

# Chapter 5

## Fintech as a Mechanism for Entrepreneurship Ecosystem Development in Emerging Economies

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### ABSTRACT

*Digital finance addresses traditional financial services bottlenecks currently affecting entrepreneurship and innovation in fast-developing and liberalised economies of the world by providing context-specific innovative financial solutions useful for entrepreneurship ecosystem development. Hence, this chapter intends to descriptively analyse mechanisms through which fintech can be instrumental in lowering financial costs, increasing financial inclusivity, enhancing security and transparency, and supporting tailored financial products and services. Fintech contributes to entrepreneurship ecosystem development through a number of channels including diverse capital access, seamless digital financial access, data-driven financial insights, global connectivity and commercial facilitation, and regulatory-backed financial education and collaborative innovation.*

### INTRODUCTION

Policy makers globally concerned with economic development have invariably pursued the identification of policy levers for supporting high participation in entrepreneurial activities in their locality for economic growth, job creation and poverty alleviation (Audretsch & Link, 2012; Stam & Van de Ven, 2021). The idea that a certain mix of public policy interventions, social attitudes, and financing options can catalyse long-lasting entrepreneurial and innovation activity is an attractive promise to leaders exploring alternatives to create foundations for more sustainable economic growth (Stam & Spigel, 2018). For some time policy makers have proposed and adopted transactional forms of support for high growth

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productive entrepreneurial firms (HGFs) notably through instruments such as research and development (R&D) grants and tax incentives, business accelerators and incubators, proof-of-concept funds and access to seed funding albeit with limited success (OECD, 2010; Mason & Brown, 2014). In this context, policy makers are increasingly realising merits of more systems-based approaches for supporting high-growth productive entrepreneurship. As a macro level organizational community concept, ecosystems as an approach for comprehending the setting of entrepreneurship is increasingly attracting immeasurable interest globally (Stam & Van de Ven, 2021). Arguably the concept characterises a shift away from time tested company specific entrepreneurial interventions towards more macro-level holistic activities which focus on developing entrepreneurial networks, aligning priorities, building new institutional competences and nurturing synergies between different stakeholders (Rodriguez-Pose, 2013; Warwick, 2013). Hence, the entrepreneurship ecosystem approach has recently arisen as a response recognising that HGFs tend to flourish and conglomerate in distinctive types of supportive entrepreneurial environments.

Entrepreneurial ecosystems represent a set of co-dependent actors and symbiotic factors coordinated in such a way that they empower productive entrepreneurship within a specific territory or region (Stam & Spigel, 2016). Prevailing entrepreneurial ecosystem literature currently provides several lists of factors, which are considered necessary for the success of an entrepreneurial ecosystem in a particular territory (Stam & Ven, 2021; Mason & Brown, 2014). For example, Van de Ven (1993) proposed four broad components of an entrepreneurial ecosystem including: institutional arrangements; communal resource endowments of basic scientific knowledge, funding mechanisms and pools of skilled labour; a critical mass of informed consumers' market demand; and proprietary business activities. Expanding on Van de Ven model, Isenberg (2010) argues that an entrepreneurship ecosystem model comprises six core pillars including a conducive culture, empowering policies and leadership, availability of appropriate and suitable finance, quality human capital, venture responsive markets, and a system of institutional supports. Similarly, Stam and Spigel (2018) maintain that systemic settings such as networks of entrepreneurs, leadership, funding, talent, knowledge, and supportive services are central in supporting an entrepreneurship ecosystem. Summarising these multiple factors into a single model, Stam and Ven (2021) recommend an integrative model of entrepreneurial ecosystem development comprising ten interacting elements incorporating the previous models and entrepreneurial outputs into three major components: institutional arrangements, resource endowment and proprietary activities - innovation. However in a prior study sponsored by the world economic forum (Foster et al., 2013), entrepreneurs view the following three components of an entrepreneurial ecosystem as of relative significance – accessible markets, human capital/workforce as well as funding and finance. This report provided a first large-scale analysis of entrepreneurial ecosystems by systematically examining which pillars of these ecosystems matter most to entrepreneurs when it comes to fostering companies' or firms' growth.

The central ideas underlying entrepreneurial ecosystems began in the 1980s and 1990s as part of a movement in entrepreneurship studies drifting away from erstwhile individualistic, personality-based research endeavours to more nuanced community based perspectives of entrepreneurship that includes the role of social, cultural and economic factors in facilitating entrepreneurship process (Aldrich, 1990; Nijkamp, 2003; Steyaert & Katz, 2004). Entrepreneurial ecosystem's approach to entrepreneurship represents an evolutionary path of its immediate earlier predecessors including industrial districts, clusters, as well as innovation systems – that focused on the contribution of external business environment in spurring entrepreneurship. The entrepreneurial ecosystem approach recognises that there are factors outside the boundaries of an organization but within those of a region that potentially contribute to a firm's overall competitiveness and hence growth (Stam & Spigel, 2016). However, the entrepreneurial

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