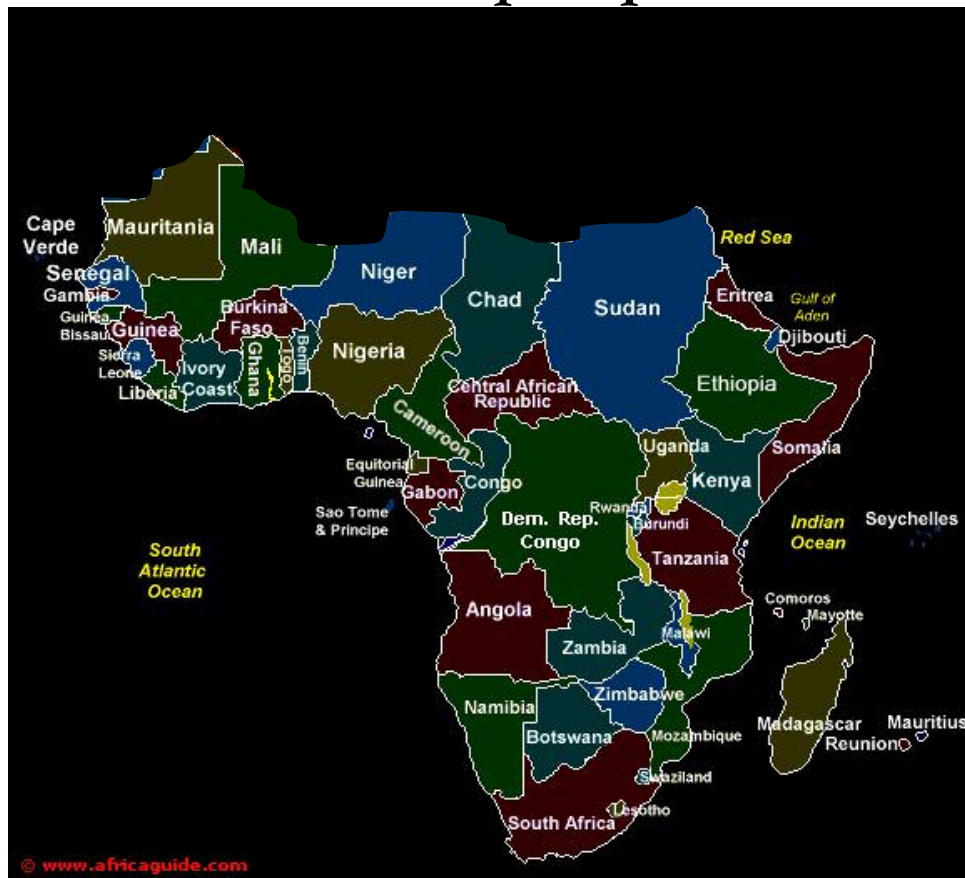


# Promoting Innovation And Entrepreneurship in Africa Africa Regional Workshop: infoDev Incubator Initiative

May 3-5, 2006  
La Palm Royal Beach Hotel  
Accra, Ghana

## Workshop Report



## Table of Contents

Summary .....	3
Introduction .....	7
Opening Activities.....	7
Session 1: Growing Innovative Small Businesses in Africa: Challenges and Strategies....	7
Session 2: Promoting Innovation, Entrepreneurship and SME Development in Africa: Who is doing what?.....	9
Session 3: The Financing Gap: The financial challenges for business incubators and small businesses in Africa.....	11
Session 4: The Role of Incubation .....	13
Sub Regional Break-Out Sessions: .....	16
East Africa Sub Region .....	16
Southern Africa Sub Region .....	16
West Africa Sub region .....	17
Breakout Groups on Specific Challenges Facing Incubators and their Companies.....	18
Incubation Sustainability and Financing .....	18
Models.....	20
Capacity Building.....	20
Session 5: The Broader Environment: Policy, ICT and other "Enablers" .....	21
Sub-regional Break-Out Sessions: Creating Positive Change by Working Together.....	23
Final Plenary Discussion: the Role of the Network .....	24
Workshop Wrap Up and Closure .....	26
Presentations.....	27

## Summary

The regional workshop, organized by infoDev and Busy Internet, brought together business incubators, tenant companies, financial institutions, policymakers, donor agencies and others working on SME development and business promotion in Africa. The 79 participants from 14 countries explored key challenges to business innovation and SME development in Africa and the potential of business incubation as a tool to address these challenges.

Participants shared strategies and experiences and identified opportunities for future joint action, laying the groundwork for the establishment of the African Innovation and Entrepreneurship Network, as an ongoing forum for discussion and support for ICT-enabled incubation and new business creation in Africa.

Compared to other regions in the world, incubation is in its infancy on the African continent and opportunities for networking, with a focus on innovation and entrepreneurship, are not as developed as in regions with a longer history of incubation, for instance Asia, Eastern Europe and Central Asia and Latin America. Participants worked together at sub-regional levels (East, West and South African groupings) identifying challenges and developing practical strategies and priorities, which came together and were endorsed on the final day as a draft action plan for the African Innovation and Entrepreneurship Network.

## Key themes lesson and challenges

### **The policy and regulatory environment for SMEs**

Improvements to the regulatory environment, with better transparency, consistency and regulations, are acknowledged as being critical for development. Incubators and other private sector organizations have an important advocacy role to play in helping their governments improve the policy and regulatory environment.

### **Government Purchasing**

Government procurement is an important and well understood mechanism for helping local SMEs to innovate and grow, especially in the ICT industry. Contracts are just as important as start up finance, especially in the difficult African environment where finance sources are limited. One example was given in which an incubator tried to help a client secure venture capital funding. The attempt was unsuccessful but led to the company securing work from the venture capitalist instead. Incubators and other business and professional organizations were urged to advocate policies that favor local SMEs. Policies commonly used in developed countries may involve a % of contracts mandated for SMEs and mechanisms to reduce the cost of entry.

### **Government support for incubation**

Donors are shifting their resources to budgetary support for governments, making it harder for incubators to obtain direct donor support, indicating that support needs to be levered from national and local governments. Governments need to understand incubation and their crucial role in developing incubation at a national level. Incubator organizations need to be

effective advocates, helping their governments comprehend the important role of incubation and lobbying for appropriate policy and support frameworks, backed by the credibility of the African Network. Some countries, such as South Africa and more recently Kenya, have good government policy frameworks and support for incubation and can be role models for other governments to learn from.

### **Entrepreneurial Culture**

A perceived lack of entrepreneurial attitudes holds back development of SMEs, with a mentality in many countries that copies rather than innovates and drags down success to the lowest common denominator. The enabling environment in ones head is as important as the enabling environment created by policies, regulations, infrastructure and access to finance. To address the challenge and foster an entrepreneurial spirit, incubators need to be effective role models and leaders, but this will only result if they are entrepreneurial themselves, as role models for their clients and with the confidence and resilience to go out and change their environments.

### **Finance for SMEs**

Finance gaps exist at the development and first expansion stage and it is a challenge at the start up or seed stage. Friends Family and Fools (the 3 Fs in USA jargon) are very important for initial financing, but with low levels of trust in some countries, combined with poverty, limited property rights and sometimes no family, special financing mechanisms supported by governments are called for. Venture Capital is not always the answer, but one of the tools to be used, once firms have grown to a stage where they are of interest to venture capitalists. Incubators along with business organizations have a crucial role to play in helping bridge the gaps and making their clients ‘investment ready’.

Rather than seeking finance that is not available, incubators have an important role in helping their clients secure work or contracts; arguably this is more realistic and important in some situations, where entry costs are not too high, for example service industries.

### **Public Private Partnerships (PPPs)**

The crucial importance of PPPs is recognized, but understanding about the respective roles of the partners and the institutional structures that may be used needs to be improved. Incubators need public support alongside business oriented and entrepreneurial leadership, which can be a challenge. Interestingly Mark Davies, the founder of Busy Internet, a private initiative, would do it as a PPP if he were starting it again, to enhance financial sustainability and to broaden the impact.

### **Different Stages of Incubation Development**

The incubation industry in South Africa is far more developed than in other countries in the region and can help others learn from their experience, although it is not a just a one way street. The participants stressed the importance of learning and adapting to their particular environments, rather than simply copying and adopting.

### **Capacity Building**

Incubator managers, stakeholders and policy makers want to develop their capabilities and recognize that learning from each other is one of the best ways to proceed, complemented by more formal training programs. Much of this can be done on-line, with a knowledge base

and on line community, complemented by exchanges and regular forums where people come together face to face. This is a key role for the network.

### **Technology and ICT**

ICT enabling is just as if not more important than development of the ICT industry, with great potential in agriculture, manufacturing and services, not to mention for leaning, information and market knowledge.

### **Sustainability**

This is a key issue for many of the participants that requires more work developing models that suit the environment ranging from “shallow and broad” initiatives such as Busy Internet to more traditional “ narrow and deep’ incubation. As with developed country incubation, partial ongoing government support is likely to be required. Much can be done through capacity building with incubator managers, stakeholders and policy makers and by incubators becoming entrepreneurial and customer focused; considering governments as customers along with their incubatees.

### **Models**

In the search for models of innovation and entrepreneurship support (incubation) suited to diverse environments, an important conceptual distinction emerged in the workshop between ‘shallow and broad’, for which Busy Internet is an example, with relevant services, used by more than 1,000 people a day, in an environment in which access to finance, market access and the regulatory environment is difficult; and, ‘narrow and deep’, which characterizes traditional incubation, with intensive services for a small number of clients.

In other difficult environments, attempts to transform fresh unemployed graduates into growing businesses were acknowledged as laudable, but extremely difficult. Without prior work experience and the knowledge of practices and markets that accrues, success is likely to be limited, and other options such as BDS services may be more appropriate.

A spectrum of services was conceptualized, from BDS entrepreneurship services, largely focusing on self employment and micro business development, to focused services for innovation and entrepreneurship, comprising incubation, cluster development and science/cyber parks.

### **The infoDev Africa Network**

The sub-regional breakouts identified many common priorities which were captured and endorsed as the draft Action Plan for the Africa Network. These are to be incorporated into the infoDev grant implementation report.

1. Create awareness of incubation and the importance of innovation and entrepreneurship activity with governments, stakeholders, education institutions and the finance and private sectors. Advocacy of the network.
2. Understand country policy and regulatory environments and advocate for improvements to foster innovation and entrepreneurship.
3. Develop and disseminate promotional material, the activities of network members and country stories (recognize success).

4. Start determining its own future structure and look at future sustainability, possibly developing its own funds.
5. Develop a web site with a knowledge repository of shared tools and practices.
6. Create a training program for incubator practitioners.
7. Facilitate exchanges of experience, twinning and sharing programs.
8. Support regional workshops.

## Introduction

### Objectives:

The Workshop brought together business incubators, tenant companies, financial institutions, policymakers, donor agencies and others working on SME development and business promotion in Africa to discuss the challenges of promoting the emergence and growth of ICT-enabled small and medium enterprises (SMEs) in the African context.

The primary objectives of the workshop were to explore key challenges to business innovation and SME development in Africa, to understand better the potential of business incubators as a tool to address those challenges, to share strategies and experiences, and to identify opportunities for future joint action. The workshop laid the groundwork for the establishment of an African Innovation and Entrepreneurship Network. This Network will serve as an ongoing forum for discussion and support for ICT-enabled incubation and new business creation in Africa.

### Structure:

The format of the workshop was highly interactive, offering ample opportunity for discussions, sharing of experiences and networking, arguably the main benefit for participants.

## Opening Activities

**Estelle Sowah, Busy Internet**, welcomed participants to the workshop and outlined three objectives:

1. Explore the key challenges SMEs face
2. Identify potential solutions to these challenges
3. Discuss the African Incubation and Innovation Network.

She urged participants to move forward, working together embracing the “Proudly African” attitude that stimulated the October 2004 Global Forum on Business Incubation, in New Delhi.

Kerry McNamara welcomed participants and dignitaries on behalf of infoDev.

## Session 1: Growing Innovative Small Businesses in Africa: Challenges and Strategies

*What is the role of small and medium enterprises in the development of Africa's economies? What challenges do they face? What do they really need to grow? To what extent can information and communication technologies (ICTs) make a difference?*

**Kwaku Boadu**, a Ghanaian serial ICT entrepreneur, set the scene from an entrepreneur's perspective, stressing the importance of a pragmatic approach, attuned to the realities of the difficult African environment. He outlined his strategy for success as:

1. Be realistic – it is a harsh and challenging environment
2. Minimize financial exposure and don't go for too much money, even if it is available
3. Work hard
4. A slow, steady and pragmatic approach, "it takes years to succeed"
5. Pray.

He summarized the main challenges for innovation and entrepreneurship in Ghana as:

- People, people, people
- Government policies and taxes
- Infrastructure – telecoms, utilities, roads
- Limited market size and almost non-existent market data, meaning it is important to test the market first and start small
- Money, although "we wrongly assume the lack of money is our problem".

Noting the importance of knowledge and the ICT sector as a high revenue generating sector, he suggested ICT is an enabler, a tool, but not an end in itself: "we can leapfrog with technology, but not sociology".

As well as highlighting government's role in improving the regulatory environment and infrastructure he advocated USA style policies whereby a percentage of government contracts are mandated for SMEs.

### **Comments from other panelists**

**Mamadou Falilou Sarr, National Council of Negro Women, Senegal**, spoke about the problems in Senegal. People mostly copy rather than innovative, an entrepreneurial spirit needs to be fostered and people lack the necessary business management skills, which is often compounded by engaging family members. For women entrepreneurs, food processing has good potential, but the technology needs to be appropriate and affordable. They hold annual awards for innovation in craft and agriculture and are promoting appropriate technology with technology fairs. She noted the political environment needs to be stable and noted, as an example that the Small Business Minister changed four times during the course of the planning for the incubator. ICT is important for information, market information, partnering and networking, but illiteracy still needs to be addressed, especially for women. "Business incubation can be a solution, but not the only one".

**Charles Wyeth, GODISA Trust, South Africa**, spoke about the South African experience, where 14 incubators are operating and more are to be instituted; they have found business incubation a very effective tool. Small enterprise support is a key government priority for growth and many agencies are addressing the challenges, but the beauty of incubation is that it can deliver focused support. The roles of government and business incubators are clearly distinct: business incubation helps the business and government and its agencies improve the enabling environment. ICT is a key enabler and they are taking incubation to rural communities with satellite incubators.



**Francisco de Almeida, UNDP Angola**, noted the challenges in Ghana are mirrored in Angola. He noted the importance of micro businesses and that 80% of jobs are in Micro and Small Enterprises (MSMEs), many of which are in the informal sector. Government's role is to improve the enabling environment and infrastructure problems, but with limited resources incubators need to be realistic; non-financial support needs to be considered alongside financial support. ICT is still for the elite and needs to be democratized, for example via schools. He advocated sharing information and learning from each other.

## **Session 2: Promoting Innovation, Entrepreneurship and SME Development in Africa: Who is doing what?**

*A number of organizations and initiatives, both local and donor-driven, are supporting the growth of innovative small businesses in Africa. This session will provide an overview of the key actors and initiatives, both across Africa and sub-regionally.*

**Kerry McNamara, infoDev** introduced the session, which aimed to give the donor perspective on the challenges for new business development and supporting growth and to summarize what donors are doing.

**Catherine Martin, DFID**, spoke first stressing the importance of donors working together for Private Sector Development (PSD) with governments and noting that the growth challenge is centre stage. Currently growth rates of approximately 3% predominate, but if this can be increased to something like 7% then a massive unleashing of entrepreneurial energy will occur, as occurred in China. However this is constrained by a range of factors, which are summarized in the Commission for Africa Report:

- Infrastructure
- Management skills
- Barriers to trade and inadequate fair trade
- The poor investment climate. If this can be improved then the potential for agriculture and manufacturing will be unlocked.

DFID is moving its resources to budgetary support for governments, causing a challenge for more direct PSD support, although they continue to support the IFC PEP Africa. She invited participant perspectives on this point.

**Ron Stryker, USAID**, spoke about the Trade and Investment Program for Competitive Economy (TIPCE) in Ghana, which addresses two key issues:

1. The enabling environment/investment climate – a responsibility of governments.
2. Improving competitiveness in the private sector. The private sector is small, dominated by a few large firms and with many micro and informal enterprises that lack the necessary technical expertise. For micro enterprises to be competitive they need to be in sectors with growth potential, for instance in horticulture value chains focusing on European markets. These are huge markets and there is potential for clusters to be competitive in particular value chains if cooperation can be enhanced. For this to be realized PPP structures are necessary for dialogue between the private

sector and government, so that government can make sensible policy and regulatory decisions and appropriate infrastructure investments.

ICT is a very important tool for market intelligence, for sharing and analyzing information and ICT applications are very useful for improving the productivity of private enterprises.

**Marita Broemmelmeier, GTZ** noted the constraints for PSD are similar globally. The GTZ PSD focus in Africa is on: improving the enabling environment; financial mechanisms, especially for micro enterprises; and, agricultural industry and value chain development. She spoke about two areas of interest:

1. Services for MSMEs

BDS facilitative services to develop the BDS market, combined with financial mechanisms. Success comes from the two working together.

2. Improving the enabling environment

It is important for the private sector to analyze and address constraints, in dialogue with the public sector, with better instruments and structures. Local economic development works when ownership is created at the local level, by bringing sectors together to promote and improve the local enabling environment. Stronger social inclusion is achieved when micro and small enterprises are included in the dialogue. At the National level, improved framework conditions reduce the cost of doing business and an important instrument used is the Business Climate Survey.

**Fracisco Gadzekpo, IFC**, spoke about the Private Enterprise Partnership (PEP) Africa, which has an SME focus and a number of elements:

1. Improvements to the enabling environment, for example with better business regulations and processes
2. Technical assistance to increase proactive investments, for example by improving SME capacity for future IFC investment. This involves business advisory services, assistance with business and strategic plans and promoting ICT tools to facilitate operations
3. Indirect provision of finance to small enterprises, via support to local banks who on-lend. He gave three examples:
  - a. Trade Finance Program, involving a line of credit so local banks can offer trade finance to SMEs
  - b. SME finance via local banks, involving \$30million in Ghana with selected banks
  - c. Leasing program in Ghana and Tanzania, involving: government legislation; assistance to supervisory institutions and central banks for monitoring and supervision of the industry; assistance to help lessors source the equipment customers need; information for SMEs about the finance options.

**Kofi-Boateng Agyen, World Bank, Ghana**, affirmed the comments made by the other speakers. The World Bank provides credit to governments for on-lending and technical assistance to the private sector. The Africa Action Plan has three main drivers:

1. Improved governance and ‘stable states’
2. Accelerated economic growth. The Bank helps governments identify sustainable growth sectors, one of which is the private sector. Africa is a high cost and high risk place in which to do business and therefore improvement to the investment climate, better

infrastructure and reduced cost of power and Telecoms is critical. They help promote export by removing constraints and helping provide credit (partial risk guarantees) and technical assistance to SMEs.

3. Ensuring the poor and women benefit.

**Amos Anyimadu, Ghana**, gave a provocative response to the donors, making a number of challenging points:

- The World Bank Country Assistance Strategies are rich on knowledge but weak on action and do not recognize the potential of creative industries, including music
- There is much talk of firms and not enough of farms. Much of the support is skewed to the formal sectors and to the cities
- The international development experience is ‘under-whelming’. There is often undue focus on monitoring and policing functions rather than engineering positive outcomes, “local projects spend all their time on administration for donors leaving no time for development”

He made further points of advice for business incubators:

- “Connectivity is not community; we need trust”. Technology and applications area needed that allow peer-to-peer learning and to build trust; to construct social capital. There are high levels of personal social capital, but not at the impersonal level.
- There is great potential for the mobile phone screen (e.g. M Trust net), but he expressed skepticism about the potential of BPO in Ghana.
- Realism is required with ICT, “the ICT bubble has not burst in Ghana yet” (with reference to the dot com crash in developed countries)

In the Q&A other points arose:

- What are the respective roles of central and local government?
- Support is required to develop the competence of government officials to support SMEs
- Development of entrepreneurial attitudes are just as important as development of technical business skills at the school level
- There is no one answer and answers need to be culture specific
- With technical assistance to help governments develop strategies, it is a matter of ‘learning by doing’, although lessons are not always shared from the national to the local levels
- SMEs often cannot meet the conditions imposed by the banks
- Water, energy and roads are impediments that need to be addressed along with improvements to the enabling environment.

### **Session 3: The Financing Gap: The financial challenges for business incubators and small businesses in Africa**

*This session will feature the preliminary results of infoDev research on the financing challenges facing ICT innovators in developing countries, including Africa.*

**Kerry McNamara, infoDev**, outlined the preliminary results of the infoDev Financing Gaps study, which is nearing completion. This study addressed finance gaps for SMEs in the ICT and ICT Enabled (ICTE) industries and involved country studies in Kenya and Senegal.

The main gaps are in the Development (e.g. market development, increased capacity and working capital) and First Expansion (e.g. significant change in operations) stages where banks do not usually lend and the deals are too small for venture capitalists. The early stages (from pre-seed, seed to start up – i.e. from business idea to commercialization) may be difficult, but if people can't raise finance for this stage then they probably do not have the capacity to go further, even if finance were to be secured. For the second expansion stage (e.g. internationalization) banks start to lend and venture capitalists are prepared to invest.

The study found that in Kenya the financing needs at early stage are in the order of \$10,000 to \$30,000 for purchase of licenses and equipment, at the development stage in the order of \$30,000 to \$60,000 for formalization of the business and market development, at the first expansion stage in the order of \$50,000 to \$100,000 for product diversification and that no one has reached the second expansion stage.

Some of the main recommendations with relevance for Africa are for:

1. New quasi equity finance mechanisms (e.g. royalty schemes, loans with performance related interest and other flexible mechanisms).
2. Creation of the conditions for more widespread use existing finance mechanisms with tactical approaches to reduce transaction costs, for instance by associated technical assistance, and promotion of credit guarantee schemes.
3. Enhanced understanding of the ICT sector and its intangible assets.
4. Better understanding by finance institutions, business associations and incubators of finance options, so they can pass this on to their SME clients.

**Charles Kwesiga, Uganda Industrial Research Institute**, commented that the presentation on the study is a rationale for business incubation, although sustainability when infoDev funding ceases is an issue. He talked of Uganda's experience in which PPPs are important and there is a lack of financing and associated skills. He would like an innovation fund, but feels incubation can help bridge the gap.

**Kojo Adu, Event**, a Busy Internet client, talked about work and contracts being more important than money. He specified three stages to financial freedom:

1. Pre-incubation, when lack of knowledge is the biggest constraint. He needed some funds, couldn't meet bank requirements, but secured \$1,000 from a local individual investor.
2. Business incubation, which gave him more knowledge and experience, helped him secure work and prepared him for investors
3. Post business incubation when the business is stable and has been made attractive to investors.

He advocated investors considering business incubation support as quasi collateral.

**Elsie Adu, Fidelity Partners**, a VC firm in Ghana with a strong relationship with Busy Internet, shared her experience, from an incubator and an SME perspective.

### ***Incubator Perspective***

Incubation is very important for the development of small businesses, but how can it be made sustainable? Incubators need to provide a service for which they can charge, to generate revenue either directly or indirectly. Incubators prepare companies to stand on their own and need good links with financial institutions. While doing this, is the incubator itself prepared for finance and what are incubators doing to make themselves attractive to financial institutions? Incubators should be the initial point of call for initial finance, as they know the companies better than anyone else and because external institutions will take much more convincing. However, financial institutions don't have much knowledge of business incubation and the value and credibility it adds to firms.

### ***SME Perspective***

Size is the main challenge. VCs simply cannot do small deals; the transaction and due diligence costs are too high. Small and micro finance institutions are better structured to the needs of small enterprises, although special seed investments funds may be required. If incubation can lever appropriate seed stage finance, then it can take the company to a stage when external finance is more likely.

Elsie summarized the session with the following points:

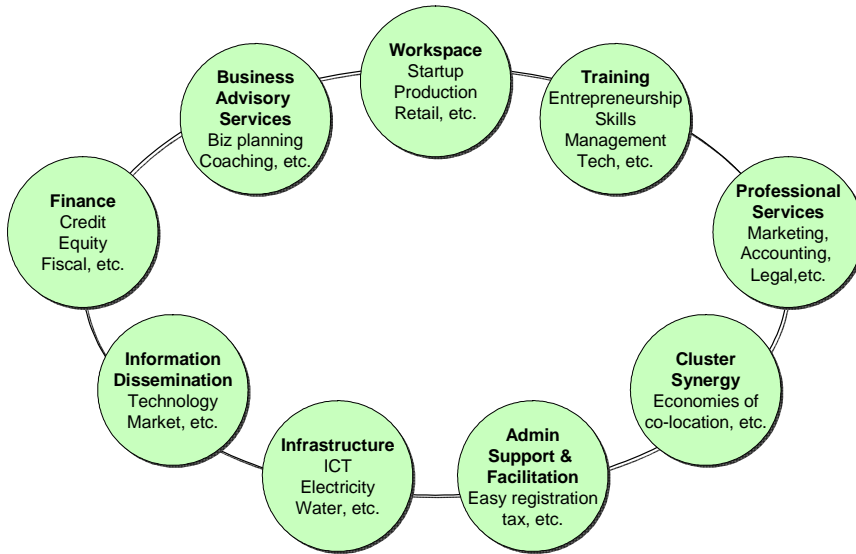
- VC is not the answer, but one of the tools
- Friends Family and Fools (the 3 Fs in USA jargon) are very important for initial financing.
- Equally important is business incubators helping their clients to secure work or contracts
- Building management capability in the incubatees is crucial and incubators can help with management for a percentage of equity, thereby enhancing their options for sustainability.

## **Session 4: The Role of Incubation**

*How do incubators fit into the broader context of small business development services (BDS)? When is it appropriate to use incubation instead of an alternative BDS model? What difference can incubators make in enabling innovation and entrepreneurship? What are some examples of successful implementations in Africa? What were the key lessons? What, if anything, differentiates incubation in Africa from incubation in Asia, Latin America, and Eastern Europe/Central Asia?*

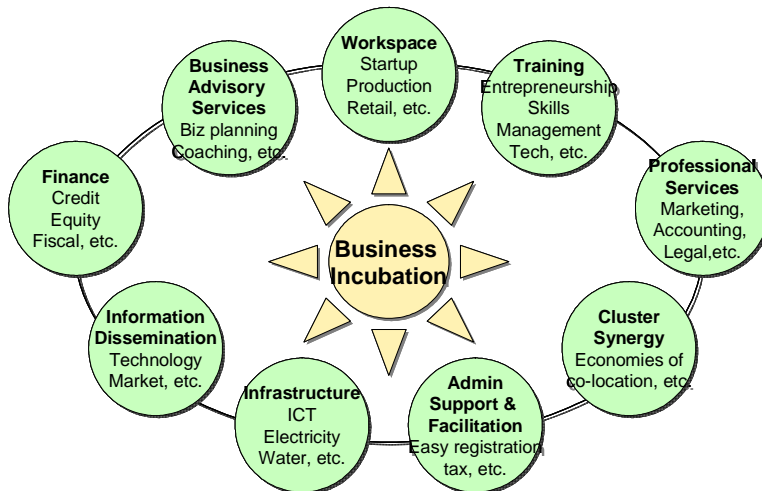
**Dinyar Lalkaka** introduced business incubation as one tool only, in a tool box of Business Development Services (BDS).

## Varieties of BDS experience



He stressed that all BDS operate on a *microeconomic* level. They can have an impact on local communities, but to be sustainable and scalable, they must be accompanied by appropriate *macroeconomic* policies. Moreover, BDS impacts are small and incremental; it takes time to show real results.

## So where does incubation fit?



**Potentially, as the convergence of all BDS on a single platform**

He noted that workspace is often focused on at the expense of other BDS elements and analyzed the pros and cons of the real estate aspects of traditional incubation.

Pros

- Low or no cost facility creates a long-term income stream, which promotes continuity and sustainability

- All businesses are willing to pay "rent"
- Physical interaction is more effective

Cons

- Expensive, out of reach of many communities
- Distorts focus, becomes driven by "edifice complex"
- Limits outreach, only benefits narrow group of formal enterprises

He suggested a shift in focus:

- from *incubators as buildings* to *incubation as a process*, applied to the community in its natural trading space
- from incubating *individual businesses* to incubating a *community of businesses*

**Julian Webb** added to Dinyar's presentation stressing that incubation is all about supporting growth companies, which are only ever a minority, in the order of 10% to 20% of all enterprises. It is selective and not for the majority of enterprises, for whom other interventions are more appropriate, such as formal BDS and micro enterprise development programs.

**Carlos Tamele, Team Leader of Science and Technology Park Component, MICTI, Mozambique**, presented a case study on the development of the Mozambique Information and Communication Technology Institute (MICTI) incubator, involving conversion of a military base into Technology Development Centre (TDC) and barracks into a Technology Incubator, to house from 5 to 20 tenants. Some of the lessons noted are:

- The benefits of twinning Business & Technology Incubators and Science and Technology Parks
- The MICTI Incubator should have an investment vehicle of its own, to serve as a significant motivator for tenants to move beyond the start-up phase into the growth phase.
- The MICTI incubator should have growth capital available to make an investment into the successful incumbents.

**Rebecca Ruzibuku, TBIF, Rwanda**, noted incubation is at the micro level, but needs the support of the macro environment. Incubation is a process that needs to be adapted to the African environment. As an example, she noted that Africa does not have the extent of informal finance sources (the FFFs – Friends, Family and Fools) that are available in the USA; people are poor, or the family does not exist, meaning government has a role to fill the gap. A limited culture of entrepreneurship is a problem that started with colonization, which trained people to be civil servants and good employees, but not to be employers. Business incubation can be a hub for entrepreneurship and not just a limited tool and ICT can enable enterprise activity broadly and not just in the ICT industry.

In the Q&A a number of other points were noted:

- Business incubation is now dominated by developing countries, but how is the process to be indigenized?
- "Learn from but do not be bound by developed country models"

- Incubation prepares clients for finance, but an incubator’s role is facilitative and finance should be provided by other bodies such as micro finance banks. Carlos Tamele outlined how in Mozambique UNDP provides funds to a bank, with whom incubator clients sign a contract.
- Most business is micro, but the firms do not grow. The biggest challenge is to support growth enterprises to create the missing Middle amongst SMEs.

## Sub Regional Break-Out Sessions:

*Participants divide into groups by sub-region to discuss the topics of the previous sessions in the context of their own countries and sub-regions, and to identify distinctive challenges and experiences of their sub-region.*

Participants broke up into 3 sub-regional groups: East Africa, West Africa and South and Central Africa. The groups discussed their experience and challenges, which in the final sessions of the conference came together as sub-regional and African action plans. Sharing and discussing experience was a feature of the breakout groups, the value of which cannot be underestimated, even though the peer to peer learning cannot be reported adequately.

### East Africa Sub Region

Challenges

1. Promoting Innovation
2. Managing business properly - not out of one’s personal pocket
3. Political Environment

South Africa has good public support for incubators and technology transfer funding and may be a role model for other countries.

Incubation brings all the supports services in one package. ICT is a key enabler of small business and is a support.

In Angola they are creating an enabling environment to support private sector SMEs, but the financial and non-financial services are not sufficiently developed. ICT could make a big difference, but the necessary infrastructure is not there and, as a result, ICT is still for the future.

Senegal has annual awards for innovation in Agriculture to stimulate further innovation.

Both Angola and Senegal are roping in help from India.

Strong platforms for advocacy and exchange of information between African countries are required.

### Southern Africa Sub Region

<b>Key Challenges</b>
<b>Human Capital Development:</b> «Lack of can do mentality» - a fundamental element that



was noted, but not discussed.
<p><b>Need to build on the strengths of Africa:</b> «Traditions and Community»:</p> <ul style="list-style-type: none"> <li>• Solutions to be based on community.</li> <li>• Not only focus on small and medium enterprises, but also on micro.</li> </ul>
<p><b>Sustainability</b></p>
<p>Incubation should be seen as a process:</p> <ul style="list-style-type: none"> <li>• “Individual incubation” versus “incubation of communities”.</li> <li>• Need for flexibility in the selection of the Business Incubation model.</li> </ul>
<p><b>Knowledge sharing</b> is a key element, but need to address the <b>HOW?</b> (Through a Web Site?)</p>
<p>Need for strong <b>advocacy</b> on policy reforms for micro, small and medium enterprise development:</p> <ul style="list-style-type: none"> <li>• Need for Government policies for incubation and acknowledgement of importance of SME sector.</li> <li>• Government involvement is very important</li> </ul> <p>But the key question is <b>HOW?</b> Policy paper to be developed by Steve &amp; Tom</p>
<p><b>Need to develop entrepreneurship culture.</b></p>
<p>Capacity building is a critical point:</p> <ul style="list-style-type: none"> <li>• Running a business incubator is a big challenge: the incubator needs to be able to incubate</li> <li>• Quality of services</li> <li>• Credibility</li> </ul>
<p><b>Need to promote “business mentorship” or “business angels” (patronage)</b></p>
<p><b>Access to finance</b> is a big issue:</p> <ul style="list-style-type: none"> <li>• How to approach donors?</li> <li>• How to work with donors?</li> <li>• Need to leverage the limited resources available for Africa</li> </ul>

## West Africa Sub region

### Key challenges:

- Financing and Marketing
- Identifying key personnel for incubator programs
- Illiteracy - in Senegal for example
- Taxes and regulation of SMEs.

### Possible Solutions

#### Networking

- Associations of incubators should be formed sub-regionally. Credibility is important for obtaining government, donor and stakeholder support and can be generated by working together.

#### Funding and sustainability

- Funds to be setup by and managed by incubators themselves and used to finance SMEs.

- Use a well recognized successful incubator to channel funds for SMEs e.g. Busy Internet
- Develop and sustain a community venture capital fund for incubator companies
- Funds should be strategically placed and channeled into high growth areas, job creation opportunities and commercially viable markets. Good incubation prospects should be found, with proper selection.
- Traditional methods for financing small/ incubation programs in our sub-regions should be established, separate from financial institutions, e.g.: Susu, Small Saving Collections.
- Incubators can be run for profit
- Take equity in incubate companies to ensure productivity
- Liaise with Donor Agencies
- Involve the government. Government participation need not only be by way of financial support and makes it easier to secure private sector participation and international aid, e.g. Mauritius
- Problems that prevent financial institutions from giving out aid may be an opportunity, for instance locating their clients; addresses in Ghana are hardly accurate.

## **Breakout Groups on Specific Challenges Facing Incubators and their Companies**

The second day was devoted to three breakouts, with participants having the option of moving to another group in the afternoon, although many continued with the group they started with in the morning. The 3 topics were:

1. Incubation Sustainability and Financing
2. Incubator Models and Service Offerings
3. Capacity Building

As with the sub-regional breakout groups much of the value came from the peer to peer exchange of experience, discussion and learning. The results of the group work then came together for the action plan on the third day.

### **Incubation Sustainability and Financing**

The main issues and suggestions for incubator sustainability that arose from the group discussion were:

- An incubator should aim to mobilize resources from multiple sources, to be a good model for business.
- Although private sector owned incubators may be sustainable, they will typically not generate adequate returns on the investment; the best arrangement is a public-private partnership whereby the government meets the cost of investment in infrastructure.
  - What support should government provide: sunk cost/building/infrastructure or operational budget?
- The incubator should be entrepreneurial and, in this respect, selection of incubator management is critical for sustainability. Use of available university faculty or public sector officials may not be good for sustainability.

- Minimize government bureaucracy- e.g. in RSA, companies are created to manage the incubators
- Donor and public sector funding is critical, but should be gradually reduced as the incubator develops internal and other alternative sources of funds (e.g. RSA)
- Systematic government financing of incubation requires a policy framework and strategy – RSA (working), Kenya (strategy in place)
- Continued external funding depends on the success of incubation - start one or a few incubators, learn from successes and failures and then roll-out the working model(s) - RSA
- Academic institutions have a long-term perspective of technology development and transfer, capacity building, wealth creation and economic development. They are good partners to resource and sustain incubation because it is in line with their missions - RSA
- There is a trade off between going narrow/deep and sustainability - a “shallow/broad” approach is more open/flexible to alternative means of self sustainability – (Busy Internet)
- A critical mass of incubates is essential for sustainability (Mauritius)

The discussion raised a number of areas in which incubators could broaden their services and potential revenue streams, including:

- A combination of virtual and in-house incubation.
- If you can get government to buy from incubatees, it helps to create a good market for their products and hence sustainability.
- Incubators have a good opportunity to act as proxies for small companies in their dealings with large companies and government.
- Incubators could look beyond the domestic market. One potential market is foreign multinational companies, which often require a soft landing in African countries while they come to understand the environment and develop local networks.

The difficulties of incubating unemployed graduates were discussed. Fresh graduates lack the experience required for them to “start and go” in business, whereas those who have worked (been “incubated”) in the corporate environment are better placed to start and develop enterprises.

- How do you identify graduates with potential to develop growing enterprises, which will create jobs for others?

A number of ideas were discussed for financing SMEs:

- Secure an Incubator Loan Fund from government or development partners and get a bank to manage it (Mozambique)
- Build a strategic relationship with a Micro-finance institution (Mozambique)
- Establish a Guarantee Fund to cover incubatee enterprises supported by a bank
- Provide equipment and facilities for hire as and when needed, so that the incubatees don’t have to buy them (Tanzania)
- Include a bank(s) in the Incubator Board, so that it learns about opportunities and needs of incubatees and develops products to suit (Mauritius)

- Include professional service providers (accountants, lawyers, etc) on the Board, so that they can learn more about the needs of new and growing SMEs, design new products and services specifically for this market and be ready to support incubatees without charging, or with reduced fees as part of their social responsibility

## **Models**

The group considered models in terms of the key objective of business incubation, the desire to build businesses, and the need for a holistic set of services. A number of options were discussed:

- Public vs. private
- 'Real' vs. virtual
- Sector focus
- Start-up vs. established
- Pre-incubation > incubation > post-incubation

Then the group considered the pros and cons of BDS, Pre-Incubation, Incubation and private incubation, before summarizing the lessons:

- Stakeholder needs are important in directing the incubation model
- Pre-incubation is important to prepare entrepreneurs
- All models are based on the desire to build business
- Incubation focuses on business growth
- Incubation is becoming a business in itself
- Entry criteria are very important to success

## **Capacity Building**

The group considered capacity building in terms of the incubator management team and then the clients.

The core skills required for the incubator management team were considered to be:

- Entrepreneurial psychology/skills
- Business Management Skills
- Strategic Partnerships – Public & Private
- Proposal and Business Plan Evaluation
- Fund-raising and Mobilising Resources
- People Management and Team Building
- Mentoring and Coaching
- Monitoring and Evaluation
- Effective Use of ICT
- Communication Skills

The differing needs of clients at different stages of their development were stressed as a reason for flexible services and for tailored capacity building:

- Stage 1: Concept stage
  - Market research and market validation
  - Business plan writing
  - Product service design
  - Intellectual property consideration
- Stage 2: Development/growth stage
  - Implementation of business plan
  - Coaching and mentoring
  - Partnerships and Networking
  - Fund-raising and resource mobilization
  - Equity/Stakeholders/Management assistance
  - Research support, knowledge and information
  - Support services (acctg., finance, mktg etc)
- Stage 3: Mature stage
  - Ongoing relationship/network
  - Mentoring
  - Ongoing research and marketing assistance
  - Follow-up on M&E

## **Session 5: The Broader Environment: Policy, ICT and other "Enablers"**

*This session will explore how broader policies, laws, business environments (including ICT costs, access and quality) and decisions by government and others affect the environment in which incubators and their companies operate. It will identify some of the key challenges to be discussed in the subsequent sub-regional breakouts*

**Julian Webb** spoke about how business incubators can change the enabling environment: the culture of entrepreneurship, the regulatory and policy environment and financial mechanisms offered by banks and public institutions. Donors and some governments are skeptical about the impact and relevance of incubation, but may not comprehend these impacts on the externalities that can go way beyond what is achieved more directly with the firms being assisted. The environment influences the type of incubation that is appropriate and as the environment changes incubation needs to adjust accordingly.

**Tessema Geda Manayahele, EICTDA, Ethiopia** spoke about how ICT can help overcome many challenges such as HIV, malaria, human resource capabilities and financial resources, but only if there is a national policy. He noted that the government in Ethiopia is now willing to support ICT initiatives, unlike five years ago.

**Kemraz Mohee, National Computer Board, Mauritius** presented a case study on the development of the ICT industry as the fifth pillar of the Mauritian economy and the ICT incubator as one of the associated initiatives. He outlined the laws and regulations that were introduced to improve the enabling environment, as well as initiatives to improve the ICT and built infrastructure and achieve broad stakeholder support to develop sustainable

competitive advantage. The ICT incubator has been developed in this context to support the growth of local entrepreneurs alongside attraction of foreign companies.

**Allon Raiz, Raiz Corp, South Africa** gave an alternative and provocative perspective, focusing on the enabling environment in our heads; attitudes and beliefs that are fundamental for entrepreneurship. To illustrate his point and to urge incubators to be more entrepreneurial themselves, he adapted the nursery rhyme Humpty Dumpty.

*We the incubation industry is sitting on the proverbial wall  
We know that the funding model is not sustainable on one side of the wall  
And we like the lump sums of money on the other side of the wall  
But what happens to an oval egg shape when it is not held up  
Humpty Dumpty had a great fall  
So maybe this year all the king's horses and all the king's men will put Humpty together again  
Maybe next year again  
And the year after that  
But one day soon all the kings' horses and all the kings' men couldn't put humpty together again.*

He raised two possible disconnects:

1. Incubators aiming to generate profitable entrepreneurs when they are not profitable themselves.
2. Unsuccessful incubators supposedly leading clients to success.

He summarized three facts about entrepreneurs:

1. The controversy as to whether they are made or born, siding on the side of made.
2. Adversity and hardship are common to all successful entrepreneurs, with adverse communities creating more entrepreneurs.
3. They have a high internal locus of control, don't believe in fate, and go to the market, money and the world. They don't wait for the world to come to them, but "happen to the world".

"We need to start to believe in ourselves."

He then outlined his private unique incubation model, which involves:

- Taking 33.3% equity, but not paying for it
- Sharing in 20% of the profit, but only if the cash is there and as the last to take money out
- Clients paying market rates for all services: phone, rent, consulting and advice (but with 75% charged to their loan account)
- A money back guarantee if value is not added
- Selection based on judging and measuring the entrepreneurial character and ability to learn, as well as people having a car, cell phone and computer.
- Offering clients infrastructure, personnel (e.g. bookkeeping), training, mentoring and with each client having a personal and a business coach
- Sales assistance, and
- A special magic – sense of community.

## **Sub-regional Break-Out Sessions: Creating Positive Change by Working Together**

*In this session participants will meet in sub-regional groups to discuss a) the strategies they can/have employ(ed) to overcome their challenges and affect change, including policy change in their countries to improve the enabling environment for entrepreneurship and business incubation; b) what role InfoDev and/or the network and/or other stakeholders can play in helping to effect policy change and improved enabling environments at the national and sub-regional level; c) what sub-regional organizations and initiatives can be particularly valuable partners and targets for advocacy, awareness-raising, mutual support and capacity-building, and d) concrete ideas for building sub-regional networks.*

The three sub-regional groups met to continue their work, focusing on action strategies.

### **East and Central Africa**

1. Need to focus on sustainability (incubator financing)
2. Need to create awareness for decision makers
3. Need national advocacy network, contributing to sub regional network
4. Need to have membership open to all in small enterprise development
5. Need to mobilize resources locally and internationally
6. Need to demonstrate relevance and must show impact (sharing stories, best practices)
7. Need to learn/link within and between other networks
8. Need exchange visits
9. Need training programs for incubator managers
10. Need to review policy frameworks to ensure fit of incubation
11. Need website for sharing/learning etc
12. Need regional meeting within a few months

### **Southern Africa**

1. Need a web portal
2. Need a directory of who's who and what can be done by them
3. Need a scan of who has what tools they can share and contribute
4. Need to look at a model for the network
5. Need training program for incubation practitioners
6. Need exchange programs and sharing (technical, ideas)
7. Need to raise awareness and advocacy
8. Align our approach with SADC policy
9. Need full time staff
10. Brochures
11. Regional workshop
12. Country story contributions

## West Africa

1. Need to share knowledge, skills, info etc
2. Need credibility
3. Need policy understanding and advocacy and close work with government (but who is responsible for linking to whom?)
4. Need summary of what the network is
5. Need an advocacy paper on what policies are successful and to raise policy maker awareness – get definitions right
6. Need a website (English, French, Portuguese) with who's who
7. Need to map initiatives
8. Need incubator management training
9. Need annual recognition awards (incubator and client focused)
10. Need network to facilitate investment forums, matchmaking and twinning of incubators
11. Need to use network for loan guarantees, credit ratings (in the absence of a credit rating system incubators could endorse their clients) and quasi stock exchange (an idea to tap into the social value based investment in developed countries, with investment in a fund for investment in SMEs via network members).
12. Need to retain focus – what membership criteria?

## Final Plenary Discussion: the Role of the Network

*Building on the sub-regional discussion, this session will explore the role of the proposed African Innovation and Incubation Network. How can it facilitate knowledge sharing and peer-to-peer learning? How should it operate? How should it be formalized to make a real impact, and how can it serve an advocacy role to improve the environment for innovation and business incubation? What are the first issues this Network should tackle?*

In this plenary the work of the sub-regional groups was presented and commonalities captured as the action plan for the network. Charles Kwesiga spoke briefly about the infoDev grant that has been awarded to a consortium comprising Busy Internet (West Africa), Uganda industrial Research Institute (East Africa) and Bodibeng Technology Incubator (Southern Africa), for the development of the African Innovation and Entrepreneurship Network, and how the planning from this workshop would be incorporated into the network grant activities. Before presenting the commonalities, as the draft action plan for the network, Steve Giddings made a presentation about successful networking.

### Successful networking

#### *Why a network?*

The advantages of networks are that they provide access to “soft knowledge”. Soft knowledge is knowledge that is not easily articulated nor captured and can consist of experience, work knowledge that has not been internalized and tacit knowledge<sup>1</sup>. It is the

---

<sup>1</sup> Hildreth, P, Kimble, C and Wright P. 2000. Communities of practice in the distributed international environment. Journal of Knowledge Management, Vol 4 (1), 27-38



type of knowledge that may not appear in publications – but is vital nevertheless vital to efficient functioning.

***Building a network***

Networks facilitate communication, participation, learning, and community and this is supported by<sup>2</sup>:

- ③ a common language
- ③ a common purpose
- ③ evolution
- ③ shared background or experience
- ③ dynamism
- ③ creation of new knowledge
- ③ the fact that the network facilitates more than simply “interaction”

***Networks Must...***

1. have a communication mechanism
2. create legitimacy (trust)
3. enable participation
4. enhance learning
5. create community/identity

Interesting literature finding...successful networks meet face-to-face (once a year at least) to strengthen linkages and keep enthusiasm alive!!

**Commonalities – draft network action plan**

The sub-regional breakouts identified many common priorities, which were captured and endorsed as the draft Action Plan for the Africa Innovation and Entrepreneurship Network. These are to be incorporated into the infoDev grant implementation report and subsequent grant activities.

1. Create awareness of incubation and the importance of innovation and entrepreneurship activity with governments, stakeholders, education institutions and the finance and private sectors. Advocacy of the network.
2. Understand country policy and regulatory environments and advocate for improvements to foster innovation and entrepreneurship.
3. Develop and disseminate promotional material, the activities of network members and country stories (recognize success).
4. Start determining its own future structure and look at future sustainability, possibly developing its own funds.
5. Develop a web site with a knowledge repository of shared tools and practices.
6. Create a training program for incubator practitioners.
7. Facilitate exchanges of experience, twinning and sharing programs.
8. Support regional workshops.

---

<sup>2</sup> Seely Brown J. and Duguid P. 2000. "The Social Life of Information." Boston, MA: Harvard Business School Press.

## Workshop Wrap Up and Closure

**Hon. Namuyangu Jenipher, Minister of Tourism, Trade and Industry Uganda** wrapped up the workshop, thanking infoDev for a “very enriching experience, sharing experiences from different backgrounds”. She thanked the coordinators, the hospitality of the people of Ghana and the Hotel Management. Looking ahead she made four closing points, urging participants to action:

### 1. Ensure governments support

She prompted participants to make themselves known to their ministers as the first step in obtaining government support. She noted donors have shifted their resources to budgetary support for governments, making it all the more important to obtain support from governments and not donors. She stressed incubators should initiate and drive the policy for incubation; politicians may not know about incubation and want advice and ideas.

### 2. Resource mobilization

She thanked infoDev for the Financing Gaps Study and urged participants to take the recommendations home and to try to address some of the gaps identified.

### 3. Networking

She used a story to illustrate the importance of networking in the ‘global village’. When she was at high school, one student always kept to herself what she knew in discussion groups, but she did not know that what she knew was wrong. “By sharing and networking you know what you are doing is right and learn from others mistakes”. She felt South Africa, with a more developed incubation industry, has a lot to offer other countries and should try to pull others ahead.

### 4. Sustainability

This must be worked for and will require creativity and flexibility.

In conclusion she urged participants to be assertive in implementing the results of the workshop, “Personally I have been really impressed by what has been achieved here. Let’s implement it! Use the network to share and learn and encourage our governments to do this”.

**Kerry McNamara** thanked the Minister for her inspiring wrap up and continued the Minister’s call to action.

He told the story of Tim Berners-Lee the founder of the www, a researcher who wrote software so students could share computer files. He did not set up an organization or standards committees but ‘just did it’. He used Pierre Omidyar, the founder of e-Bay, as another example of how people can turn dreams into reality, by getting out there and doing it.

He set participants a challenge going forward, to describe what they do without using the term business incubator, but to “help creative enterprising people realize their dreams, by safe space, tools and resources. It does not need a box or a label but happens in heads, heart and hands, not a building”.

In developing the network Kerry urged people not worry if they have all the answers, but to get out and try and learn.

He thanked the infoDev team, Estelle and Pamela and the Busy Internet Team and Vivienne and the Westlink team.

Estelle Sowah had the final word, thanking participants, Westlink and the La Palm, Golden Tulip and M Plaza hotels. She felt the objectives had been more than achieved, especially the sharing of experience and knowledge and noted how she had been motivated by the fact that so many are doing the same thing around the world and that she is not alone in trying to make a difference; “Proud to be African”.

## **Presentations**

All presentations are on the web site: [xx](#)