



**2nd Global Forum on Business Incubation:
Empowering Economies through ICT-enabled
Innovation and Entrepreneurship**

**Hyderabad, India
November 6-10, 2006**

Forum Report

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Summary

The 2nd Global Forum on Business Incubation was convened in Hyderabad, India, from November 6 to 10, 2006. Organized by *infoDev* in partnership with the Department of Science and Technology of the Government of India and the Federation of Indian Chambers of Commerce and Industry, it was attended by more than 300 participants from over 50 countries.

The Regional Action Plans and the Recommendations adopted at the conclusion of the Forum can be found at: <http://www.infodev.org/en/Article.27.html>

This brief report on the Forum proceedings is organized around ten major themes.

1. *Innovation and Entrepreneurship*: Innovation is driving rapid change and making the world “flat” by removing barriers to the flow of talent. Innovation should be viewed as an ongoing process that requires an enabling environment. Education is a critical element of this environment, as are strong national R&D capabilities and the entrepreneurship necessary to translate technical innovation into economic value. Government and the private sector should drive the innovation engine together.
2. *The Enabling Environment*: Business incubation is best understood in the context of the broader cultural, social, economic and policy environment in which it operates. Lack of an “entrepreneurial culture” was cited as a factor influencing entrepreneurship and innovation. The level of economic development also affects the scope for business incubation: at too low a level of development, lack of social infrastructure may serve as an impediment to incubator success, whereas in a mature business environment, market forces may be able to more efficiently provide small business support services. Further priority should be given to linking education with entrepreneurship.
3. *Access to Finance*: Access to finance by small businesses is a bottleneck in many developing and transitional countries. There is a critical funding gap in the expansion phase after startup and before mature development. Among the recommendations of an *infoDev* study of incubator clients’ access to finance was the finding that combining technical assistance – e.g., through an incubator – with finance in a single package can reduce small business lending risk.
4. *The Rationale for and Impact of Business Incubation*: The primary rationale for business incubation is to correct market imperfections. Markets often fail to provide small businesses with the information and resources they need for growth. Business incubation creates external economies. The experience of the *infoDev* incubator program, documented in a recent evaluation report, provides a window into the many kinds of positive impacts that incubators have on their communities.
5. *Sustainability*: Sustainability and impact are intertwined. There can be a delicate balance between financial sustainability and impact on target communities, especially when serving disadvantaged groups. However, if an incubator is not financially sustainable, it cannot have a sustainable impact. Incubators cannot help client businesses to act

entrepreneurially if they do not themselves act entrepreneurially. Mechanisms for incubators to take equity or royalties from client companies were a popular topic of discussion.

6. *ICT-Enabled Entrepreneurship and Incubation:*, For most Forum participants, the focus was not on incubating ICT firms but on helping incubators and incubated firms become *ICT-enabled*. A majority of grantees had made ICT infrastructure widely available to their clients. The concept and practice of “virtual incubation” elicited much attention, and a new body of practice appears to be emerging in this area.
7. *Serving Disadvantaged Communities:* Several *infoDev* grantees serve marginalized groups historically underserved by business incubation, and have pioneered innovative approaches to the incubation delivery process. ICT was widely used to reach out to large numbers of the disadvantaged on a cost-effective basis.
8. *Regional Perspectives:* The action plans presented by the five regions shared many common elements, including a strong call for training of incubator managers, new approaches to addressing the funding gap faced by incubated businesses, more emphasis on public-private partnerships and the promotion of an entrepreneurial culture.
9. *Government’s Role in Supporting Business Incubation:* Public support to business incubation is justified because incubation creates economic externalities. Direct government financing of business incubation programs is often desirable in the initial stages of program growth. However, it can be useful to separate support from management. Increasingly, government is working hand-in-hand with civil society and the private sector to fund and provide oversight to business incubation programs.
10. *infoDev Support:* The *infoDev* Incubator Initiative has provided grantees with funding, networking, knowledge sharing, capacity building and advocacy. Each of these elements links and fuses into the others, but the real value lies in the synergy of the package as a whole.

Introduction

The 2nd Global Forum on Business Incubation was convened in Hyderabad, India, from November 6 to 10, 2006. It was organized by *infoDev* in partnership with the Department of Science and Technology of the Government of India and the Federation of Indian Chambers of Commerce and Industry. The Forum was attended by more than 300 participants from over 50 countries around the world, representing business incubators and small business support organizations, the private sector, including multinational corporations and financial institutions, and the public sector, including government policy makers and the international donor community.

The Forum built on the considerable momentum created by a series of Regional Workshops in Eastern Europe and Central Asia, the Middle East & North Africa, Asia, Africa, and Latin America and the Caribbean. The five days of stimulating discussion during the Forum provided participants with an opportunity to:

- Learn from the lessons of *infoDev*'s Global Network of Business Incubators and Innovators and its analytical work on monitoring and evaluating business incubators, financing technology entrepreneurs and developing a sustainable ICT sector
- Participate in interactive training sessions designed to increase the capacity of incubator managers and policymakers,
- Develop action plans and implementation strategies for regional and global networks seeking to promote ICT-enabled entrepreneurship and innovation, and
- Network with other participants to exchange ideas and explore opportunities for partnership.

The Regional Action Plans presented at the conclusion of the Workshop can be found here: <http://www.infodev.org/en/Article.27.html>

The Recommendations adopted by the assembled delegates at the conclusion of the Forum called for:

- Enhancing policy-maker's knowledge, understanding and support for Business Incubation and its crucial role in facilitating the creation and growth of innovative SMEs for social and/or economic benefit
- Addressing the financial and fiscal needs of growth enterprises, SMEs and Business Incubators by providing established and innovative solutions
- Building capacity, leadership and management through training, mentoring, exchanges and secondments
- Maintaining and enhancing quality to enable continuous improvement
- Facilitating regional, national and global networking

Key Themes

An overview of some of the main themes reflected in the Forum sessions is presented in the following pages.

1. *Innovation and Entrepreneurship*

Innovation was presented as driving rapid changes worldwide. The critical need for enterprises is to either embrace innovation or risk failure. Noted Intel (India) president Frank B Jones, “Innovation is not a choice. If you don’t do it, you die”. It has to be seen as the fundamental foundation of the enterprise and it must be viewed as an ongoing activity and not something that happens once. B Ramalinga Raju, Chairman of Satyam Computers, observed that unless companies are continually re-inventing themselves, they will be unable to sustain a competitive advantage.

Markets and entrepreneurs will integrate if there are no obstacles, such as policy barriers. Innovation requires talent and talent is mobile, so it can be attracted to anywhere in the world. This “flattening the world”, in the phrase of Mohsen Khalil, Director of Global Information and Communication Technologies at the World Bank, makes innovation geographically “inclusive” by allowing disaggregated expertise, located anywhere in the world, to be brought into the innovation system, said Ganesh Natarajan of Zensar Technologies.

While innovation is a powerful driver of success, it must be viewed as an ongoing process that requires an enabling environment. Just as innovation cannot be “copied”, neither can the enabling environment for innovation, observed Natarajan. Each community should focus on developing an “innovation ecosystem” that makes effective use of its own unique competencies and capabilities.

Building an innovation ecosystem requires good leadership and management. It also needs a sound educational systems that start at the pre-school level and provide PhD level graduates. It is in this chain that the private sector, government and academia must work together to create R&D infrastructure and opportunities. Strong national R&D capabilities and adequate R&D budgets (as a percentage of GDP) can facilitate the emergence of smart ideas . This is an area for both government and the private sector to drive. The role of venture capital in driving the innovation engine is very important.

2. *The Enabling Environment*

The practical experience of the *infoDev* business incubation community illustrates the point that business incubation is best understood in the context of the broader cultural, social, economic and policy environment in which it is located. This broader context both “enables” business incubation, and in turn, can be enabled by it: incubation can serve as a powerful catalyst for change. While the range of contextual conditions in which incubation can develop and take root is broad, it is useful to understand and act upon those features of the environment conducive to incubation success.

Culture was widely cited as an important factor influencing entrepreneurship and innovation. Some cultures – e.g., in the Middle East, Latin America and Africa – were noted as not in favor of risk-taking and profit-seeking behavior. This lack of entrepreneurial attitudes can be an impediment to the acceptance of business incubation and to the development of private business in general. Education can play a key role in changing prevailing attitudes. Marcelo Vasquez of Fundación Chile noted that cultural change can also be one of the intangible but highly significant long-term impacts of business incubation.

It is useful to distinguish between current attitudes and an idealized notion of a people's "culture". Social, economic and political factors can temporarily suppress the display of entrepreneurial behavior, but this does not mean that entrepreneurship and risk-taking is intrinsically alien to a particular culture. Entrepreneurial energy ebbs and flows through all cultures; business incubation is one of the mechanisms that can help it flow.

There is likewise a complex relationship between the level of economic development and business incubation. At an early stage of a community's modern economic development, lack of social infrastructure can serve as an impediment to the success of business incubation. In the session on "Facilitating ICT-enabled innovation and entrepreneurship" it was argued by some that once the business infrastructure is highly developed, business incubation may be less relevant. Others, however, made the point that business incubators play a role even in mature business environments such as Silicon Valley. There are multiple tiers to the entrepreneurial community, and even in mature business environments, some groups may remain disadvantaged. And more generally, risk is intrinsic to entrepreneurship, and successful business incubators can arguably reduce that risk in all environments.

Another facet of this debate involves the relationship between market liberalization and business incubation. It was noted that although the seeds of the Indian business incubation program were sown in 1981, the program only began to flourish after economic liberalization began in 1991. The number of business incubators appears to be growing most rapidly in developing and transitional economies, suggesting that incubation can promote a virtuous cycle of reinforcing economic liberalization and in turn being reinforced by it.

Members of the *infoDev* incubation community are diverse in terms of the environments in which they operate. The enabling context is more developed in some regions than others. Estelle Sowah of BusyInternet, Ghana, remarked that incubation in Africa, though growing rapidly, is still in a nascent stage, constrained in part by the limited development of physical and social infrastructure, including management skills, access to funding by small businesses, suppression of risk-taking attitudes and policy environments that give limited support to private entrepreneurship.

There are close links between universities and business incubation, dating from the first university-sponsored business incubator in 1980. Incubation remains an important means for universities to commercialize academic research and bridge the gap between academia on the one hand and the marketplace and community on the other. In much of Latin America and Asia, many successful business incubators are sponsored or operate in close partnership with universities. But the role of universities in business incubation is broader than just sponsoring incubators: universities can serve as hothouses of entrepreneurship. However, as was noted in the

session on “Entrepreneurship, Training and Linkages with Educational Institutions”, in most developing and transitional economies, as perhaps also in many developed ones, there is a need for entrepreneurship to be better integrated into the educational system.

3. Access to Finance

While microfinance for microbusiness has recently been in the spotlight with the award to Muhammad Yunus and the Grameen Bank of a Nobel Peace Prize, there is increasing attention being paid to “small finance” for small business, a segment with financing needs larger than what is typically provided by microfinance institutions and smaller than what is typically provided by conventional banks. This was a subject of active discussion at the 2nd Global Forum, and of research by the *infoDev* Incubator Initiative.

Access to finance by small businesses is a critical bottleneck in many developing and transitional countries. According to the Monitoring, Evaluation and Impact Assessment (MEIA) study of the *infoDev* incubator community, more than 80% of the members surveyed indicated that the growth of their clients is hindered because they cannot afford banking products or services, or because SME-appropriate offerings do not exist in their local business environment. Generally, the problem is not the unavailability of capital but the perception of SME loans as “small, expensive to administer and high risk”, in the words of a Chinese grantee.

The survey and numerous presentations remarked that most incubator clients– and small businesses at large – are “bootstrapped” – that is, self-funded – in their early startup phase. “Family, friends and fools”, the “3Fs”, play an important financing role in developing and transitional countries, just as they do in developed ones, but the resources that can be mobilized through this channel are limited. Customers and suppliers are additional important sources of early-stage finance. Angel investors can play an important role, but angel networks are still nascent (and often non-existent) in most developing countries. “Kerb-side finance”, typically informal, provides small businesses in many developing countries with access to debt and sometimes equity finance, but it often operates in a gray area of the law and carries very high financing costs.

Businesses that successfully grow beyond the initial startup stage face a critical funding gap, especially in developing and transitional economies. They need capital for expansion that goes beyond what is available from the 3Fs, retained earnings, customer and supplier-provided trade credit and informal kerb-side finance. Commercial and development banks perceive the transaction costs of servicing small businesses as too high to be justified on business terms. Understanding and managing the risk of small business lending requires a level of financial sophistication and a social infrastructure of trust that is not readily available in many developing country financial institutions.

One of the key recommendations from the *infoDev* study – echoed in much practical experience – is that facilities that can provide business and technical assistance with financing in a single package can serve as an effective means of managing small business lending risk while maximizing enterprise growth. By doing the “hand-holding”, they minimize the cost for the investor. Incubators have an important role to play as trusted intermediary organizations that

create a convergence of business development services (BDS) and financing on a single platform.

Another means of mitigating risks faced by private sector investors highlighted by the *infoDev* study matched-funding facilities established by governments or donor agencies. A well-known example of this mechanism is the Small Business Investment Companies (SBIC) program of the U.S. Small Business Administration, which licenses selected financial intermediaries to invest their own funds together with public funds in promising small businesses. Similar organizations such as Inovar, sponsored by FINEP in Brazil, and the Equity Ventures program, run by the Small Business Corporation (SBC) in the Philippines, have been set up in some developing countries.

Other recommendations of the *infoDev* study include providing support to business angel networks, by matching capital with firms, as is being done by the Philippine Venture Capital Investment Group and a Kenya business angel club supported by IFC, and improving interaction between demand and supply by measures such as educating banks on ICT/ICTE firms and their performance/risk profile and helping SMEs become educated customers of financial services.

4. *The Rationale for and Impact of Business Incubation*

The primary rationale for business incubation is to correct market imperfections. Because SMEs are not on a “level playing field”, they encounter restricted access to resources such as market information, finance, and suppliers and customers. Business service providers perceive higher costs and risks serving SMEs. These market imperfections are pervasive and common to all economies, but are especially common in developing and transitional countries. Business incubation, like education and public health, creates external economies, the value of which benefits the community as a whole, not just the sponsor of the incubation program. Since incubators step in where markets fail, it typically makes sense to run them as non-profit entities supported by public funds.

The recently completed *Impact Assessment and Lessons Learned from infoDev’s Global Network of Business Incubators* documents the diverse forms of social and economic value created by the community of *infoDev* grantees. Impacts are grouped into five broad areas.

1. *Launching sustainable businesses.* Although most grantees are still in the early stages of their organizational development and many are just getting started, they “have worked collectively with more than 8,000 clients”. Many grantees have helped to start significant numbers of new businesses: 22% were instrumental in launching 51-100 startups, while another 12% helped start more than 100 new businesses.
2. *Job creation.* Although it is generally held that business incubation has a significant impact on job creation only in the long term – ten years or more, the number of employment opportunities created by the *infoDev* grantee community is already substantial, even though most grantees have been operational for less than five years. Among grantees who formally track the number of jobs their clients are creating, “close to 20% report that their clients have created more than a thousand jobs in their businesses alone, while another 20% report the number is less than 25.” This does not

include indirect job creation: the jobs created in suppliers and customers and by the multiplier effect through the local economy as a result of the additional economic value created by the incubated enterprises.

3. *Taxes.* Although government support for business incubation creates economic externalities for the community as a whole, it also serves to directly enhance tax revenues paid to the government by incubated enterprises, which presumably are more successful and therefore pay more taxes than do un-incubated ones. In the case of the *infoDev* grantee community, “more than half of grantees report that their clients’ fiscal contribution represents between 10% and 30% of their business income, and over 20% report the percentage as higher than 30%.”
4. *Social impact.* Economic and social impact are intertwined, but in the short to medium term they do not always work in parallel. Intrinsic to conventional models of business incubation is the principle of “choosing winners”; in this view, incubator resources are finite and should be deployed to support those enterprises already most likely to succeed (i.e., have an *economic* impact). Many *infoDev* grantees have chosen the more arduous path of working with entrepreneurs from disadvantaged groups, who may be less likely to achieve great short term economic success but more likely to improve the livelihoods of a broader community. Notable representatives of this group include Parquesoft in Colombia, where more than half of all clients are from less privileged groups, the Tianjin Women’s Incubator in China, which primarily serves working class women, and ITCP in Brazil, which works with cooperatives that create jobs in impoverished communities.

The evidence of impacts gleaned from the *infoDev* incubator community, while impressionistic and limited to a subset of the broader universe of incubators and allied organizations, nevertheless makes a powerful case for the diverse benefits that can flow from catalytic public investment in business incubation.

5. *Sustainability*

Two sessions at the Forum focused explicitly on the financial sustainability of business incubators and it was an implicit theme in many others. Sustainability can mean different things to different people, so there is a need for clarity in assumptions and definitions. As the discussion of incubating disadvantaged communities suggested, there can be a delicate balance between financial sustainability and impact on target communities. The fact that incubators which serve disadvantaged communities face greater challenges in achieving financial sustainability than incubators that serve more privileged groups – such as technology companies – does not diminish the value of the former.

However, even if impact is in some respects primary, if an incubator is not financially sustainable, it cannot continue to have a sustainable impact. Moreover, there are independent arguments for sustainability. Incubators cannot help client businesses to act entrepreneurially if they do not themselves act entrepreneurially. Incubators that are not at least partially sustainable risk being forced to close if public funding declines. Therefore, good practice in the *infoDev*

incubator community and worldwide suggests that incubators like their clients should be “incubated” for 3-5 years and then strive to become self-supporting.

There are many aspects to achieving sustainability in practice. It is often premised on the acquisition of low- or no-cost real estate. The income stream generated by rent for workspace can be used to subsidize services such as assistance with business planning, for which client enterprises are less willing to pay but which are nevertheless important to client success.

However, there are no “cookie cutter” recipes for creating financial sustainability. Price setting for incubator services must take into account the environment and comparable services in the market, and prices must be affordable. Charging full service fees from day one is needed in some situations and not in others. This will depend on the financing available and models that increase charges over time are appropriate to situations where entrepreneurs grow and can be very useful in both cost recovery as well as encouraging exits.

The acquisition of equity in a business by an incubator was valuable not only for the future financial sustainability of the incubator, observed Steve Hampson of the Canterbury Innovation Incubator, but also because it indicates that if a business is prepared to do this, it will in all probability be prepared to partner later. Further, equity stakes can serve to more closely align the interests of incubator and client, creating a strong incentive for the incubator to add value to a client business. However, equity stakes create potential conflicts of interest, may result in decisions that favor some clients over others, can detract focus from the primary objective of assisting entrepreneurs and potentially damage the credibility of the incubator and its team. Moreover, especially in developing countries, it is often difficult for incubators to find a graceful way of cashing in their equity stakes: few clients are likely to go to IPO or find a major new investor, so management buying back the incubator’s stake is often the only option, and even this can be difficult to do effectively.

Collecting royalties of e.g., 2 to 3 % of gross sales was an option discussed by Julian Webb of CREEDA Projects, Australia, but here again, the devil is in the details. Net margins vary enormously from sector to sector and from business to business, and royalties should be adjusted accordingly. Client firms are often unwilling to disclose their financial information to the incubator, even when they are resident in it. And incubated businesses typically experience their greatest sales growth *after* graduating, when it becomes difficult to collect royalties due to the natural decline in the strength of post-incubation relationships.

Incubators are also looking at other novel ways to attract financing. These include charging broking fees for pairing investors with clients and selling market assessment data that was originally acquired to assist clients. Strategic partners such as multinationals can add value through products as well as cash, as illustrated by the example of CRC Incubator in Viet Nam, whose backers include Microsoft, Qualcomm, USAID, EVN Telecom and Hewlett-Packard.

Like virtual incubation, equity and royalty arrangements have been talked about for a long time, but were not viewed as realistic alternatives in the aftermath of the New Economy. The extensive discussion of these models at the Forum suggests that there is renewed interest in these models, and a new body of practice is emerging.

It is also interesting to note some signs of convergence between non-profit and for-profit incubators, both of which are represented in the *infoDev* incubator community. Non-profit incubators are gradually assimilating some features from the for-profit model – e.g., experimenting on a small scale with equity and royalty arrangements, facilitating access to financing for client businesses, and paying more explicit attention to their “value proposition”; while for-profit such as Concept Nursery in Sri Lanka and Viasphere Technopark in Armenia incubators are adopting time-tested good practices from the non-profits in areas such as serving entrepreneurs and linking to the community.

6. *ICT-Enabled Entrepreneurship and Incubation*

ICT was an important theme of the Forum, but for most of the participants, the focus was not on incubating ICT firms but on helping incubators and incubated firms in all sectors to become *ICT-enabled*. There are two facets to the question of ICT enablement: access to ICT infrastructure, and deployment of ICT to extend and transform the scope of business incubators and their clients.

A presentation on the MEIA study noted that for 56.5% of grantees, ICT infrastructure was readily available to their client companies. Grantees reported that over 89% of clients deliver or intend to deliver some or part of their products or services via the Internet. 71.1% of grantees reported they have the ICT skills and knowledge to provide ICT support to clients, while 28.9% could address some but not all of their clients’ ICT needs.

Access to connectivity varied by region. In some, especially rapidly developing countries of Asia, connectivity is no longer a major constraint, and the internet is becoming a pervasive utility. It was noted that in much of Africa, access to broadband remains a challenge to many businesses. Yet the example of BusyInternet – which provides broadband access to small businesses in Ghana – demonstrates that every challenge is an opportunity, and ICT does not need to be pervasive for it to be successfully deployed by an incubator.

In terms of using ICT as a means of transforming conventional incubation models, the concept and practice of “virtual incubation” elicited significant attention. Five or six years ago, in the aftermath of the “New Economy”, ICT’s promise to revolutionize small businesses’ access to support services rang hollow to many ears and the notion that business incubation could be delivered virtually seemed implausible. As bandwidth increases and content becomes richer, virtual business support is being seen in a new light. It may still be too early to distill good practices in virtual incubation, but it would seem that a body of practice in this area is emerging, by *infoDev* grantees among others, and clearly, the concept can no longer be dismissed.

7. *Serving Disadvantaged Communities*

The session on “The Role of Incubators in Enabling Innovation and New Business Creation in Poor and Rural Communities” highlighted the fact that several incubators in the *infoDev* community are serving disadvantaged groups such as youth, women and microenterprises. This represents a significant departure from the mainstream of technology business incubation in developing countries, and underscores the need for improvisation. Traditional incubation models

often don't really apply when working with microenterprises, entrepreneurs with limited literacy, and so on.

It can be necessary to incubate microenterprises in their existing locations rather than in a central incubator facility. For example, Agroinnova in rural southern Colombia works with 250 families, none of which are resident in an incubator facility. Incubator staff are organized into five management teams, who work as facilitators for local service providers. Rio ITCP in Brazil works primarily with cooperatives in the cooperatives' own places of business, which are all over the country.

Using ICT to reach out to large numbers of the disadvantaged on a cost-effective basis was a common theme voiced by incubators serving this segment. Softstart BTI in South Africa uses a virtual incubation model, with services radiating out by video conferencing to satellite locations from a central hub. This hub and spoke model was endorsed by many incubators, including incubators that do not work with disadvantaged groups. Rio ITCP has established an internet portal that provides basic business information and news, but Rio also creates and disseminates TV and radio content, because it works extensively with illiterate people for whom audiovisual material is essential.

For incubators such as Agroinnova, financial sustainability is an especially acute issue. Maria Bustamente of Agroinnova pointedly asked "How can an incubator charge its clients for services when the clients do not have enough to eat?" Disadvantaged enterprises can take longer to incubate, and failure rates can be very high. Incubators need to impart basic skills such as literacy before they can help with business skills. As such, incubators focusing on disadvantaged communities need patient sources of funding. Representatives of incubators focusing on disadvantaged groups noted in the session that at least five years of external support is likely to be necessary before they can approach sustainability. We need to adjust our standards and not automatically see these incubators as failures simply because they are not financially self-sustainable.

8. Regional Perspectives

Members of the *infoDev* community met in regional breakout groups during the fourth day of the Forum in order to deliberate and revise "Regional Action Plans". Preliminary drafts of these plans had been initiated during the Regional Workshops conducted in the months leading up to the Forum. Much active discussion took place in each of the regional groups, and presentations summarizing the main points were delivered on the following day, the last of the Forum.

Despite the great diversity of the participants and the environments they came from, the Regional Action Plans displayed many points of convergence, as summarized below.

- *Diversity* itself, and the challenge of managing it, was cited as a major theme by the Asia, ECA and LAC presentations. The MENA group "discussions focused on the perceived lack of a 'common minimum denominator' for business incubation activities, which may hamper the transmission of experience and the adaptation of lessons learned", emphasizing the point that there are no universal "best practices", only local "good practices". The Asia group felt that in light of the enormous diversity within the region, networking was best initiated at the

country level, where common experience could more easily be identified, and build up subsequently to networking at the regional and international levels. The ECA group saw building trust as a vital step to overcoming the challenges imposed by diversity. While not explicitly addressed by the regional plans, the forum as a whole clearly recognized that diversity is also a source of strength in that business incubation is a flexible paradigm that depends for its success on grassroots innovation and cross-fertilization between different local experiences.

- *Public policy* as it affects small businesses and the incubators that serve them figured prominently in the discussions of the Africa, LAC and MENA groups. Government policy as it relates to private entrepreneurship would benefit from greater stability and transparency. There are often many relevant government agencies with overlapping jurisdictions and limited inter-agency coordination. Public-private partnerships were cited as an emerging and favorable trend which should receive further government support. Placing small businesses on a level playing field when it comes to government procurement would be a significant and tangible means of demonstrating public support for the sector.
- *Lack of entrepreneurial culture* was mentioned by the Africa, LAC and MENA groups as an impediment to entrepreneurship and business incubation. The Africa group noted that this may relate to Africa's long history of colonialism and dependency. It was felt that the perceived lack of entrepreneurship could and should be mitigated by education and the creation of "suitable market conditions" generally. Incubators can serve as role models and leaders in this change process.
- *Training and capacity building* for both incubator managers and their client enterprises, but especially for the managers, was an emphatic and unanimous need expressed by all the regional action plans. The MENA presentation recommended that training could encompass three general areas: first, incubation management and client company development, second, management of networks of investors and companies in which they invest, and third, monitoring, evaluation and impact assessment. The Asia and LAC groups noted the desirability of promoting training and knowledge transfer through the exchange of incubator staff and clients. In the broader context of training incubator managers, the Asia group looked forward to building awareness of business incubation as a career.
- *Funding* for small businesses generally and incubator clients in particular was discussed extensively by all groups except the ECA group. Several groups pointed in different ways to the funding gap between "family, friends and fools" on the one hand and more formal funding – be it angels, VCs or banks – on the other. The MENA presentation identified this gap as of the magnitude of \$100,000-200,000 for the MENA region. The Africa and Asia groups emphasized the need for incubators to work closely with banks. By serving as trusted intermediaries and pooling risk, incubators could serve to reduce the transaction costs of bank lending to small businesses. The Africa report mentioned the need to take cognizance of and work with traditional means of financing, such as "susu".

9. Government's Role in Supporting Business Incubation

Direct government financial support to business incubators is common in many developed and developing countries, and was seen by forum participants as a critical success factor for the success of national business incubation programs, at least in the initial stages of their development. The theoretical rationale for public investment in business incubation in order to address the failure of markets to effectively serve the needs of small enterprises is well established; empirically, we see that business incubation flourishes in countries where it receives recognition and support by national and local governments, and conversely, that it often fails to acquire critical mass in countries where government does not make it a policy priority.

However, it was also acknowledged that government support for business incubation has its limitations. Incubation programs which are too directly driven by government run the risk of becoming bureaucratized, with the lack of entrepreneurial initiative and financial sustainability that this involves. Civil servants are not necessarily the best mentors and role models for aspiring entrepreneurs, even if support by civil servants is better than no support at all.

Increasingly, government is working hand-in-hand with civil society and the private sector to fund and provide oversight to business incubation programs. Many members of the *infoDev* incubator community have successfully leveraged partnerships between the public and private sectors. For example, CRC – Vietnam – a government-sponsored incubator – has four public and three private partners, a four-ministry steering committee and a 15-member “Sponsor Board”. It successfully leveraged *infoDev* seed funding to obtain additional resources successively from Microsoft, Qualcomm, USAID, EVN Telecom and Hewlett-Packard. This is but one example of a broader trend of governments sharing the responsibility of funding and managing business with civil society. Incubators premised on such public-private partnerships enjoy many of the advantages of national programs with few of the disadvantages.

At a fundamental level, government can effectively support business incubation by improving the enabling environment – referred to earlier – for entrepreneurship, small business and business incubation. Creating a level playing field for small businesses enables both small businesses and incubators.

10. *infoDev* Support

Forum participants saw *infoDev* as playing a seminal role in reshaping the global incubator community in several closely interlocking and interrelated aspects.

Funding – providing catalytic grants to promising incubators – has enabled many incubators to leverage additional resources and acquire the extra fillip needed to achieve long-term sustainability. The new resources made available to the incubator community as a result of the *infoDev* Incubator Initiative have been considerably greater than the amount of the grants themselves. More important, grant funding has provided the glue that has made the *infoDev* incubator community cohere and enabled achievements and contributions in many other areas.

Networking – building the *infoDev* incubator community, and more broadly, a global incubator community, through global forums, regional workshops, regional networks, and informal exchanges – has been one of the defining characteristics of the *infoDev* Incubator Initiative and

is intrinsic to *infoDev*'s contribution in all other aspects. No other grouping of incubators has succeeded in erecting a tent as broad as *infoDev*'s and creating networking and sharing opportunities on a similar scale.

Knowledge sharing – collecting and making accessible information and experience on the enabling environment for incubation and good practices in incubation – is being pursued by *infoDev* at a higher and more systematic level than has been achieved by the *ad hoc* efforts of regional associations, governments and donors in the past. iDISC is a concrete manifestation of *infoDev*'s achievement in this regard, but in some sense represents only the tip of the iceberg, as much knowledge has been shared informally by enhanced networking within the incubator community and by promoting country stories and activities of network members.

Capacity building – serving as an “incubator of incubators” and enhancing the capabilities of existing incubators – has occurred in multiple forms, such as training for incubator practitioners, and new programs and opportunities created by *infoDev*'s catalytic grants. Funding, networking and knowledge sharing all link closely into capacity building.

Advocacy – creating awareness of business incubation among stakeholders – has enabled incubators in developing and transitional economies to find a “voice” and reach critical mass as a community. The Initiative has conferred new legitimacy and prestige to business incubation.