

# Public Policy Effectiveness and Entrepreneurial Growth in Developing Markets

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## ABSTRACT

This paper examines how government policies shape entrepreneurial activity in developing economies, with a focus on India, Brazil, and South Africa. Drawing on institutional economics and the entrepreneurship literature, it argues that the effectiveness of public policy in fostering new venture creation depends not only on formal regulatory reforms but also on the degree to which informal institutions, enforcement capacity, and market conditions align with stated policy objectives. Evidence from the three country cases shows that even well-designed programs frequently produce limited results when implementation gaps, bureaucratic inertia, or credit market failures undercut their intent. The paper also identifies conditions under which policy interventions have demonstrably improved entrepreneurial outcomes, including streamlined business registration, targeted financing schemes, and coordinated ecosystems linking government, academia, and industry. Findings point to the need for context-sensitive policy design that accounts for each economy's structural characteristics rather than transplanting frameworks developed in advanced economies.

**Keywords:** Entrepreneurship, public policy, developing economies, institutional environment, India, Brazil, South Africa, SME policy

## INTRODUCTION

Entrepreneurship has long been recognized as a driver of economic growth, job creation, and technological change. Yet the conditions that allow new ventures to take root and scale differ sharply across countries, and nowhere are those differences more consequential than in developing economies. Governments across the Global South have responded by introducing a wide range of policy measures meant to lower the barriers to starting and growing businesses. Whether those measures actually work, and under what conditions, remains a contested empirical and theoretical question.

The relationship between policy and entrepreneurship is not straightforward. A government can reduce business registration time from thirty days to one, as several countries have done following World Bank Doing Business benchmarking, and still find that new business formation barely changes if credit is scarce, infrastructure is poor, or the rule of law is unreliable. Conversely, a country with a relatively cumbersome regulatory environment may still produce a vigorous entrepreneurial sector if informal networks, diaspora capital, and social trust compensate for formal institutional gaps. This disconnect between policy intent and entrepreneurial outcome is what this paper sets out to explain.

The three country cases selected here, India, Brazil, and South Africa, offer a useful comparative frame. All three are large emerging markets with significant internal diversity, established democratic institutions, and active histories of entrepreneurship policy reform. At the same time, they differ in their colonial legacies, legal traditions, labor market structures, and cultural attitudes toward risk-taking and business creation. These differences allow for analytical traction that a single-country study would not.

The paper proceeds as follows. The next section reviews the theoretical literature on institutions, policy, and entrepreneurship. Subsequent sections examine the policy landscape and entrepreneurial outcomes in India, Brazil, and South Africa in turn. A comparative discussion then draws out cross-cutting patterns and tensions. The paper closes with conclusions and implications for policy design.

## **LITERATURE REVIEW**

### **Entrepreneurship as an Economic Phenomenon**

The modern theoretical treatment of entrepreneurship as a distinct economic activity owes much to Baumol (1990), whose framework distinguished between productive, unproductive, and destructive forms of entrepreneurship. The key insight was that the allocation of entrepreneurial talent across these categories depends less on individual psychology than on the incentive structure set by institutions. When formal rules reward rent-seeking or corruption more than innovation and productive activity, talented individuals will direct their energies accordingly. This means that policy is not just a facilitating backdrop but an active shaper of the entrepreneurial trajectory of an economy.

Shane and Venkataraman (2000) further developed the field's conceptual foundations by centering entrepreneurship research on the discovery, evaluation, and exploitation of opportunities. Their framework opened space for asking how environmental conditions, including policies and institutions, expand or contract the opportunity set available to potential entrepreneurs. A regulatory environment that raises the cost of formalizing a business, for instance, does not merely add friction; it changes the calculus of whether to operate at all or to remain in the informal economy.

Wennekers and Thurik (1999) provided empirical grounding for the link between entrepreneurial activity and macroeconomic performance, showing that countries with higher rates of new firm entry tended to display stronger employment growth over time. Their work suggested that entrepreneurship is not simply an outcome of economic development but also one of its inputs, a point that has since been reinforced by a substantial body of cross-country empirical research.

### ***Institutions and the Regulatory Environment***

North (1990) established the theoretical vocabulary that most subsequent work on institutions and economic performance builds upon. His distinction between formal institutions (laws, regulations, contracts) and informal institutions (norms, conventions, self-imposed codes) is particularly relevant to developing economies, where the two frequently diverge. A country may enact sophisticated company law modeled on advanced-economy templates while the actual conduct of business continues to rely heavily on personal relationships, ethnic networks, and informal enforcement mechanisms that operate outside that legal framework.

Acemoglu, Johnson, and Robinson (2001) pushed the institutional argument further by demonstrating that current economic performance is partly a function of institutional legacies set in motion by colonial history. Countries where European settlers faced high mortality established extractive institutions designed to transfer resources outward rather than to protect property rights or encourage broad-based economic participation. These extractive patterns proved remarkably persistent, shaping the institutional environments within which contemporary entrepreneurs operate. For India, Brazil, and South Africa alike, colonial-era institutional choices left lasting imprints on property rights regimes, credit market structures, and state capacity.

Djankov, La Porta, Lopez-de-Silanes, and Shleifer (2002) provided a widely cited empirical mapping of entry regulation across countries, showing that heavier regulation of business entry was associated not with better social outcomes but with more corruption and larger informal economies. Their work gave

policymakers a concrete data-based argument for regulatory simplification and fed directly into the World Bank's Doing Business initiative, which began publishing annual cross-country rankings of regulatory conditions for business formation and operation. These rankings have been criticized on methodological grounds, and the World Bank ultimately discontinued the report in 2021 following an independent review of data integrity concerns. Nevertheless, the Doing Business framework shaped a decade and a half of entrepreneurship policy reform in developing countries, making it impossible to discuss the policy landscape without reference to it.

### **Policy Effectiveness in Developing Economies**

The question of whether entrepreneurship policies work in developing economies has attracted growing attention. A recurring finding in the literature is that formal policy reforms produce heterogeneous results depending on the complementary conditions in place. Reducing registration time matters more when credit is available; improving credit access matters more when property rights are secure; and both matter more when infrastructure supports market access. Policy effectiveness, in other words, is conditioned by the broader institutional and economic ecosystem.

This conditionality problem is compounded by what scholars have called the implementation gap, the distance between a policy as designed and a policy as delivered. Developing economies frequently face constraints in administrative capacity, judicial independence, and anti-corruption enforcement that cause even well-intentioned reforms to fall short of their stated objectives. Entrepreneurs who have experienced regulatory reform often report that the number of forms required has declined while the informal payments demanded by officials have not, a pattern that substitutes one barrier for another rather than reducing the overall burden.

Against this somewhat pessimistic assessment, there is also evidence that targeted, well-resourced policy interventions can produce measurable improvements in entrepreneurial activity. The literature on microfinance, export promotion, and technology incubation suggests that program design, specificity of target population, and quality of accompanying business development services matter enormously for whether a program changes behavior or merely transfers funds.

## **INDIA: POLICY AMBITION AND STRUCTURAL COMPLEXITY**

### **The Policy Landscape**

India's approach to entrepreneurship policy has shifted substantially over the past three decades. The license raj era, which persisted until the economic liberalization of 1991, was characterized by extensive state intervention in industrial activity, with entrepreneurs required to obtain government licenses before establishing, expanding, or diversifying businesses. The reforms of 1991 dismantled much of that apparatus and opened the economy to foreign competition, which stimulated entrepreneurial activity particularly in services sectors where India had comparative advantages in skilled labor.

The most prominent recent policy initiative is Startup India, launched by the Government of India in January 2016. The program established a definition of a startup as an entity less than ten years old with annual turnover below a specified threshold and with a focus on innovation, development, or improvement of products or services. Registered startups received a range of benefits including a fast-track patent examination process, self-certification under certain labor and environmental laws for three years, and access to a government-backed fund of funds designed to channel capital through alternative investment funds to startups. The program also created a regulatory sandbox and simplified the winding-up process for eligible companies, addressing a concern that the asymmetry between easy entry and difficult exit was depressing risk-taking.

Beyond Startup India, India has reformed the Insolvency and Bankruptcy Code (2016) to provide a time-bound resolution process, moved toward a unified Goods and Services Tax that replaced a fragmented multi-layer tax system, and invested in digital public infrastructure including the India Stack, which provides shared open APIs for identity verification, payment, and data consent. These measures, taken together, represent a meaningful reduction in the transactional friction facing new and growing businesses.

### **Outcomes and Persistent Constraints**

The results of these reforms have been mixed. On formal metrics, India's ranking in the World Bank's Doing Business report improved substantially over the 2014 to 2020 period, rising from 142nd in 2014 to 63rd in 2020 on the overall ease of doing business index. Venture capital investment in Indian startups grew sharply over the same period, and the country developed a cohort of unicorn companies that positioned it among the top three startup ecosystems globally by venture-backed company count.

At the same time, these gains were geographically concentrated. The entrepreneurial ecosystem that attracted international venture capital was centered in a handful of metropolitan areas, particularly Bengaluru, Mumbai, Delhi, and Hyderabad. The vast majority of Indian entrepreneurs, those running microenterprises, traditional family businesses, and informal street-level operations, experienced little change in their day-to-day operating conditions. Credit access for small and medium enterprises remained constrained by collateral requirements that many small business owners could not meet, and the informal economy continued to account for a large share of employment.

India's case illustrates the tension between ecosystem-level success and broad-based entrepreneurial development. Policies designed to attract high-growth technology ventures succeeded on their own terms but did not translate into improved conditions for the median entrepreneur, who operates in a different institutional and market environment entirely.

## **BRAZIL: REFORM CYCLES AND STRUCTURAL BARRIERS**

### **The Policy Landscape**

Brazil's entrepreneurship policy history reflects the country's recurring cycles of reform and reversal. The 1988 constitution established an interventionist economic framework that, while subsequently reformed in important ways, left a legacy of heavy regulatory and tax burden on business formation and operation. Brazil consistently ranked near the bottom of international comparisons on the ease of paying taxes and the cost of resolving commercial disputes, problems that successive governments acknowledged without fully solving.

The most consequential policy reform for small business was the creation of the Simples Nacional regime in 2006, which unified federal, state, and municipal taxes into a single monthly payment for companies below a specified revenue threshold. The simplified regime substantially reduced compliance costs for small businesses and is credited with a significant increase in formalization rates among microenterprises. A subsequent reform created the Individual Microentrepreneur category (MEI, or Microempreendedor Individual), which allowed self-employed individuals to register and pay a flat monthly contribution covering social security and basic taxes. By the late 2010s, MEI registrations had reached the tens of millions, representing one of the most successful business formalization programs in the developing world.

Brazil's Sebrae, the Brazilian Micro and Small Business Support Service, operates as a quasi-public agency funded by payroll contributions from formal sector firms. Sebrae provides technical assistance, training, access to credit information, and market linkage services to small businesses across the country. Its geographic reach and institutional longevity make it one of the most prominent small business

development organizations in any developing economy, and its programs have been evaluated in a range of academic and policy studies.

### **Outcomes and Persistent Constraints**

The formalization gains from Simples Nacional and MEI are real and measurable. By reducing the cost of operating formally, these programs drew a significant share of previously informal entrepreneurs into the registered economy, extending social protections to self-employed workers and expanding the tax base. Research on MEI uptake has documented positive effects on business survival and access to credit for newly formalized microentrepreneurs.

Beyond tax simplification, however, Brazil's broader business environment remained challenging throughout the 2000s and 2010s. Labor regulations were widely described by employers as among the most complex in Latin America, creating incentives to maintain small workforce sizes or to rely on informal labor arrangements. Contract enforcement through the court system was slow and expensive. Infrastructure bottlenecks, particularly in logistics and energy, raised operating costs in ways that policies targeting registration or taxation could not address.

The Brazilian case demonstrates that targeted, well-designed reforms can achieve their specific objectives, particularly when they reduce the cost of a discrete activity like tax compliance, without necessarily changing the overall trajectory of entrepreneurial activity if structural constraints remain in place. Brazil's small businesses improved their formal standing without a corresponding improvement in their growth prospects, which continued to be constrained by credit scarcity, legal complexity, and macroeconomic volatility.

## **SOUTH AFRICA: POLICY DESIGN IN A DUALIZED ECONOMY**

### **The Policy Landscape**

South Africa's entrepreneurship policy environment is shaped by the country's dual economy structure, a legacy of apartheid-era spatial planning and racially segmented labor markets that concentrated capital, education, and infrastructure in a relatively small formal sector while leaving the majority of the population in a low-productivity informal economy. The post-apartheid government recognized small business development as both an economic and a social equity priority, and successive policy frameworks have attempted to address both dimensions simultaneously.

The government's National Development Plan, adopted in 2012, set ambitious targets for small and medium enterprise growth as part of a broader strategy to reduce unemployment and inequality. The plan called for eleven million new jobs by 2030, with small businesses identified as a primary source. Various agencies were established or restructured to support this objective, including the Small Enterprise Development Agency (SEDA) and the Small Enterprise Finance Agency (SEFA). Black Economic Empowerment legislation created preferential procurement obligations that were intended to channel government purchasing toward black-owned enterprises, a category that overlaps substantially with smaller businesses.

South Africa also developed a range of technology incubation and innovation support programs, with particular emphasis on manufacturing, agri-processing, and township-based enterprise development. The technology innovation agency and sector-specific incubators attempted to connect entrepreneurs to technical assistance and market linkages that the market alone was not providing.

## **Outcomes and Persistent Constraints**

South Africa's entrepreneurial activity rates as measured by Global Entrepreneurship Monitor surveys have been persistently low relative to other countries at similar income levels. Researchers consistently identify low entrepreneurial intention and a high fear of failure as distinctive features of the South African entrepreneurial landscape, patterns attributed partly to the limited pool of role models in entrepreneurship, limited access to social capital networks that facilitate business entry, and the availability of public sector employment as an alternative to self-employment for educated workers.

The policy institutions created to support small business have struggled with coordination failures and implementation capacity. Multiple overlapping agencies with similar mandates and limited information sharing created confusion among potential beneficiaries. Access to government support programs frequently required navigating complex application processes that disadvantaged the less formally educated entrepreneurs who most needed assistance.

Preferential procurement policies intended to support black-owned businesses produced mixed results. Larger, politically connected firms proved more adept at accessing procurement opportunities than the genuinely small enterprises the policies were meant to support. This dynamic, sometimes described as elite capture, reduced the effectiveness of redistribution-oriented entrepreneurship policy as a tool for broad-based business development.

South Africa's case raises important questions about the relationship between equity objectives and efficiency objectives in entrepreneurship policy. Policies designed primarily to correct historical inequalities face different design constraints than those oriented purely toward maximizing the number or quality of new ventures, and the tension between these objectives has not been resolved in the South African policy framework.

## **DISCUSSION**

### **Patterns Across Cases**

The three country cases share several recurring patterns that have implications for how entrepreneurship policy in developing economies should be designed and evaluated. The first is the distinction between policy on paper and policy in practice. Each country has enacted substantive reforms that, assessed at face value, should have improved conditions for entrepreneurs. Yet in each case, implementation gaps, resource constraints, and misaligned incentives limited the reach and effectiveness of those reforms. This points to the importance of evaluating policy outcomes rather than policy outputs.

The second pattern is geographic and sectoral concentration. In India, the benefits of startup policy reforms accrued disproportionately to technology firms in major metropolitan areas. In Brazil, the gains from tax simplification were broadly distributed but the gains from innovation policy were concentrated in sectors with existing technical infrastructure. In South Africa, procurement-based support reached larger and better-connected enterprises more effectively than microenterprises. This pattern suggests that economy-wide entrepreneurship policies frequently produce uneven results across the firm size distribution and across spatial and sectoral boundaries.

A third pattern is the role of complementary conditions. Regulatory simplification produced the largest effects where it was accompanied by improvements in credit access, infrastructure, or technical support. Where it stood alone as the primary policy instrument, its effects were more limited. This finding is consistent with the broader theoretical literature suggesting that entrepreneurial activity is shaped by a bundle of institutional conditions rather than any single factor.

## **Implications for Policy Design**

The evidence reviewed here suggests several implications for governments seeking to improve entrepreneurial outcomes. First, regulatory simplification remains a worthwhile objective, but it should be understood as a necessary rather than sufficient condition. Reducing the time and cost to register a business removes a real barrier, but it does not by itself generate the market opportunities, human capital, or financing that a new business needs to survive.

Second, policies targeted at specific segments of the entrepreneur population are more likely to reach their intended beneficiaries than broad horizontal reforms. Brazil's MEI program succeeded precisely because it was designed with a specific population in mind, namely self-employed informal workers, and set parameters accordingly. Generic entrepreneurship support programs that attempt to serve everyone tend to serve the most resourced applicants most effectively.

Third, the coordination of multiple policy instruments matters. Ecosystem-level thinking, which considers how regulatory, financial, educational, and infrastructure policies interact, is more likely to produce sustained improvements in entrepreneurial activity than sequential single-instrument reforms. India's digital public infrastructure investments provide a recent example of how foundational institutional capacity can create conditions for entrepreneurial activity that could not have been anticipated by any single policy.

Fourth, the informal economy cannot be ignored in developing-country entrepreneurship policy. Across all three cases, the majority of entrepreneurial activity by number of enterprises operates outside the formal regulatory framework. Policies that increase the benefits of formalization while reducing its costs, as Brazil's Simples Nacional and MEI programs did, tend to be more effective at improving conditions for the median entrepreneur than policies that attempt to regulate or support only formally registered firms.

## **CONCLUSION**

This paper has examined how government policies shape entrepreneurial growth in developing economies, drawing on evidence from India, Brazil, and South Africa. The analysis points to a gap between the ambition of entrepreneurship policy and its realized effects, a gap that reflects not the absence of good policy ideas but the difficulty of implementing them in institutional environments characterized by limited state capacity, dualistic economic structures, and informal norms that operate alongside formal rules.

At the same time, the cases examined here are not stories of uniform failure. Brazil's tax simplification programs produced measurable improvements in formalization and business survival. India's digital infrastructure investments created a foundation for entrepreneurial activity at scale. South Africa's development finance institutions have reached entrepreneurs who would have had no access to formal credit markets without intervention. These partial successes suggest that policy can work, but that the conditions for it to work include not just the quality of the policy design but the adequacy of implementation capacity and the fit between the policy's assumptions and the actual operating conditions of its target population.

The implications extend beyond the three cases examined here. Developing economies across Asia, Africa, and Latin America face broadly similar challenges in translating entrepreneurship policy into entrepreneurial outcomes. The framework developed in this paper, which emphasizes institutional complementarities, implementation capacity, and the formal-informal interface, offers a starting point for evaluating those challenges in different country contexts. Further empirical work using firm-level data across a broader sample of developing economies would help test and refine the arguments advanced here.

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