to help train local angel investors**. For a given sector, successful founders in adjacent sectors have the potential to build trust and become both angels and mentors for up-and-coming founders. For example, in India, successful leaders of generic pharmaceutical manufacturers have reinvested their wealth domestically into the **growing healthtech and biotech sectors**. Existing institutions like universities, large corporations, and laboratories can also serve as sources of mentorship, funding, and expertise.

3. Support policy reforms and the rule of law.

For founders to succeed, they need to have an **enabling environment** in terms of regulation and the ease of doing business. Donors and philanthropies can help support local advocates or facilitate discussions that result in more beneficial rules and regulations for entrepreneurs by focusing on feedback mechanisms. Local governments should be encouraged to **consult founders and**

* The six principles can be read in "Self-Propelling Ecosystem Development", available at **endeavor.org/self-propelling-ecosystems**.

knowledgeable advocates, and look at the experiences of more mature ecosystems, during policymaking processes in order to understand the laws that would make entrepreneurial businesses more productive and efficient. Donors and philanthropies can also support improvements in **policy implementation and the rule of law**. When regulations are clear and well enforced, founders can make plans for their businesses more easily, and investors are more likely to have confidence in the market. Cutting-edge sectors require particular attention, as the development of policies often does not keep up with technological advancement.

4. Leverage global resources via returnees and expats.

Returnees — individuals from the local region who have had educational or professional experience in another country — and diaspora entrepreneurs are well positioned to contribute to the development of their ecosystem. Not only do they have the context-specific knowledge of their markets, but they also have global connections, which are useful for fundraising and other aspects of growing a business. Returnee and diaspora entrepreneurs can **bring important resources (e.g. knowledge, angel investment, and access to customers or talent) from other geographies to benefit a nascent ecosystem.** Funders can provide specific capital toward these efforts to redirect global resources. **Expat founders** can also bring in talent, customers, and capital, but decision makers should ensure that they invest in local capacity building through steps such as being angel investors, supporting workforce development, and opening R&D facilities in the local market.

Donors and philanthropies can also **fund returnees and expats to develop South-South partnerships**, which are an effective way to facilitate the exchange of knowledge and resources. Newly industrialized or industrializing countries have lessons to offer other developing countries, as they recently had similar circumstances in terms of entrepreneurship and economic development.

5. Fund the most effective founder-focused support organizations.

In nascent ecosystems, donors and philanthropies should ensure that they **fund quality programs that can help companies grow, rather than focusing on increasing the quantity of programs available.** When donors and philanthropies spread resources thin among a large number of organizations in the same ecosystem, it can negatively impact the entrepreneurial community. As one expert points out, a "saturated market where everyone's fighting for the same funding and the same entrepreneurs" fosters an environment in which support organizations are constantly concerned with their own bottom line. This situation is unlikely to result in the best quality of services for entrepreneurs.

Donors and philanthropies **should prioritize support organizations that elevate the influence of successful founders**, and limit assistance for those led by people without entrepreneurial experience. This is important because ecosystems thrive when entrepreneurs have the greatest relative influence. Increasing the influence of those who do not have relevant experience can have long-term effects on the entrepreneurial ecosystem and slow down the scaling of companies. Donors and philanthropies should ensure that the programs they fund have listened to the needs of the community, rather than coming with a predetermined agenda. In the words of Ducrot, who helped establish a venture capital association in a nascent ecosystem, "It's really a success story because the idea didn't come from us."