



ICT-enabled Business Incubation Program:

Strengthening Innovation at the Grassroots

June 2009

Program Summary

Objective

infoDev's Innovation and Entrepreneurship program aims to increase competitiveness and job creation in developing countries by building local capacity for ICT-enabled innovation and entrepreneurship, in particular through the development of business incubators and innovation centres.

Background

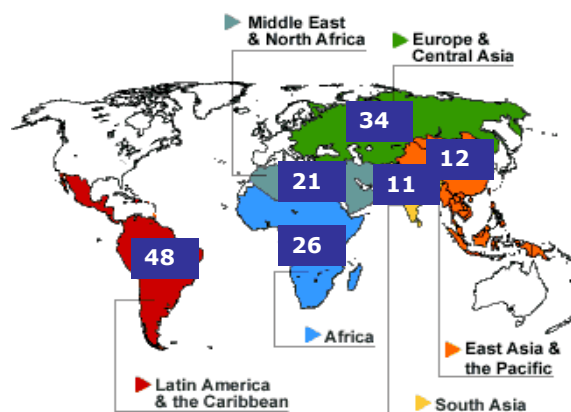
In 2002, *infoDev* began a small business incubator initiative to stimulate the growth of ICT-enabled enterprises in developing countries by targeting early-stage companies,

as well as small businesses at any stage of development. Today, this initiative includes over 150 business incubators spanning Africa, Asia, the Caribbean, Eastern Europe, Latin America and the Middle East, with a reach of more than 10,000 small and medium-sized enterprises (SMEs) and over 100,000 individual entrepreneurs (See Figure 1). Incubators have been established in countries at all stages of development, including 23 of the poorest and most conflict-afflicted countries in the world.

The business incubator initiative provides direct financial and technical assistance to incubators, develops good practice toolkits for incubator managers, and facilitates regional and global networks of incubation professionals (see Box 1). The average value of an *infoDev* incubator grant has been around USD 185,000 and 70% of the incubators have been able to leverage this support to raise at least USD 150,000 in additional funding, which demonstrates the catalytic effect of this Program. *infoDev*'s recent Monitoring and Evaluation Impact Assessment evaluated the performance of these incubators and concluded that they have had a tremendous impact on realization of local innovation, SME and job creation, economic empowerment of disadvantaged groups, and on creating an enabling environment in their countries. Incubators can also be instrumental intermediaries and facilitators for SME financing (a short summary of results and lessons can be found in Annex 1).

This concept note outlines the next phase of *infoDev*'s *core* innovation and entrepreneurship program. *infoDev* has also developed a proposed *growth* strategy; expanding the program from a primary focus on business incubators to also deliver value to other key stakeholders of the innovation and entrepreneurship eco-system. This is described in a separate project concept note.

Figure 1: 150 incubators reaching all regions...



Box 1: What is ICT-enabled Innovation and Entrepreneurship?

Information and communication technologies (ICT) have spurred the creation of new businesses and lowered barriers to entry. Many of these businesses also have a value proposition that is based on the application of ICTs. Examples range from a West Bank enterprise selling an online educational tool for children in the Arab world, to large-scale business process outsourcing businesses, to hardware and software producers.

ICTs are also tools for increased productivity, market reach and transparency across all sectors including agribusiness and tourism. Fluency in mastering ICT has thus become a core requirement for international competitiveness. Business incubators play a critical role in both providing access to such tools at costs that benefit from the economies of scale of the business incubator, and teaching entrepreneurs and their staff to use these tools effectively.

An overview of the proposed growth strategy is provided in Annex 2.

In its next phase, *infoDev* will focus its *core* innovation and entrepreneurship program on becoming a premier provider of know-how and know-who in business incubation. This phase will include the following components:

1. Investing in Good Practices, Monitoring and Evaluation
2. Supporting the Establishment of Business Incubators in Difficult Markets
3. Providing Business Incubation Management Training & Capacity Building
4. Facilitating Regional Peer-to-Peer Networks
5. Creating Global Communities of Practice on Youth, Women, Agribusiness and Clean Technology
6. Hosting the Global Forum on Business Incubation

These goals, which are described in more detail below, will be achieved through an integrated program that leverages *infoDev*'s unique ability to work effectively on the country, regional and global levels and to create a virtuous cycle between practical field operations at the local level and knowledge creation, dissemination and facilitation at the regional and global levels.

This concept note assumes an annual budget of between USD 4.5-5.5 million over a 4-5 year timeframe for program implementation. Thus the total budget for the core program over the period 2009-2013 would be between USD 21-26 million.

Program Description

1. Good Practices, Monitoring and Evaluation

infoDev's global network of business incubators is unique both in size and scope; it includes the experience of business incubators across 70 developing countries and of 150 business incubators that represent a variety of business models. This represents a unique opportunity to derive lessons learned, good practice examples, and benchmarking data based on developing country experience. *infoDev* would like to leverage this opportunity to invest in developing its knowledge-base as an underpinning for both its own and others' work in business incubation. Clients have also expressed interest in M&E tools that they can use to better monitor their performance, results and impacts.

Over the period 2009-2013, *infoDev* proposes to:

- Synthesize lessons learned from an analysis of good practices in a number of areas such as university-based incubation, technology park-based incubation, virtual incubation, business incubation targeting women entrepreneurs (in male-dominated societies), business incubation targeting young entrepreneurs, business incubation outside of major cities, clean technology/low-carbon business incubation, agribusiness incubation, and pre-incubation. Each analysis should ideally be complemented by a pilot initiative that seeks to test the findings and their potential for replication.
- Support the innovation in business models occurring in business incubators by providing assistance to incorporate a thorough monitoring and evaluation component that can capture lessons of help to incubators in other countries (through "south-south" learning).

- Repeat the Monitoring and Evaluation Impact Assessment carried out in 2006 to assess medium-term developments and impacts of the 43 business incubators surveyed and start developing a comprehensive set of indicators for benchmarking data.
- Develop a monitoring and evaluation tool for policy-makers and business incubation managers.

The cost of this program component is estimated at USD 1.5-1.7 million over the 2009-2013 period.

2. Support to individual incubators

This component targets the establishment and growth of new incubators in countries that currently do not have one. Over the course of 4-5 years, infoDev will seek to replicate promising business models in 15 or so selected countries that have limited experience in business incubation by providing targeted technical assistance and grant financing. The new business incubators will also immediately have access to infoDev's capacity building services, including iDISC, business incubation management training, and the regional and global networks.

By 2013, the aim would be to have a fully operational business incubator with 20-30 enterprises under incubation and more in the pipeline, in each of the selected countries.

In line with *infoDev* best practice, these business incubators will be implemented with co-financing from local sponsors, to assure local ownership and a higher likelihood of long-term sustainability. Implementation will include the following stages: 1) a scoping study and stakeholder engagement; 2) feasibility assessment and business modeling; 3) implementation; and 4) growth and adjustment.

infoDev has a list of countries that have inquired to receive assistance under its business incubation programme. Specific countries for implementation will be selected in consultation with interested donors.

On average, each country implementation is estimated at between US\$0.8-1.0 m over a four year period. This would sum to between USD 12-15 m and would account for around two thirds of the total programme costs. The number of countries to be selected will depend on the availability of funding and on the level of success with the early pilots and is the major discretionary element in the proposed budget.

3. Business Incubation Management Training

A training program for incubator professionals will be developed that combines face-to-face training courses with web-based, self-help learning and knowledge exchange tools. *infoDev* envisions that this training program will evolve to a train-the-trainer program where the trainees will receive certification from *infoDev* upon completion of the training program. Such a certification program has been requested from a number of members of *infoDev*'s global incubation network.

Case studies from different regions and levels of development will be used to create a practical training program that reflects the challenges faced by incubator managers, and the lessons and models that can be derived from developing country experience. Over time, *infoDev* would envision making the training program available in all the major languages of the global network, including Arabic, French, Russian and Spanish. Components of this training will be housed on iDISC (www.idisc.net), *infoDev*'s online repository for good practice, training and incubator contacts.

Additionally, *infoDev* will organize a regional and international exchange program for incubator staff and managers which provides an excellent opportunity for intensive peer-to-peer learning between incubators. Learning first-hand from other incubators in the region, as well as internationally, has proved very effective in providing both south-south and north-south learning opportunities.

infoDev would aim to provide 3-4 face-to-face training events between 2009-2011, reaching 120-180 business incubator staff. Within this period the train-the-trainer program would also be launched, with a first batch of graduates in 2011, and continuous train-the-trainer programs in 2012-2013. The train-the-trainer program would aim to develop the capacity of a handful of trainers in each region.

This program is estimated at USD 1.5-1.7 million depending on the number of exchanges that are carried out.

4. Regional Peer-to-Peer Networks

Through its support of five recently-established regional incubator networks spanning Latin America and the Caribbean; Africa; Asia-Pacific; Middle East and North Africa; and Eastern Europe and Central Asia, *infoDev* has witnessed the impact of enabling incubator professionals, entrepreneurs, policy-makers and other stakeholders from a particular part of the world to network and exchange lessons with their peers. This has been an invaluable community of south-south partnerships for all concerned, and enabled incubators to focus on issues of common interest and concern to them.

The long-term strategy is that each of these regional networks should become self-sustainable. All the regional networks currently have co-financing from other actors, and some have started charging nominal membership fees. In the medium-term *infoDev* is thus playing the role of an “incubator” or seed capitalist of the networks, with the aim to assist them in producing value added outputs that will increase their sustainability in the long-run. Simultaneously the regional networks serve as a learning source for *infoDev* and other programs interested in learning more about the particular challenges and models for enterprise creation in the respective regions.

infoDev therefore envisions to continue seed funding for these regional networks for an additional 3-4 year period. This program is estimated at 2.0-2.5 million.

5. Global Communities of Practice

iDISC (www.idisc.net) serves as the common platform for all the members of *infoDev*'s global incubation network. Here members can find a directory of all members of the network, “how-to” guidelines on issues in business incubation, enterprise success stories and business incubation methodologies. A newsletter is also sent out on a monthly basis keeping the community abreast of what is happening in incubation globally. iDISC is already showing great promise, receiving more than 20,000 visits per month. While *infoDev* has started the development of this online Toolkit and networking platform, it needs further investment in content, technology and language to increase its effectiveness and reach and to prove sustainability.

In 2008, *infoDev* launched three specialized global communities of practice focused on business incubation of women, youth and high growth ICT enterprises respectively. This was launched in view of the high levels of interest in these three topic areas expressed by members of *infoDev*'s global business incubation network. These virtual groups, representing business incubators from across the world, will start charting the common challenges, lessons and methodologies in these important areas that in turn will reinforce the content of iDISC. *infoDev* has identified several additional areas where such global communities of practice could emerge, notably in agribusiness incubation and clean technology business incubation.

This Program is estimated at USD 2.2 -2.5 over 4-5 years.

5. The Global Forum on Business Incubation

Biennially, *infoDev* organizes the Global Forum on Innovation and Business Incubation, an *infoDev* flagship event that gathers a global community of business incubator professionals, as well as business incubation stakeholders from the developing world who are driving innovation and ICT-enabled business creation. Business incubator managers attend this event to be exposed to new business models, ideas and methodologies that they can adapt to their own context, and to explore potential partnerships. Policy-makers also attend to learn more about the potential of business incubation as a tool for innovation and entrepreneurship.

The first two *infoDev* Global Forums were organized in partnership with the Government of India and held in New Delhi (2004) and in Hyderabad (2006). Both events drew international participants from over 60 countries. The 3rd Global Forum is planned for May 2009 in Brasilia. Donors interested in supporting this project would be invited to host the 4th and 5th Global Forums in 2011 and 2013, helping to promote an innovative, ICT-enabled knowledge economy agenda globally.

Each Global Forum is estimated at USD 1-1.2 million and it is expected that two more would be held during this period, in 2011 and 2013.

Program Work Plan and Costing

The core innovation and entrepreneurship program is estimated at an annual budget of between USD 4.5-5.5 million, or between USD 21.2-25.9 million over the period 2009-2013.

| Expected Outputs | Cost (in \$US) |
|--|---------------------|
| 1: Good Practices, Monitoring and Evaluation | 1.5 - 1.7m |
| 2: Starting New Business Incubators in Difficult Markets | 12 - 15 m |
| 3: Business Incubator Management Training Program | 1.5 - 1.7m |
| 4: Regional Peer-to-Peer Networks | 2.0 - 2.5m |
| 5: Global Communities of Practice | 2.2 - 2.5m |
| 6: Global Forum on Business Incubation | 2.0 - 2.5m |
| Total | 21.2 - 25.9m |

Implementation Risks and mitigating measures

Most of the components of this program have a low risk profile because this is already a proven existing programme with an excellent track record of success. The highest risk is associated with implementing new business incubators in difficult markets (component 2). Risks associated with such projects include:

- Failure to build local institutional capacity, local ownership and broad-based stakeholder buy-in needed to ensure the sustainability of the incubator;
- Difficulty in finding appropriate building for new incubators;
- Insufficient policy support from government officials;
- Failure to accurately understand the demand for services.

To minimize these risks, *infoDev* builds in a great deal of upfront work and stakeholder consultation in the design these projects. *infoDev* will therefore choose countries in close collaboration with donors, World Bank Group staff and other stakeholders who understand the local environment best. It will also use a robust approach, based on *infoDev*'s prior experience, to the feasibility and market assessments at the design stage of the project so as to minimize the chances of "surprises" at the implementation stage.

Annex 1:

Results of Support to Individual Incubators 2002-2006

Grant portfolio: 13m over 4 years

- 70 grants to 71 incubators in 50 countries
- Average size of grants: USD 185,000
- Duration of grant: 1-3 years

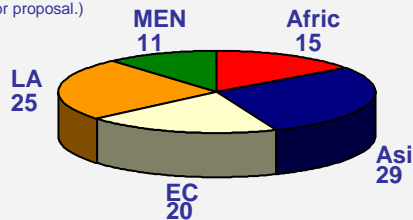
Distribution by Grant Type

| | Planning | Implementation/ Capacity Building |
|---------------|----------|--------------------------------------|
| Nr | 13 | 57* |
| Amount | 1.1m | 11.6m |

*5 entities that received planning grants also received implementation grants. The remaining implemented the incubator without additional infoDev resources.

Regional Distribution of Grant Funds

(Grant amount disbursed per region. Distribution determined by global calls for proposal.)



Impact:

- More than 700 SMEs and 7000 jobs created
- 75% of the enterprises incubated continued to operate 3 years after graduating
- Commercialized innovations with high social value e.g. river water purification system, hospital administration system
- Disadvantaged groups, including women, rural communities and post-conflict societies were provided economic opportunities
- Incubators had positive impact on financing, policy and cultural awareness for innovation and entrepreneurship

Success rate:

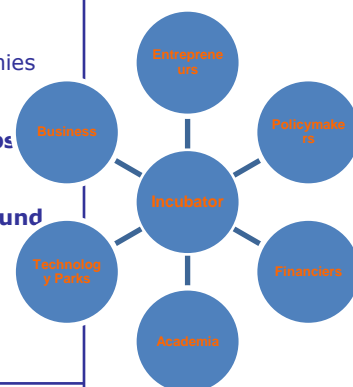
- 93% achieved fully achieved the grant objectives
- 100% of planning grant recipients implemented an incubator

Leverage:

- 0% are solely dependent on an infoDev grant
- 70% report that the infoDev affiliation has increased their credibility with their government stakeholders
- 70% leveraged the infoDev grant to secure funding from other sources (raising on average USD 150,000)

Lessons Learned From Support to Business Incubators 2002-2009

| | |
|---|--|
| <p>Diverse Models...</p> | <ul style="list-style-type: none"> ➤ There are no universal models of business incubation - incubators succeed by developing targeted service models that adapt to their particular environments ➤ Some types of incubation models such as social incubation, rural incubation and ICT incubation face distinct operating challenges, and require distinct services, processes and resources...and assistance ➤ <i>infoDev</i> was successful because it allowed experimentation and adaptation to happen. Future programs should be careful not to pigeonhole incubators in a particular model. |
| <p>Impact beyond SME and job creation = long term ROI...</p> | <p>Effective incubators create sustainable small enterprises, jobs and innovative products with social and economic impact. Besides these near-term returns, incubators have a broader long term return on investment on the enabling environment due to their involvement in:</p> <ul style="list-style-type: none"> ➤ brokering relationships between entrepreneurs and financiers ➤ advocating policy and regulatory change on behalf of its entrepreneurs ➤ promoting entrepreneur success stories, raising the awareness of entrepreneurship and cultural acceptance of risk-taking <p>Investment in incubators should be viewed from the perspective of both the near and longer-term ROI, and assessments of their impact should seek to capture the broader impacts.</p> |
| <p>A core part of the innovation and entrepreneurs hip eco-system...</p> | <p>Incubators can be a source of:</p> <ul style="list-style-type: none"> ➤ Pooled lower risk start-up investment opportunities for financiers ➤ Clients for technology parks, and innovative products/services for larger companies ➤ Information for policymakers on barriers to entrepreneurship and SME growth <p>Successful incubators invest in developing strong stakeholder relationships that increase entrepreneurs' access to the appropriate linkages and tools, including growth capital, at the appropriate stage of growth.</p> <p>The value of donor support to incubators is not just the "seed capital" to fund start-up costs, but the credibility that affiliation with the donor lends.</p> |
| <p>Leadership capacity is key to success...</p> | <p>The effectiveness of the most successful incubators can be linked directly to the skills, vision, commitment and entrepreneurial leadership talent of their management teams.</p> <p>Program designers should place particular emphasis on recruiting and empowering strong leaders with entrepreneurship experience to drive incubator initiatives.</p> |
| <p>International networks are key to building capacity...</p> | <p>In many developing countries, especially IDA countries, only one or a few incubators exist. There is thus no opportunity for peer learning. There are also few institutions that provide relevant quality training for developing country incubators. <i>infoDev</i>'s network of incubators regionally and globally have proven most effective for developing leadership capacity.</p> <p>Future programs should put active emphasis on peer-to-peer south-south learning</p> |



Annex 2

infoDev's Innovation and Entrepreneurship Program Growth Strategy - A Holistic Approach to Enabling ICT SME Start-up and Growth

The Program: infoDev's Innovation and Entrepreneurship program is rooted in its leading role in supporting the start-up and growth of business incubators across the world. Building on infoDev's core innovation and entrepreneurship program, the growth strategy adopts an "innovation and entrepreneurship eco-system" approach to enabling the start-up and growth of ICT-enabled SMEs. This approach provides knowledge and capacity building services to intermediaries such as business incubators and technology parks, *as well as* the policymakers, academic institutions and financiers affecting the likelihood of success of growth-oriented enterprises (see Figure 1 below).

Program Components: The Innovation and Entrepreneurship growth strategy includes 6 components as outlined below:

1. Strengthening National Innovation and Entrepreneurship Eco-Systems through Stakeholder Engagement
2. Enabling Youth Entrepreneurship through Education & Collaboration with the Private Sector
3. Facilitating Technology Commercialization of University Outputs
4. Bridging the Financing Gap for Technology Entrepreneurs through Catalyzing Action
5. Building Capacity for Policies, Regulations and Government Programs
6. Fostering SME Internationalization through Co-incubation

Geographic Scope: The demand for the program is not confined to a particular region. However, while the knowledge and capacity gaps are fairly common across the developing countries in all regions, the cultural, linguistic, and socio-economic differences between the regions must be taken into account to design effective program interventions. infoDev is therefore interested in partner and donors for a program with a global approach and/or for a particular region of interest.

Program Duration: The strategy as outlined would call for a program implementation period of 4-5 years. However, components of the program can be implemented within a 2-year timeframe.

Expected Impact

- Competitive ICT SMEs
- Sustainable jobs and reduced brain-drain, especially amongst youth
- Commercialized local innovations with high social and economic value
- Strong national systems for ICT-enabled private sector development

Estimated Cost: The program as outlined is estimated at USD 6.8-9.5m over 4 years. A more detailed concept note is available for this Program.

Figure 1. Enabling ICT-SME Start-up & Growth:
The Need for an Innovation and Entrepreneurship Eco-system Approach

